# The Cyprus Development Bank Group

# Interim Condensed Consolidated Financial Statements

# For the period ended 30 June 2023

## CONTENTS

# DIRECTORS AND ADVISERS

## Management Body

Christodoulos Patsalides, Chairman, Non-Executive

Andreas Hadjikyrou, Vice Chairman, Non-Executive

Avgoustinos Papathomas, Senior Independent, Non-Executive

Stalo Koumidou, Non-Executive

Konstantinos Mitropoulos, Non-Executive

Christodoulos Plastiras, Non-Executive

Dimitrios P. Sioufas, Non-Executive

Demetris Sparsis, Non-Executive

Loucas Marangos, Executive

Stella Avraam, Executive

## Chief Executive Officer

Loucas Marangos

## Secretary

Maria Agathokleous

## Legal Advisers

Chryssafinis & Polyviou

## Statutory Auditors

Deloitte Limited

## Registered office

50, Arch. Makarios III Avenue

Alpha House

1065 Nicosia

# INTERIM MANAGEMENT REPORT

The Interim Condensed Consolidated Financial Statements (“Financial Statements”) for the six-month period ended 30 June 2023 comprise of the Financial Statements of The Cyprus Development Bank Public Company Limited (''the Bank'') and its subsidiary companies, which together are referred to as the Group.

## 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 and details of acquisitions and disposals made during the period are presented in note 17 to the Interim Consolidated Financial Statements.

## FINANCIAL RESULTS

The results of the Group are set out in the Interim Consolidated Income Statement on page 12.

### Income Statement Analysis

**Total net income**

Total net income for the period ended 30 June 2023 amounted to €11,6 million, compared to €5,6 million for the period ended 30 June 2022, an increase of 108% mainly driven by the increase of net interest income as explained below.

**Net interest income**

Net interest income (NII) for the period ended 30 June 2023 amounted to €10,0 million, up by 150% compared to €4,0 million for the period ended 30 June 2022. The increase was mainly driven by the repricing of loans and liquid assets to higher interest rates resulting to an increase of 122% in interest income from €4,8 million for the period ended 30 June 2022 to €10,7 million for the period ended 30 June 2023. At the same time interest expense for the period ended 30 June 2023 decreased by 17% from €785 thousand for the period ended 30 June 2022 to €648 thousand for the period ended 30 June 2023, mainly as a result of the abolition of negative interest rates on liquid assets which more than cancelled out the increased interest expense on deposits.

**Non-interest income**

Net non-interest income for the six-month period ended 30 June 2023 amounted to €1.535 thousand, down by 1% compared to €1.545 thousand for the six-month period ended 30 June 2022. Non-interest income for the six-month period comprised of net fee and commission income of €1.449 thousand (30 June 2022: €1.326 thousand), net foreign exchange losses of €20 thousand (30 June 2022: €107 thousand gain) and other income of €106 thousand (30 June 2022: €112 thousand).

Net fee and commission income for the six-month period ended 30 June 2023 was €1.449 thousand, up by 9% compared to €1.326 thousand for the corresponding period of 2022. The increase is mainly attributed to higher fees from brokerage fees and commissions.

Net foreign exchange losses for the six-month period ended 30 June 2023 amounted to €20 thousand, compared to gains of €107 thousand for the corresponding period of 2022, the decrease driven by exchange losses on the revaluation of open currency positions as at 30 June 2023.

# INTERIM MANAGEMENT REPORT (continued)

## FINANCIAL RESULTS (continued)

### Income Statement Analysis (continued)

**Non-interest income (continued)**

Other income for the six-month period ended 30 June 2023, amounted to €106 thousand compared to €112 thousand for the corresponding period of 2022, down by 5%. Other income relates mainly to rental income, valuation adjustments on stock of property and profit/(loss) from disposal of stock of property.

**Expenses**

Total expenses for the period ended 30 June 2023 amounted to €6,7 million, compared to €6,5 million (adjusted) for the period ended 30 June 2022, up by 2,5%. Total expenses for the 6-month period ended 30 June 2023 consist of 62% staff costs (€4,2 million), 25% other operating expenses (€1,7 million), 7% special levy on deposits and other levies/contributions (€0,44 million) and 6% depreciation (€0,38 million). Expenses for the period ended 30 June 2022 have been adjusted to exclude a provision of €1,5 million for the implementation of a Voluntary Exit Plan ("VEP") that the Bank was contemplating at the time, which was included in staff costs for the period.

Group staff costs for the six-month period ended 30 June 2023 amounted to €4,2 million compared to €4,1 million for the period ended 30 June 2022 (adjusted for VEP), recording an increase of only 2% despite the increase of COLA by 4,4% from 1 January 2023 and by a further 1,4% from 1 June 2023 and the annual increments to staff as per collective agreements with the Cyprus Union of Bank Employees. The containment of the increase of staff costs to 2% is mainly due to the reduced headcount from an average of 144 for the period ended 30 June 2022 to an average of 136 for the period ended 30 June 2023.

The Group's total other operating expenses for the six-month period ended 30 June 2023 amounted to €1,7 million, an increase of 4% compared to €1,6 million for the corresponding period of 2022. The increase is mainly driven by higher marketing, subscriptions and donations and IT related expenses.

Special levy on deposits and other levies/contributions for the period ended 30 June 2023 amounted to €438 thousand compared to €394 thousand for the period ended 30 June 2022, up by 11% mainly driven by higher special levy on deposits because of higher level of deposits.

The **cost to income ratio**, excluding special levy on deposits and other levies/contributions for the six-month period ended 30 June 2023 was 54% compared to 110% for the period ended 30 June 2022, down by 56 percentage points. The decrease is mainly driven by higher interest income.

**Profit after tax**

Profit after tax for the six-month period ended 30 June 2023 amounted to €4,1 million. Tax payable on taxable profits for the period has been set off with tax asset on tax allowable losses brought forward for which no deferred tax asset was recognised in previous years.

**Return on average equity** on an annualised basis amounted to 20,3% for the period ended 30 June 2022 driven by interest rate increases.

# INTERIM MANAGEMENT REPORT (continued)

## FINANCIAL RESULTS (continued)

### Income Statement Analysis (continued)

**Provisions for impairment**

For the six-month period ended 30 June 2023, the Group performed normal adjustments to the ECL amount calculated at the year-end exercise but did not perform a revised ECL calculation.

The Group's total provisions for impairment for the six-month period ended 30 June 2023 amounted to €0,8 million and related to impairment of loans and advances (30 June 2022: €0,9 million), and impairment on valuation of stock of property of €nil (30 June 2022: €0,1 million), recording a decrease of 23% compared to impairments of €1,0 million for the corresponding period of 2022.

### Statement of Financial Position Analysis

As at 30 June 2023, the Group's total assets amounted to €564 million an increase of 3% compared to €548 million as at 31 December 2022, as a result of a temporary increase of accruals and other liabilities relating to items in the course of settlement outstanding as at 30 June 2023.

The Group Financial Position is set out in the Interim Consolidated Statement of Financial Position on page 14.

**Liquidity**

As at 30 June 2023, the Group Liquidity Coverage Ratio ("LCR") stood at 306% (31 December 2022: 304%), well above the regulatory minimum requirement of 100%.

The liquidity surplus in LCR at 30 June 2023 amounted to €214 million (31 December 2022: €202 million).

At 30 June 2023, the Group Net Stable Funding Ratio ("NSFR") stood at 224% (31 December 2022: 214%), with the minimum regulatory requirement at 100%.

**Liquid assets**

The Group's carrying value of liquid assets amounted to €332 million at 30 June 2023 compared to €313 million at 31 December 2022. Liquid assets represent 59% of the total assets of the Group as at 30 June 2023 (31 December 2022: 57%) and comprise of €280 million cash and balances with Central Bank (31 December 2022: €220 million), €2 million placements with other banks (31 December 2022: €2 million) and €50 million investments in debt securities (31 December 2022: €90 million).

**Loans and advances to customers**

The Group's gross loans and advances as at 30 June 2023 amounted to €244 million, down by 2% compared to €250 million as at 31 December 2022, mainly due to resolution of NPEs and the low level of new lending during the period.

*Loan portfolio quality*
The Group continued its efforts for the resolution of NPEs and improvement of the quality of the loan portfolio. In its NPE Plan for 2023, Management has formulated a recovery action plan ("NPE Plan") defining the resolution strategy for each major NPE exposure.

# INTERIM MANAGEMENT REPORT (continued)

## FINANCIAL RESULTS (continued)

### Statement of Financial Position Analysis (continued)

**Loans and advances to customers (continued)**

During the six-month period ended 30 June 2023 through the implementation of internal actions defined in the NPE Plan for 2023, NPEs decreased by 7% from €65,3 million as at 31 December 2022 to €60,5 million as at 30 June 2023 with the NPE ratio on a gross basis at 24,8% (31 December 2022: 26,2%). On a net basis, NPEs decreased by 17% from €34,7 million as at 31 December 2022 to €28,9 million as at 30 June 2023 with the NPE ratio on a net basis at 13,8% (31 December 2022: 16,0%). The NPE target set for 2023 is the decrease of NPEs below €50 million on a gross basis and below €24 million on a net basis by the end of the year.

**Stock of property**

During the six-month period ended 30 June 2023, the Group on-boarded €1,5 million of properties through debt for asset swaps and foreclosures (31 December 2022: €3,1 million) and has signed agreements for the sale of four properties with total value of €5,5 million at a marginal profit.

**Deposits**

Client deposits as at 30 June 2023 amounted to €488 million and remained relatively unchanged compared to 31 December 2022 (€487 milllion). Customer deposits accounted for 87% of total assets as at 30 June 2023 (31 December 2022: 89%) and net loans to deposit ratio stood at 43% (31 December 2022: 44%).

**Loan capital**

At 30 June 2023, the Group's loan capital (including accrued interest) amounted to €11,3 million (31 December 2022: €11,3 million) and relates to an Unsecured Perpetual Subordinated Note of €5 million (31 December 2022: €5 million) which qualifies for classification as Additional Tier 1 Capital, and Subordinated Tier 2 Bonds of €6,3 million (31 December 2022: €6,3 million) which qualifies for classification as Tier 2 Capital.

Details about loan capital are disclosed in note 22 to the Interim Consolidated Financial Statements.

**Capital base**

The primary objective of the Bank's capital management is to ensure compliance with applicable regulatory requirements as well as optimise capital usage ensuring the maintenance of healthy capital adequacy ratios which can support the Group's business and safeguard the interests of its shareholders and all other stakeholders.

Total equity excluding non-controlling interests amounted to €42,5 million as at 30 June 2023 compared to €38,2 million as at 31 December 2022, the increase relating mainly to unaudited profits for the six-month period ended 30 June 2023.

The Group's CET1 ratio on a transitional and fully loaded basis as at 30 June 2023 stood at 17,90% (31 December 2022: transitional 16,04% and fully loaded 15,75%). The CET1 ratio was positively affected during the period ended 30 June 2023 by the decrease of risk weighted assets ("RWA") and Group profits for the period and negatively affected by the phasing in of IFRS 9 transitional arrangements on 1 January 2023. Capital ratios include unaudited profits for the six-month period ended 30 June 2023.

# INTERIM MANAGEMENT REPORT (continued)

### FINANCIAL RESULTS (continued)

### Statement of Financial Position Analysis (continued)

**Capital base (continued)**

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

Details of the capital base and adequacy of the Group are disclosed in note 27.5 to the Interim Consolidated Financial Statements.

### 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 Interim Consolidated Financial Statements. The Directors have considered the conditions that existed during 2023 and the developments up to the date of approval of these financial statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the current and projected financial performance of the Group and future course of action as per business plan, the risks emanating from the operating environment in which the Group operates (as set out in note 32 to the Interim Consolidated Financial Statements) and consider that the going concern principle is appropriate and that no material uncertainties exist which may cast significant doubt on the Group's ability to continue as a going concern.

The going concern assessment is presented in note 2.1 to the Interim Consolidated Financial Statements.

### RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through various control mechanisms. Information relating to the principal risks the Group faces and risk management is set out in note 27 to the Interim Consolidated Financial Statements. In addition, in relation to legal risk arising from litigations, further information is disclosed in note 31 to the Interim Consolidated Financial Statements.

### SHAREHOLDERS

The shareholding structure as at 30 June 2023 is presented in note 29 to the Interim Consolidated Financial Statements.

### CAPITAL MANAGEMENT

At 30 June 2023 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 10,09% (31 December 2022: 9,93%) and an Overall Capital Ratio ("OCR") of 16,00% (31 December 2022: 15,70%).

# INTERIM MANAGEMENT REPORT (continued)

## CAPITAL MANAGEMENT (continued)

The Group's CET 1 and OCR as at 30 June 2023 stood at 17,90% and 22,69% respectively. Capital ratios include unaudited profits for the six month period ended 30 June 2023.

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

Details on capital management are disclosed in note 27.5 to the Interim Consolidated Financial Statements.

## STRATEGY AND PRIORITIES

The Group's medium term strategic objectives remain focused on strengthening its balance sheet, improving the quality and efficiency of its assets, further strengthening its capital position and increasing its operating profitability through the prudent growth of its loan portfolio which will increase both interest and fee income, the diversification of income streams from fee generating activities and the prudent management of its liquid assets. At the same time the maintenance of strong capital and liquidity ratios remain top priorities for the Group.

The effective management of non-performing exposures remains a top priority for the Group. In its NPE Plan for 2023, Management has formulated a recovery action plan defining the resolution strategy for each major NPE exposure with the objective being the minimisation of the resolution period. The NPE Plan for 2023 is being implemented and when necessary is reviewed and recalibrated to take into account developments affecting the resolution of NPEs. The target set for 2023 is the decrease of NPEs below €50 million on a gross and €24 million on a net basis by the end of the year with the NPE ratio below 20%.

The growth of its loan book with the extension of good quality lending remains a top priority for the Group. Specialised in the area of SME and Corporate Lending the Bank aims to exploit its long history, knowledge and expertise in this market, providing products that satisfy the needs of its clientele ensuring high quality new lending via strict underwriting standards. At the same time the Bank monitors closely the quality of its loan portfolio and engages actively with its customers, especially those affected most by the higher costs of servicing loans.

The Group's balance sheet is very liquid with 59% of its assets held as cash balances with Central Bank and fixed income portfolio and is well-positioned to benefit from rising interest rates. The Group manages prudently its liquid assets and is closely monitoring market developments with a view to gradually deploy excess liquidity in fixed income securities.

The Group continues to manage its deposit base prudently in order to maintain healthy liquidity ratios and at the same time manage the cost of funding taking into advantage the confidence of the market in the sector. Management monitors closely its deposit base along with market developments regarding cost of deposits.

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

# INTERIM MANAGEMENT REPORT (continued)

## STRATEGY AND PRIORITIES (continued)

The Group continues to invest in upgrading its technological infrastructure and systems that support the implementation of its business strategy. Main actions include upgrading of the core banking system introduction of peripheral systems to enhance automation of processes and the enhancement of digital channels.

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

## BRANCHES

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

## MANAGEMENT BODY

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

## RELATED PARTY TRANSACTIONS

Disclosed in note 30 to the Interim Consolidated Financial Statements.

## EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 33 to the Interim Consolidated Financial Statements.

# INTERIM MANAGEMENT REPORT (continued)

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with the relative legislation and the regulations of the Cyprus Stock Exchange, each of the Directors, whose names and functions are listed on page 3 confirms that to the best of each person's knowledge and belief:

- The interim unaudited financial statements of the Group have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of the Law.
- The interim unaudited financial statements of the Group provide a true and fair view of the assets and liabilities, the financial position and profit and loss of the Group.
- The interim unaudited financial statements of the Group provide a true and fair view of the developments and the performance as well as the financial position of the Group, together with a description of the main risks and uncertainties, faced by the Group.

By the order of the Management Body

Christodoulos Patsalides
Chairman

Nicosia, 26 September 2023

# INTERIM CONSOLIDATED INCOME STATEMENT

**For the six-month period ended 30 June 2023**

| | Note | Six months ended 30 June 2023 €'000 | 2022 €'000 |
|---|---|---|---|
| Turnover | | 12.408 | 6.600 |
| | | | |
| Interest income calculated using the effective interest method | 5 | 10.673 | 4.801 |
| Interest expense calculated using the effective interest method | 6 | (648) | (785) |
| Net interest income | | 10.025 | 4.016 |
| Fee and commission income | 7 | 1.648 | 1.580 |
| Fee and commission expense | 8 | (199) | (254) |
| Net foreign exchange (losses)/gains | 9 | (20) | 107 |
| Other income | 10 | 106 | 112 |
| **Total net income** | | **11.560** | **5.561** |
| Staff costs | 11 | (4.174) | (5.588) |
| Other operating expenses | 12 | (1.704) | (1.646) |
| Special levy on deposits and other levies/contributions | 12 | (438) | (394) |
| Depreciation | | (377) | (404) |
| **Profit/(loss) before provisions for impairment** | | **4.867** | **(2.471)** |
| Provisions for impairment | | (774) | (966) |
| **Profit/(loss) after provisions for impairment** | | **4.093** | **(3.437)** |
| Share of loss from associates | | (1) | (13) |
| **Profit/(loss) before tax** | | **4.092** | **(3.450)** |
| Tax | | (9) | - |
| **Profit/(loss) for the period after tax** | | **4.083** | **(3.450)** |
| | | | |
| **Profit/(loss) for the period attributable to:** | | | |
| Owners of the Bank | | 4.089 | (3.441) |
| Non-controlling interests | | (6) | (9) |
| **Profit/(loss) for the period** | | **4.083** | **(3.450)** |
| | | | |
| Basic and fully diluted earnings/(loss) per share (cent) | 13 | 9,45 | (7,95) |

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the six-month period ended 30 June 2023**

| | Note | Six months ended 30 June 2023 €'000 | 2022 €'000 |
|---|---|---|---|
| **Profit/(loss) for the period** | | **4.083** | **(3.450)** |
| **Other comprehensive income (OCI)** | | | |
| **Items that are or may be reclassified in the consolidated income statement in subsequent periods** | | | |
| **Fair value reserve (debt instruments)** | | | |
| Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI) | 16 | 20 | (185) |
| | | 20 | (185) |
| **Total OCI that may be reclassified in the consolidated income statement in subsequent periods** | | **20** | **(185)** |
| **Other comprehensive income/(loss) for the period net of taxation** | | **20** | **(185)** |
| **Total comprehensive income/(loss) for the period** | | **4.103** | **(3.635)** |
| **Attributable to:** | | | |
| Owners of the Bank | | 4.109 | (3.626) |
| Non-controlling interests | | (6) | (9) |
| **Total comprehensive income/(loss) for the period** | | **4.103** | **(3.635)** |

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AT 30 JUNE 2023**

| | Note | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 14 | 279.633 | 220.364 |
| Balances with other banks | 14 | 2.448 | 2.250 |
| Investments in debt securities | 16 | 49.968 | 90.229 |
| Loans and advances | 15 | 209.666 | 216.229 |
| Investments in equities | | 315 | 142 |
| Investments in associates | 18 | 705 | 670 |
| Stock of property | 19 | 10.148 | 8.633 |
| Receivables and other assets | | 3.777 | 1.941 |
| Premises and equipment | | 6.333 | 6.386 |
| Intangible assets | | 647 | 671 |
| **Total assets** | | **563.640** | **547.515** |
| **LIABILITIES** | | | |
| Bank borrowings | | 2.117 | 2.328 |
| Client deposits | 20 | 488.067 | 486.841 |
| Deferred taxation | | 301 | 301 |
| Accruals and other liabilities | 21 | 19.147 | 8.355 |
| Loan capital | 22 | 11.260 | 11.261 |
| Total liabilities | | 520.892 | 509.086 |
| **EQUITY** | | | |
| Share capital | 23 | 8.655 | 8.655 |
| Share premium | | 16.048 | 16.048 |
| Capital reduction reserve | | 14.653 | 14.653 |
| Reserves | | 3.166 | (1.126) |
| Equity attributable to owners of the parent company | | 42.522 | 38.230 |
| Non-controlling interests | | 226 | 199 |
| Total equity | | 42.748 | 38.429 |
| **Total liabilities and equity** | | **563.640** | **547.515** |
| Contingent liabilities and commitments | 24 | 48.798 | 50.937 |

These Interim Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 26 September 2023.

**Mr. Christodoulos Patsalides**
Chairman of the Board

**Mr. Avgoustinos Papathomas**
Member of the Board

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

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

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the six-month period ended 30 June 2023**

| **2023** | Attributable to the parent company's owners | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reduction reserve fund | Revaluation reserve | Revenue reserve | Total | | |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **Balance 1 January 2023** | 8.655 | 16.048 | 14.653 | 1.629 | (2.755) | 38.230 | 199 | 38.429 |
| Correction in opening balance of subsidiaries reserves | - | - | - | - | 183 | 183 | 33 | 216 |
| **Restated balance 1 January 2023** | 8.655 | 16.048 | 14.653 | 1.629 | (2.572) | 38.413 | 232 | 38.645 |
| **Total comprehensive income/(loss) after taxation** | | | | | | | | |
| Profit/(loss) for the period | - | - | - | - | 4.089 | 4.089 | (6) | 4.083 |
| Other comprehensive income | - | - | - | 20 | - | 20 | - | 20 |
| **Total comprehensive income/(loss)** | - | - | - | 20 | 4.089 | 4.109 | (6) | 4.103 |
| **Transfers between reserves** | | | | | | | | |
| Excess depreciation on revaluation surplus | - | - | - | (8) | 8 | - | - | - |
| **Total transfers between reserves** | - | - | - | (8) | 8 | - | - | - |
| **Balance 30 June 2023** | **8.655** | **16.048** | **14.653** | **1.641** | **1.525** | **42.522** | **226** | **42.748** |

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the six-month period ended 30 June 2023**

| 2022 | Attributable to the parent company's owners | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital €'000 | Share premium €'000 | Capital reduction reserve fund €'000 | Revaluation reserve €'000 | Revenue reserve €'000 | Total €'000 | Non-controlling interests €'000 | Total €'000 |
| **Balance 1 January 2022** | 8.655 | 16.048 | 14.653 | 1.863 | (2.536) | 38.683 | 203 | 38.886 |
| Correction in opening balance of subsidiaries reserves | - | - | - | - | (22) | (22) | (4) | (26) |
| **Restated balance 1 January 2022** | 8.655 | 16.048 | 14.653 | 1.863 | (2.558) | 38.661 | 199 | 38.860 |
| **Total comprehensive loss after taxation** | | | | | | | | |
| Loss for the period | - | - | - | - | (3.441) | (3.441) | (9) | (3.450) |
| Other comprehensive loss | - | - | - | (185) | - | (185) | - | (185) |
| **Total comprehensive loss** | - | - | - | (185) | (3.441) | (3.626) | (9) | (3.635) |
| **Transfers between reserves** | | | | | | | | |
| Excess depreciation on revaluation surplus | - | - | - | (6) | 6 | - | - | - |
| **Total transfers between reserves** | - | - | - | (6) | 6 | - | - | - |
| **Balance 30 June 2022** | **8.655** | **16.048** | **14.653** | **1.672** | **(5.993)** | **35.035** | **190** | **35.225** |

Share capital
There were no changes in the share capital of the Group during the period ended 30 June 2023 and 30 June 2022.

Share premium
Share premium is not available for distribution.

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

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

**For the six-month period ended 30 June 2023**

| | Note | Six-month period ended 30 June 2023 €'000 | 2022 €'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Group profit/(loss) for the period | | 4.083 | (3.450) |
| *Adjustments for:* | | | |
| Net interest from debt securities | | (623) | (39) |
| Premium/discount amortisation on debt securities | | 390 | - |
| Interest on loan capital | 6 | 221 | 221 |
| Depreciation of premises and equipment | | 221 | 227 |
| Amortisation of intangible assets | | 156 | 177 |
| Net foreign exchange gains | | 50 | (35) |
| Provisions for impairment | | 774 | 966 |
| Interest expense on lease liability | 6 | 12 | 10 |
| Loss from disposal of subsidiary | 10 | - | 5 |
| Gain on revaluation of investments at FVTPL | | (11) | - |
| Share of loss from associate | | 1 | 13 |
| Tax | | 9 | - |
| | | 5.283 | (1.905) |
| *Change in:* | | | |
| Obligatory balances with Central Bank | | (295) | (61) |
| Loans and advances | | 5.782 | 4.485 |
| Client deposits | | 1.226 | 37.549 |
| Bank borrowings | | (211) | (210) |
| Working capital and other items of the statement of financial position | | 7.506 | (15.016) |
| Net cash from operating activities before tax | | 19.291 | 24.842 |
| Taxes and special contributions paid | | (9) | - |
| **Net cash from operating activities** | | 19.282 | 24.842 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of premises and equipment | | (170) | (95) |
| Acquisition of intangible assets | | (133) | (103) |
| Acquisition of debt securities | 16 | (17.860) | (111.968) |
| Proceeds on disposal/redemption of debt securities | 16 | 57.771 | 98.163 |
| Proceeds from disposal of subsidiaries | | - | 1.800 |
| Net interest from debt securities | | 623 | 39 |
| **Net cash from/(used in) investing activities** | | 40.231 | (12.164) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Principal element of lease payments | | (89) | (92) |
| Interest paid on loan capital | | (221) | (221) |
| **Net cash to financing activities** | | (310) | (313) |
| **Net increase in cash and cash equivalents** | | 59.203 | 12.365 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (30) | 90 |
| Cash and cash equivalents at the beginning of the period | | 218.056 | 165.909 |
| **Cash and cash equivalents at the end of the period** | 26 | 277.229 | 178.364 |

*The notes on pages 18 to 80 form an integral part of the financial statements.*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 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 is the parent company of the cdbbank Group.

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

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

*Interim Consolidated Financial Statements*
The Interim Consolidated Financial Statements of the Group for the six-month period ended 30 June 2023 were authorised for issue by the Board of Directors on 26 September 2023.

## 2. BASIS OF PREPARATION

### 2.1 Going concern

The Group's Financial Statements have been prepared on a going concern basis following the assessment performed by the Board of Directors and Management on the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these Interim Consolidated Financial Statements.

The Directors have considered the conditions that existed during 2023 and the developments up to the date of approval of these Consolidated Financial Statements and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

In making their assessment, the Directors have considered a wide range of information relating to present and future conditions, including projections of profitability, liquidity, capital requirements and capital resources taking into consideration the Group Business Plan for 2023-2025 approved by the Board in February 2023 (the "Plan"). The Plan has used conservative economic inputs to develop the Group's medium term strategy and incorporates sensitivity scenarios to cater for downside risk and assess how possible changes in some of the underlying assumptions used in the projections (drop in real estate prices, different risk weights, outflows of deposits, lower margins on loans), could impact the projected financial performance of the Group and its capital adequacy and liquidity.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.1 Going concern (continued)

*2.1.1 Funding and liquidity*

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

- The Group enjoys a strong liquidity position and is compliant with all regulatory liquidity ratios. The Liquidity Coverage Ratio ("LCR") stood at 306% on 30 June 2023, well above the minimum requirement of 100%.
- The Group holds significant liquidity buffers that can be monetised in a period of stress.
- Based on the Group's approved Business Plan, together with relevant sensitivity scenarios, it is expected that the Group will be compliant with regulatory liquidity requirements for the period of assessment.

*2.1.2 Capital*

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

The Group's CET 1 ratio as at 30 June 2023 stood at 17,90% (31 December 2022: 16,04%), 780bps above the minimum regulatory CET 1 ratio. The overall Capital Ratio ("OCR") as at 30 June 2023 stood at 22,69% (31 December 2022: 20,72%), 669 bps above the minimum regulatory OCR. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimise capital usage and maintain capital ratios above minimum requirements. The following items have been considered in relation to the Group's capital adequacy for the period of assessment:

- The Group as at 30 June 2023 was in compliance with regulatory capital requirements having adequate buffers.
- Based on the Bank's approved Business Plan all capital ratios are maintained above regulatory capital requirements for the period of assessment (including Pillar 2 Guidance and Countercyclical Buffer requirement which will come into effect in November 2023). The Board of Directors taking into consideration all available information, together with the Business Plan approved in February 2023 and relevant sensitivity scenarios performed, expects that the Group will be able to meet its capital requirements for the period of assessment without the need for additional capital.

*2.1.3 Non-performing exposures ("NPEs")*

In its NPE Plan for 2023-2025 Management has formulated a recovery action plan for organic reduction of NPEs. The plan defines the resolution strategy for each NPE exposure with the primary objective to minimise resolution period.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.1 Going concern (continued)

*2.1.3 Non-performing exposures (NPEs) (continued)*

During 2022 through the successful implementation of internal actions defined in the NPE Plan for 2022, the NPE target was exceeded, with NPEs decreasing by 32% from €95,8 million to €65,3 million. Furthermore, the NPE ratio on a gross basis decreased from 36,4% at the end of 2021 to 26,2% at the end of 2022, while on a net basis the NPE ratio decreased from 23,8% at the end of 2021 to 16,0% at the end of 2022. During the six-month period ending 30 June 2023, NPEs were further reduced, by 7% from €65,3 million at the end of 2022 to €60,5 as at 30 June 2023. The implementation of actions stipulated in the Bank's NPE strategy are carefully monitored, and recovery strategies and action plans are frequently reviewed based on developments and results in order to promptly introduce corrective actions. At the same time the quality of the performing lending portfolio is being closely monitored.

Based on their assessment as above, the Directors have concluded that there are no material uncertainties which would cast significant doubt over the ability of the Group and the Bank to continue to operate as a going concern for a period of 12 months from the date of approval of these Interim Consolidated Financial Statements.

### 2.2 Statement of compliance

The Interim Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) applicable to interim financial reporting as adopted by the European Union (EU) (IAS 34).

The Interim Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the Annual Consolidated Financial Statements of The Cyprus Development Bank Public Company Limited for the year ended 31 December 2022, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, which are available at the Bank's website www.cdb.com.cy.

### 2.3 Unaudited financial statements

The Interim Consolidated Financial Statements (''Financial Statements'') for the six-month period ended 30 June 2023 have not been audited by the Group's external auditors.

### 2.4 Basis of measurement

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

### 2.5 New and amended International Financial Reporting Standards (''IFRSs'') and interpretations

As from 1 January 2023, the Group adopted all the changes to International Financial Reporting Standards (''IFRSs'') as adopted by the EU which are relevant to its operations.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.5 New and amended International Financial Reporting Standards (''IFRSs'') and interpretations (continued)

*IFRS 17 "Insurance Contracts"*

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 replaced IFRS 4 which has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. Based on the Group's current business activities IFRS 17 did not have a material impact on the Group's consolidated financial statements.

*IAS 12 "Income Taxes"*

These amendments changed the deferred tax treatment related to assets and liabilities in a single transaction such that they introduce an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. Neither of these amendments had a material impact on the Group's consolidated financial statements.

*IAS 1 "Presentation of Financial Statements"*

Amendments to IAS 1 and "IFRS Practice Statement 2" that are intended to provide guidance on deciding which accounting policies to disclose in financial statements. Accordingly, an entity is now required to disclose its material accounting policies instead of its significant accounting policies. The amendments did not have a material impact on the Group's consolidated financial statements.

*IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"*

The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. These amendments did not have a material impact on the Group's consolidated financial statements.

*2.5.1 Amendments issued, effective but not yet endorsed by the European Union*

The following Amendments to Standards and Interpretations have been issued by International Accounting Standards Board (''IASB''), are effective for annual periods beginning on 1 January 2023 but not yet endorsed by the European Union.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.5 New and amended International Financial Reporting Standards (''IFRSs'') and interpretations (continued)

*2.5.1 Amendments issued, effective but not yet endorsed by the European Union (continued)*

*IAS 12 "Income taxes" - International Tax Reform - Pillar Two Model Rules (Amendments)*

In December 2021, the Organization for Economic Co-Operation and Development ("OECD") issued Global Anti-Base Erosion and Profit Shifting ("BEPS") Rules under the Pillar 2 Framework. In May 2023, the IASB issued amendments to IAS 12 "IncomeTaxes" to introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of Pillar 2 model rules and disclosure requirements. The application of the exception outlined above has to be applied immediately with the disclosure requirements to be effective for annual periods beginning on or after January 1, 2023. The amendments have yet to be endorsed by the EU. The Group expects these amendments to have no impact on the consolidated financial statements.

*2.5.2 Standards, Amendments and Interpretations issued but not yet effective and not early adopted*

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board (''IASB'') but are not yet effective for annual periods beginning on 1 January 2023. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these Standards, Amendments and Interpretations early.

*IFRS 16 "Leases"*

In September 2022, the IASB issued amendments to IFRS 16 "Leases" that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the IFRS 15 requirements to be accounted for as a sale. The amendments are effective for annual periods beginning on or after January 1, 2024, with early adoption permitted. The amendment is not expected to have a material impact on the Group's consolidated financial statements. These amendments have yet to be endorsed by the EU.

*IAS 1 "Presentation of Financial Statements"*

In January 2020 and July 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current". The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual periods beginning on or after 1 January 2024, with early adoption permitted. They will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.5 New and amended International Financial Reporting Standards (''IFRSs'') and interpretations (continued)

*2.5.2 Standards, Amendments and Interpretations issued but not yet effective and not early adopted (continued)*

In October 2022, the IASB issued a further amendment to IAS 1 that modifies the requirements described above on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. Accordingly, it clarifies that only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In line with the previous amendments, the new amendments are effective for annual periods beginning on or after 1 January 2024, with early adoption permitted. The amendments will not have a material impact on the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

*IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments" Disclosure - Supplier Finance Arrangements (Amendments)*

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The Group is currently evaluating the impact of adopting these amendments on the consolidated financial statements. The amendments have yet to be endorsed by the EU.

### 2.6 Fair value of financial assets and liabilities

The Group applies the definition of fair value as set out in note 25 to the Interim Consolidated Financial Statements. The Group includes disclosures in the financial statements, which are required under IFRS 13.

Level 1: financial instruments valued using quoted (unadjusted) prices in active markets for identical assets.

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.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 2. BASIS OF PREPARATION (continued)

### 2.7 Functional and presentation currency

The financial statements of the Group are for the six-month period ended 30 June 2023 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus.

### 2.8 Use of estimates and judgments

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

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

Significant accounting estimates and judgments are set out in note 4 to the Interim Consolidated Financial Statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed for the preparation of the annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new and amended standards and interpretations as explained in note 2.5 to the Interim Consolidated Financial Statements.

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### 4.1 Classification of financial assets

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.1 Classification of financial assets (continued)

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

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

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

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

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

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

More details on investment in debt securities are presented in note 16 to the Interim Consolidated Financial Statements.

### 4.2 Calculation of expected credit losses

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

*Assessment of significant increase in credit risk ("SICR")*

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.2 Calculation of expected credit losses (continued)

*Determination of probability of default ("PD")*

The PD represents the likelihood of a borrower defaulting on its financial obligations either in 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 through the cycle ("TTC") PDs through the application of a scaling factor that reflects the current economic conditions and incorporates forward-looking information and macroeconomic inputs. For corporate segments the PDs are estimated at the debtor level while for retail portfolios are estimated at the facility level.

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

*Scenarios and macroeconomic factors*

For the six-month period ended 30 June 2023, the Group performed normal adjustments to the ECL amount calculated at the year-end exercise but did not perform a revised ECL calculation.

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

The Group updated its forward-looking scenarios, factoring in updated macroeconomic assumptions and other monetary and fiscal developments in the national and the EU level including the Russian-Ukraine military conflict, the high inflation and increased interest rates for the prior year-end exercise.

The Group uses three different economic scenarios. The calculation of expected credit losses for both individually and collectively assessed exposures is the weighted average of three scenarios: baseline at 50% weight (2021: 50% weight), pessimistic at 30% weight (2021: 30% weight) and optimistic 20% weight (2021: 20% weight). In order to account for the increased uncertainty of the economic outlook continued to utilise the increased weight for the pessimistic scenario of 30% compared to 25% and the decreased weight of the optimistic scenario of 20% compared to 25%.

The table below indicates the most significant macroeconomic variables as well as the scenario weights used by the Group as at 31 December 2022.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.2 Calculation of expected credit losses (continued)

*Scenarios and macroeconomic factors (continued)*

Cyprus Economy – Macroeconomic Parameters 31 December 2022

| Scenarios | | | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| Optimistic | Real GDP change | % | 5,45 | 3,39 | 3,42 | 2,52 | 1,40 |
| | Unemployment | % | 7,40 | 7,75 | 7,14 | 6,66 | 6,44 |
| | Consumer price index | % | 8,44 | 4,27 | 2,13 | 2,02 | 2,07 |
| | House price index change | % | 5,44 | 6,70 | 7,11 | 8,23 | 10,27 |
| Baseline | Real GDP change | % | 5,45 | 2,05 | 3,07 | 2,72 | 1,42 |
| | Unemployment | % | 7,40 | 7,75 | 7,29 | 6,91 | 6,65 |
| | Consumer price index | % | 8,44 | 4,21 | 2,24 | 2,02 | 2,08 |
| | House price index change | % | 5,44 | 5,36 | 4,87 | 7,89 | 10,41 |
| Pessimistic | Real GDP change | % | 5,45 | -2,46 | 0,32 | 4,69 | 3,28 |
| | Unemployment | % | 7,40 | 10,47 | 11,54 | 10,18 | 8,92 |
| | Consumer price index | % | 8,44 | 1,69 | 0,05 | 1,60 | 1,83 |
| | House price index change | % | 5,44 | 2,23 | -1,49 | 3,04 | 8,23 |

*Assessment of loss given default ("LGD")*

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

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property.

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available property price indices by the CBC. In addition, a forward-looking indexation is applied in the collateral prices for estimating the future open market value at the time of liquidation and future net liquidation value is capped at the market value indexed as at the reference date.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.2 Calculation of expected credit losses (continued)

*Assessment of loss given default ("LGD") (continued)*

Under the pessimistic scenario, applied haircuts on real estate collaterals are increased by 2% and the timing of recovery of collaterals is increased by 0,5 year. Under the optimistic scenario applied haircuts are decreased by 2% and the timing of recovery of collaterals is decreased by 0,5 year. Under all scenarios, selling costs are assumed to be 5% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collaterals values.

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers ranges between 3-5 years under the baseline scenario as in the previous year. The weighted average liquidation period for all real estate collaterals is 3,6 years (2021: 3,7 years). Different liquidation haircuts are applied depending on the type and location of each collateral with the liquidation haircut including selling expenses ranging from 5%-45% under the baseline scenario and weighted average liquidation haircut of 17% (2021: 17%).

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

*Sensitivity analysis*

For the purposes of providing an indication of the change in accumulated impairment losses on loans and advances as a result of changes in key loan impairment assumptions, the Bank has performed a sensitivity analysis. The impact on the provisions for impairment of loans and advances as at 31 December 2022 is presented below:

| | Increase/(Decrease) of ECLs for loans and advances |
|---|---|
| | €'000 |
| Baseline 100%, Optimistic 0%, Pessimistic 0% | (1.044) |
| Baseline 0%, Optimistic 100%, Pessimistic 0% | (2.829) |
| Baseline 0%, Optimistic 0%, Pessimistic 100% | 3.627 |
| Increase liquidation haircuts by 5% | 871 |
| Decrease liquidation haircuts by 5% | (657) |
| Increase PDs by 20% | 550 |
| Decrease PDs by 20% | (550) |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.3 Fair value of investment in debt securities and equity

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

More details on investment in debt securities and equity are presented in notes 16 and 25 to the Interim Consolidated Financial Statements.

### 4.4 Income taxes

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

### 4.5 Stock of property – estimation of net realisable value

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

More details on stock of property are presented in note 19 to the Interim Consolidated Financial Statements.

### 4.6 Exercise of significant influence or control

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

**4.6 Exercise of significant influence or control (continued)**

More details on exercise of significant influence or control are presented in notes 17 and 18 to the Interim Consolidated Financial Statements.

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

The accounting policy for provisions for pending litigation, claims, regulatory and other matters is described in Note 3.30 of the Annual Consolidated Financial Statements of the Cyprus Development Bank Public Company Limited for the year ended 31 December 2022. Judgment is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigation, claims, regulatory and other matters usually require a high degree of judgement than other types of provisions. For a detailed description of the nature of uncertainties and assumptions and the effect of the amount and timing of pending litigation, claims, regulatory and other matters refer in note 31 to the Interim Consolidated Financial Statements.

## 5. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Loans and advances at amortised cost | 6.455 | 4.360 |
| Balances with banks at amortised cost | 3.595 | 59 |
| Debt securities | 623 | 156 |
| Client deposits | - | 226 |
| | 10.673 | 4.801 |

## 6. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST METHOD

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Bank borrowings | 36 | 4 |
| Client deposits | 377 | 96 |
| Balances with banks | 2 | 337 |
| Loan capital | 221 | 221 |
| Debt securities | - | 117 |
| Interest expense on lease liability | 12 | 10 |
| | 648 | 785 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 7. FEE AND COMMISSION INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Credit related fees and commissions | 197 | 260 |
| Fund transfer commissions | 456 | 480 |
| Other banking and brokerage fees and commissions | 995 | 840 |
| | 1.648 | 1.580 |

## 8. FEE AND COMMISSION EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Fund transfer fees and commissions | 83 | 123 |
| Banking related fees and commissions | 80 | 45 |
| Brokerage fees and commissions | 32 | 34 |
| Management and performance fees | 4 | 52 |
| | 199 | 254 |

## 9. NET FOREIGN EXCHANGE GAINS

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

## 10. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Dividend income | 14 | - |
| Loss from disposal of subsidiary (note 17) | - | (5) |
| Profit on disposal of stock of property | - | 100 |
| Loss on revaluation of financial assets at FVTPL | (5) | - |
| Other income | 97 | 17 |
| | 106 | 112 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 11. STAFF COSTS

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Salaries | 3.407 | 3.349 |
| Employer's contributions | 506 | 482 |
| Other staff benefits | 1 | 6 |
| Cost of retirement benefits | 260 | 251 |
| Provision for Voluntary Exit Plan | - | 1.500 |
| | 4.174 | 5.588 |

The number of people employed by the Group as at 30 June 2023 was 135 (30 June 2022: 141).

*Retirement benefits*

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2022: 9%) and employee contributions of 3% - 10% (2022: 3% - 10%) of the employees' gross salaries. The Bank's contributions are charged to the income statement.

The employees of Global Capital Securities and Financial Services Ltd are participating in the plan with employer contributions of 6% (2022: 6%) and employee contributions of 3% - 10% (2022: 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.

*Provision for Voluntary Exit Plan (“VEP”)*

During the period 1 January to 30 June 2022 the Group was contemplating the implementation of a VEP for its employees, and towards this an amount of €1.500 thousand was provided for in the results of the six-month period ended 30 June 2022. The implementation of the VEP did not materialise and the provision was reversed in the second half of 2022.

## 12. OTHER OPERATING EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Consultancy and legal fees | 195 | 201 |
| Regulatory fees | 121 | 108 |
| IT related expenses | 524 | 463 |
| Marketing, subscriptions and donations | 186 | 127 |
| Utilities | 152 | 146 |
| Other operating expenses | 526 | 601 |
| | 1.704 | 1.646 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 12. OTHER OPERATING EXPENSES (continued)

Special levy on deposits and other levies/contributions as presented in the consolidated income statement are set out below:

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| Contribution to Deposit Guarantee Fund | 69 | 59 |
| Single Resolution Fund contribution | 23 | 43 |
| Special levy on deposits of credit institutions in Cyprus | 346 | 292 |
| | 438 | 394 |

The special levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0,0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution, which is charged annually by the Single Resolution Board, reduces the charge of the Special Levy up to the level of the total annual Special Levy charge.

## 13. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| **Basic and diluted profit/(loss) per share** | | |
| Profit/(loss) attributable to the owners of the parent company (€'000) | 4.089 | (3.441) |
| Weighted average number of shares in issue during the period ('000) | 43.276 | 43.276 |
| Basic and fully diluted profit/(loss) per share (cent) | 9,45 | (7,95) |

| | Six months ended 30 June | |
|---|---|---|
| **Weighted average number of ordinary shares in issue** | 2023 | 2022 |
| Weighted average number of shares in issue during the period ('000) | 43.276 | 43.276 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 14. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Cash | 1.169 | 938 |
| Balances with central banks | 278.464 | 219.426 |
| | 279.633 | 220.364 |
| | | |
| Balances with other banks | 2.450 | 2.252 |
| Stage 1 – 12 month expected credit losses | (2) | (2) |
| | 2.448 | 2.250 |

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.854 thousand (31 December 2022: €4.559 thousand) for the Group.

For cash and cash equivalents as per statement of cash flows, refer to note 26 to the Interim Consolidated Financial Statements.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in note 27 to the Interim Consolidated Financial Statements.

## 15. LOANS AND ADVANCES

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Loans and advances | 244.171 | 249.782 |
| Changes to contractual cash flows due to modifications | (260) | (260) |
| Impairment losses individually assessed | (31.620) | (30.629) |
| Impairment losses collectively assessed | (2.625) | (2.664) |
| | 209.666 | 216.229 |

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 27 to the Interim Consolidated Financial Statements.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 15. LOANS AND ADVANCES (continued)

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

| | 30 June 2023 | | | | |
|---|---|---|---|---|---|
| | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| 1 January | 124.573 | 53.195 | 62.169 | 9.845 | 249.782 |
| Transfer from Stage 1 to Stage 2 | (95) | 95 | - | - | - |
| Transfer from Stage 1 to Stage 3 | (52) | - | 52 | - | - |
| Transfer from Stage 2 to Stage 3 | - | (6) | 6 | - | - |
| Transfer from Stage 3 to Stage 2 | - | 20 | (20) | - | - |
| Transfer from Stage 2 to Stage 1 | - | - | - | - | - |
| Transfer from Stage 3 to Stage 1 | - | - | - | - | - |
| Net movement during the period | (2.698) | (852) | (2.089) | 28 | (5.611) |
| 30 June | 121.728 | 52.452 | 60.118 | 9.873 | 244.171 |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| 1 January | 103.835 | 58.362 | 88.839 | 12.236 | 263.272 |
| Transfer from Stage 1 to Stage 2 | (1.303) | 1.303 | - | - | - |
| Transfer from Stage 1 to Stage 3 | (49) | - | 49 | - | - |
| Transfer from Stage 2 to Stage 3 | - | (41) | 41 | - | - |
| Transfer from Stage 3 to Stage 2 | - | 4.966 | (4.966) | - | - |
| Transfer from Stage 2 to Stage 1 | 3.077 | (3.077) | - | - | - |
| Transfer from Stage 3 to Stage 1 | 1.312 | - | (1.312) | - | - |
| Net movement during the period | 17.701 | (8.318) | (20.482) | (2.391) | (13.490) |
| 31 December | 124.573 | 53.195 | 62.169 | 9.845 | 249.782 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 16. INVESTMENTS IN DEBT SECURITIES

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| **Securities at amortised cost** | | |
| Government bonds | 40.329 | 40.791 |
| Corporate bonds | 4.583 | 4.541 |
| Treasury bills | - | 39.811 |
| | 44.912 | 85.143 |
| **Securities at FVOCI** | | |
| Government bonds | 5.056 | 5.086 |
| | 49.968 | 90.229 |

All debt securities are listed.

**The movement of debt securities was as follows:**

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| **Securities at amortised cost** | | |
| Balance at 1 January | 85.246 | 106.332 |
| Acquisitions | 17.860 | 229.538 |
| Maturities | (57.771) | (250.369) |
| Amortisation of discounts/premiums and interest | (337) | (255) |
| | 44.998 | 85.246 |
| Stage 1 - 12 month expected credit losses | (86) | (103) |
| Balance 30 June/ 31 December | 44.912 | 85.143 |

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| **Securities at FVOCI** | | |
| Balance at 1 January | 5.094 | 5.440 |
| Amortisation of discounts/premiums and interest | (52) | (98) |
| Mark to market valuation | 20 | (248) |
| | 5.062 | 5.094 |
| Stage 1 - 12 month expected credit losses | (6) | (8) |
| Balance 30 June/ 31 December | 5.056 | 5.086 |

Additional analysis and information regarding market risk are set out in note 27 to the Interim Consolidated Financial Statements.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 17. SUBSIDIARY COMPANIES

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

| | Shareholding | | Activities |
|---|---|---|---|
| | 30 June 2023 | 31 December 2022 | |
| In Cyprus: | % | % | |
| Global Capital Limited | 84,64 | 84,64 | Portfolio management, provision of financial advisory and brokerage services |

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

| | Shareholding | | Activities |
|---|---|---|---|
| | 30 June 2023 | 31 December 2022 | |
| | % | % | |
| 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 |

At 30 June 2023 the Bank had 100% shareholding in the Cyprus registered Special Purpose Entities ("SPEs") listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts.

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

**Acquisition, dissolution and disposal of subsidiaries**

There were no acquisitions of subsidiaries during the period ended 30 June 2023. During the year ended 31 December 2022, the Bank acquired one new subsidiary, Limondi Limited whose shares were subsequently transferred to the shareholders of the Bank at no consideration. Limondi Limited was inactive for the period it was a subsidiary of the Bank and did not have any assets or liabilities.

There were no disposals of subsidiaries during the period ended 30 June 2023. During the period ended 30 June 2022 the Group sold its subsidiary Pekito Holdings Limited for €1.800 thousand and incurred a loss of €5 thousand recognised in the consolidated income statement. Jekelani Holding Limited was disposed off in September 2022.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 17. SUBSIDIARY COMPANIES (continued)

As at 30 June 2023 Wailmer Holdings Limited and Metrore Properties Limited were in the process of being struck off.

## 18. INVESTMENTS IN ASSOCIATES

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

| Name | Country of incorporation | Effective shareholding | | Activities |
|---|---|---|---|---|
| | | 30 June 2023 % | 31 December 2022 % | |
| CLR Investment Fund Public Limited | Cyprus | 24,674 | 24,674 | Investments in securities listed in the Cyprus Stock Exchange, in strategic investments and in business participations in private companies |

The Group's interest in CLR Investment Fund Public Ltd is accounted for using the equity method in the consolidated financial statements.

## 19. STOCK OF PROPERTY

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Stock of property | 10.148 | 8.633 |
| | 10.148 | 8.633 |

The Bank in its normal course of business, as part of its non-performing exposures management, 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.

The carrying value of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. For the six months period ended 30 June 2023 an impairment loss of €nil thousand (31 December 2022: €248 thousand) was recognised in the consolidated income statement.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 19. STOCK OF PROPERTY (continued)

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

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Net book value 1 January | 8.633 | 9.702 |
| Additions | 1.515 | 3.083 |
| Disposals of stock of property | - | (944) |
| Disposal of subsidiaries | - | (2.960) |
| Movement in impairment loss provision | - | (248) |
| Balance 30 June/ 31 December | 10.148 | 8.633 |

## 20. CLIENT DEPOSITS

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Demand deposits | 292.032 | 321.600 |
| Fixed-term or notice deposits | 196.035 | 165.241 |
| | 488.067 | 486.841 |

## 21. ACCRUALS AND OTHER LIABILITIES

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Accrued expenses and other liabilities | 5.225 | 2.008 |
| Items in the course of settlement | 12.994 | 5.321 |
| Deferred income | 264 | 285 |
| Lease liability | 580 | 657 |
| Provision for financial guarantees and commitments | 84 | 84 |
| | 19.147 | 8.355 |

Items in the course of settlement as at 30 June 2023, included an amount of €6 million relating to incoming funds applied to customers' accounts after period end.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 21. ACCRUALS AND OTHER LIABILITIES (continued)

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.

## 22. LOAN CAPITAL

| | | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|---|
| | | €'000 | €'000 | €'000 | €'000 |
| | Contractual interest rate | Nominal value | Carrying value | Nominal value | Carrying value |
| Perpetual Unsecured Subordinated Note | 13,75% | 5.000 | 5.000 | 5.000 | 5.000 |
| Subordinated Tier 2 Bonds | 7,125% | 6.250 | 6.260 | 6.250 | 6.261 |
| | | 11.250 | 11.260 | 11.250 | 11.261 |

*Perpetual Unsecured Subordinated Note*

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited ("BoC"). On 28th December 2022 the Note was sold by BoC to Limondi Limited a company owned by the majority of the Bank's shareholders. 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 period ended 30 June 2023 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.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 22. LOAN CAPITAL (continued)

*Perpetual Unsecured Subordinated Note (continued)*

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

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

*Subordinated Tier 2 Bonds*

In December 2021, the Bank issued €6,25 million unsecured Subordinated Bonds of 10 year duration. The Bonds carry a fixed interest rate of 7,125% payable every six months, on 23 June and 23 December each year. The Bonds mature on 23 December 2031. The Bank has the option to redeem the bonds in whole or in part before their contractual maturity, provided that 5 years have lapsed from the date of issuance, and subject to regulatory consents. The Bank also has the right but not the obligation to exercise an option for the early call, redemption, repayment, or purchase of the Bonds during the first five years following their date of their issuance, under specific circumstances as these are stated in Article 78(4) of the CRR and subject to regulatory consents. The Subordinated Tier 2 Bond qualifies for classification as Tier 2 Capital.

The Bonds were listed in the Emerging Companies Bond Market ("ECBM") of the Cyprus Stock Exchange ("CSE") on 29 September 2022.

## 23. SHARE CAPITAL

| | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | No. of shares | Share Capital €'000 | No. of shares | Share Capital €'000 |
| ***Authorised:*** | | | | |
| Ordinary shares of €0,20 each | 704.849.584 | 140.970 | 704.849.584 | 140.970 |
| ***Issued and fully paid:*** | | | | |
| Ordinary shares of NV €0,20 each | 43.275.979 | 8.655 | 43.275.979 | 8.655 |
| **Total issued share capital** | 43.275.979 | 8.655 | 43.275.979 | 8.655 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 24. 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 30 June 2023 and 31 December 2022 are as follows:

| *Contingent liabilities* | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Guarantees issued | 18.954 | 19.205 |

| *Commitments* | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Documentary credits | 729 | 405 |
| Undrawn commitments for loans and advances granted to clients | 29.115 | 31.327 |
| | 29.844 | 31.732 |
| **Contingent liabilities and commitments** | **48.798** | **50.937** |

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

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

**Capital Commitments**

Commitments for contracted capital expenditure as at 30 June 2023 amount to €191 thousand (31 December 2022: €189 thousand).

**Contingent liabilities for material litigation**

Details of material litigation of the Group are disclosed in note 31 to the Interim Consolidated Financial Statements.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 25. 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 financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest method less provision for impairment. The fair value of loans and advances to customers equals the amount shown in the statement of financial position after deducting provisions for impairment.

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

When the market for some financial instruments is not active, the Group calculates fair value using various methods of valuation. Such valuation methods may include the use of prices from recent transactions made at an arm's length, the use of the current fair value of other similar instruments and discounted cash flow methods. 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 uses the following hierarchy for determining and disclosing fair value:

Level 1: financial instruments valued using quoted (unadjusted) prices in active markets for identical assets.

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 period ended 30 June 2023 and year ended 31 December 2022, the Group did not make any transfers into and out of the fair value hierarchy levels.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 25. FAIR VALUE (continued)

**Financial instruments measured at fair value**

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

| **30 June 2023** | Note | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Investments at FVTPL | | | | | |
| Equities | | - | - | 315 | 315 |
| Investments at FVOCI | | | | | |
| Debt securities | 16 | - | 5.056 | - | 5.056 |
| | | - | 5.056 | 315 | 5.371 |
| **Financial liabilities** | | - | - | - | - |

| **31 December 2022** | Note | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Investments at FVTPL | | - | - | - | - |
| Equities | | - | - | 142 | 142 |
| Investments at FVOCI | | | | | |
| Debt securities | 16 | - | 5.086 | - | 5.086 |
| | | - | 5.086 | 142 | 5.228 |
| **Financial liabilities** | | - | - | - | - |

There were no transfers between levels during the period ended 30 June 2023 and year ended 31 December 2022.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 25. FAIR VALUE (continued)

**Non-financial assets measured at fair value**

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

| 30 June 2023 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| **Non-financial assets** | | | | |
| Premises and equipment | - | - | 5.329 | 5.329 |

| 31 December 2022 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| **Non-financial assets** | | | | |
| Premises and equipment | - | - | 5.385 | 5.385 |

There were no transfers between levels during the period ended 30 June 2023 and year ended 31 December 2022.

**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.

| 30 June 2023 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with central banks | - | 279.633 | - | 279.633 |
| Balances with other banks | - | 2.448 | - | 2.448 |
| Loans and advances | - | - | 209.666 | 209.666 |
| Debt securities at amortised cost | 35.854 | 7.306 | - | 43.160 |
| Investments in associates | - | - | 210 | 210 |
| | 35.854 | 289.387 | 209.876 | 535.117 |
| **Financial liabilities** | | | | |
| Bank borrowings | - | - | 2.117 | 2.117 |
| Client deposits | - | - | 488.067 | 488.067 |
| Loan capital | - | - | 11.260 | 11.260 |
| Provision for financial guarantees and commitments | - | - | 84 | 84 |
| | - | - | 501.528 | 501.528 |

There were no transfers between levels during the period ended 30 June 2023 and year ended 31 December 2022.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 25. FAIR VALUE (continued)

**Financial instruments not measured at fair value (continued)**

| 31 December 2022 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with central banks | - | 220.364 | - | 220.364 |
| Balances with other banks | - | 2.250 | - | 2.250 |
| Loans and advances | - | - | 216.229 | 216.229 |
| Debt securities at amortised cost | 35.567 | 47.287 | - | 82.854 |
| Investments in associates | - | - | 294 | 294 |
| | 35.567 | 269.901 | 216.523 | 521.991 |
| **Financial liabilities** | | | | |
| Bank borrowings | - | - | 2.328 | 2.328 |
| Client deposits | - | - | 486.841 | 486.841 |
| Loan capital | - | - | 11.261 | 11.261 |
| Provision for financial guarantees and commitments | - | - | 84 | 84 |
| | - | - | 500.514 | 500.514 |

There were no transfers between levels during the period ended 30 June 2023 and year ended 31 December 2022.

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

*Investments in associates*
Investment in CLR Investment Fund Public Limited is accounted for using the equity method in the consolidated financial statements. For the purpose of calculating the fair value this investment is categorised under level 3. The shares of CLR Investment Fund Public Limited are listed on the Cyprus Stock Exchange and for the calculation of the fair value the Group uses the price of the share as of 30 June 2023 and 31 December 2022.

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

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

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 26. CASH AND CASH EQUIVALENTS

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Cash | 1.169 | 938 |
| Balances with central banks | 273.611 | 214.867 |
| Balances with other banks | 2.449 | 2.250 |
| | 277.229 | 218.055 |

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

## 27. RISK MANAGEMENT

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

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

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

### 27.1 Credit risk

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

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

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Credit quality analysis***

| | | 30 June 2023 | | | | |
|---|---|---|---|---|---|---|
| | Note | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| **Balances with central banks and other banks** | | | | | | |
| Aaa - Aa3 | | 142 | - | - | - | 142 |
| A1 - A3 | | 9 | - | - | - | 9 |
| Ba1 - Ba3 | | 280.185 | - | - | - | 280.185 |
| Unrated | | 578 | - | - | - | 578 |
| | 14 | 280.914 | - | - | - | 280.914 |
| Loss allowance | | (2) | - | - | - | (2) |
| Carrying amount | 14 | 280.912 | - | - | - | 280.912 |
| **Loans and advances to customers at amortised cost - gross carrying amount** | | | | | | |
| Grade 1-3: Low-medium risk | | 121.409 | 48.329 | - | 9.472 | 179.210 |
| Grade 4-5: Special mention | | 319 | 4.123 | - | - | 4.442 |
| Non-performing | | - | - | 60.118 | 401 | 60.519 |
| | 15 | 121.728 | 52.452 | 60.118 | 9.873 | 244.171 |
| Loss allowance and changes to contractual cash flows due to modifications | 15 | (892) | (2.000) | (31.456) | (157) | (34.505) |
| Carrying amount | 15 | 120.836 | 50.452 | 28.662 | 9.716 | 209.666 |
| **Loans and advances to customers at amortised cost - gross carrying amount** | | | | | | |
| No days past due | | 99.259 | 32.810 | 1.052 | 6.763 | 139.884 |
| Overdue less than 30 days | | 20.193 | 19.291 | 9.105 | 2.749 | 51.338 |
| Overdue between 30-90 days | | 461 | 350 | 1.756 | - | 2.567 |
| Overdue more than 90 days | | 1.815 | 1 | 48.205 | 361 | 50.382 |
| Total | 15 | 121.728 | 52.452 | 60.118 | 9.873 | 244.171 |
| **Debt securities** | | | | | | |
| Baa1 - Baa3 | | 14.458 | - | - | - | 14.458 |
| Ba1 - Ba3 | | 35.602 | - | - | - | 35.602 |
| | 16 | 50.060 | - | - | - | 50.060 |
| Loss allowance | 16 | (92) | - | - | - | (92) |
| Carrying amount | 16 | 49.968 | - | - | - | 49.968 |
| **Financial guarantees and loan commitments** | | | | | | |
| Gross amount | 24 | 48.389 | 261 | 28 | 120 | 48.798 |
| Loss allowance | 21 | (84) | - | - | - | (84) |
| Carrying amount | | 48.305 | 261 | 28 | 120 | 48.714 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

*Credit quality analysis (continued)*

| | Note | 31 December 2022 | | | | |
|---|---|---|---|---|---|---|
| | | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| **Balances with central banks and other banks** | | | | | | |
| Aaa - Aa3 | | 36 | - | - | - | 36 |
| A1 - A3 | | 15 | - | - | - | 15 |
| Ba1 - Ba3 | | 219.773 | - | - | - | 219.773 |
| B1 – B3 | | 1.176 | - | - | - | 1.176 |
| Unrated | | 678 | - | - | - | 678 |
| | 14 | 221.678 | - | - | - | 221.678 |
| Loss allowance | | (2) | - | - | - | (2) |
| Carrying amount | 14 | 221.676 | - | - | - | 221.676 |
| **Loans and advances to customers at amortised cost - gross carrying amount** | | | | | | |
| Grade 1-3: Low-medium risk | | 123.938 | 48.649 | - | 6.692 | 179.279 |
| Grade 4-5: Special mention | | 635 | 4.546 | - | - | 5.181 |
| Non-performing | | - | - | 62.169 | 3.153 | 65.322 |
| | 15 | 124.573 | 53.195 | 62.169 | 9.845 | 249.782 |
| Loss allowance and changes to contractual cash flows due to modifications | 15 | (930) | (1.990) | (30.513) | (120) | (33.553) |
| Carrying amount | 15 | 123.643 | 51.205 | 31.656 | 9.725 | 216.229 |
| **Loans and advances to customers at amortised cost - gross carrying amount** | | | | | | |
| No days past due | | 114.453 | 46.314 | 9.278 | 6.698 | 176.743 |
| Overdue less than 30 days | | 10.113 | 6.873 | 2.667 | 2.801 | 22.454 |
| Overdue between 30-90 days | | 5 | 7 | 1.482 | - | 1.494 |
| Overdue more than 90 days | | 2 | 1 | 48.742 | 346 | 49.091 |
| Total | 15 | 124.573 | 53.195 | 62.169 | 9.845 | 249.782 |
| **Debt securities** | | | | | | |
| Baa1 - Baa3 | | 3.213 | - | - | - | 3.213 |
| Ba1 - Ba3 | | 72.654 | - | - | - | 72.654 |
| B1 - B3 | | 14.473 | - | - | - | 14.473 |
| | 16 | 90.340 | - | - | - | 90.340 |
| Loss allowance | 16 | (111) | - | - | - | (111) |
| Carrying amount | 16 | 90.229 | - | - | - | 90.229 |
| **Financial guarantees and loan commitments** | | | | | | |
| Gross amount | 24 | 46.523 | 4.113 | 56 | 245 | 50.937 |
| Loss allowance | 21 | (84) | - | - | - | (84) |
| Carrying amount | | 46.439 | 4.113 | 56 | 245 | 50.853 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Concentration of loans and advances by economic sector***

| | 30 June 2023 | | | | |
|---|---|---|---|---|---|
| | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| Services | 46.097 | 7.458 | 14.971 | 229 | 68.755 |
| Construction & real estate | 34.299 | 22.147 | 5.279 | 9.367 | 71.092 |
| Industry | 4.642 | 1.284 | 8.924 | - | 14.850 |
| Hotels & catering | 17.251 | 19.183 | 5.460 | - | 41.894 |
| Agriculture | 889 | - | 7.519 | - | 8.408 |
| Transport and storage | 1.819 | 13 | 690 | - | 2.522 |
| Other sectors | 16.731 | 2.367 | 17.275 | 277 | 36.650 |
| | 121.728 | 52.452 | 60.118 | 9.873 | 244.171 |
| Loss allowance and changes to contractual cash flows due to modifications | (892) | (2.000) | (31.456) | (157) | (34.505) |
| Carrying amount | 120.836 | 50.452 | 28.662 | 9.716 | 209.666 |

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | Stage 1 €'000 | Stage 2 €'000 | Stage 3 €'000 | POCI €'000 | Total €'000 |
| Services | 50.199 | 7.740 | 14.722 | 191 | 72.852 |
| Construction & real estate | 37.789 | 22.158 | 5.544 | 9.369 | 74.860 |
| Industry | 4.686 | 1.703 | 10.614 | - | 17.003 |
| Hotels & catering | 15.882 | 21.528 | 5.246 | - | 42.656 |
| Agriculture | 895 | - | 7.469 | - | 8.364 |
| Transport and storage | 1.943 | - | 667 | - | 2.610 |
| Other sectors | 13.179 | 66 | 17.907 | 285 | 31.437 |
| | 124.573 | 53.195 | 62.169 | 9.845 | 249.782 |
| Loss allowance and changes to contractual cash flows due to modifications | (930) | (1.990) | (30.513) | (120) | (33.553) |
| Carrying amount | 123.643 | 51.205 | 31.656 | 9.725 | 216.229 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Analysis of performing loans and advances by risk grade***

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| *Carrying amount* | | |
| Grade 1-3: Low-medium risk | 176.466 | 176.496 |
| Grade 4-5: Special mention | 4.290 | 5.040 |
| | 180.756 | 181.536 |
| Of which loans and advances with renegotiated terms | 48.311 | 46.465 |
| *Value of collateral security** | | |
| Grade 1-3: Low-medium risk | 142.669 | 134.736 |
| Grade 4-5: Special mention | 4.103 | 3.741 |
| | 146.772 | 138.477 |
| Of which loans and advances with renegotiated terms | 40.489 | 37.902 |

**Collateral securities as at 30 June 2023 are stated at market value capped to the carrying amount of loans and advances.*

*Collateral securities as at 31 December 2022 are stated at forced sale value capped to the carrying amount of loans and advances.*

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

**27.1 Credit risk (continued)**

***Analysis of loans and advances by borrower category***

| **30 June 2023** | Total loans and advances €'000 | Performing loans and advances: Non-restructured €'000 | Performing loans and advances: Restructured €'000 | Performing loans and advances: Total €'000 | Non-performing loans and advances €'000 |
|---|---|---|---|---|---|
| *Loans and advances to corporate legal entities* | | | | | |
| Services | 47.146 | 31.401 | 5.479 | 36.880 | 10.266 |
| Construction & real estate | 60.372 | 31.217 | 25.690 | 56.907 | 3.465 |
| Industry | 9.005 | 1.519 | 1.236 | 2.755 | 6.250 |
| Hotels & catering | 39.570 | 23.444 | 11.621 | 35.065 | 4.505 |
| Agriculture | 4.261 | - | - | - | 4.261 |
| Transport and storage | - | - | - | - | - |
| Other sectors | 1.120 | - | - | - | 1.120 |
| | 161.474 | 87.581 | 44.026 | 131.607 | 29.867 |
| *Loans and advances to retail legal entities* | | | | | |
| Services | 14.617 | 10.186 | 975 | 11.161 | 3.456 |
| Construction & real estate | 9.434 | 6.662 | 1.444 | 8.106 | 1.328 |
| Industry | 5.846 | 3.137 | 35 | 3.172 | 2.674 |
| Hotels & catering | 1.249 | 294 | - | 294 | 955 |
| Agriculture | 3.874 | 889 | - | 889 | 2.985 |
| Transport and storage | 2.522 | 1.832 | - | 1.832 | 690 |
| Other sectors | - | - | - | - | - |
| | 37.542 | 23.000 | 2.454 | 25.454 | 12.088 |
| *Loans and advances to private individuals* | | | | | |
| Loans and advances for the purchase/construction of immovable property | | | | | |
| Owner occupied | 19.140 | 12.304 | - | 12.304 | 6.836 |
| For other purposes | - | - | - | - | - |
| Consumer Loans | 15.238 | 7.091 | 2.234 | 9.325 | 5.913 |
| Current accounts | 4.790 | 1.350 | - | 1.350 | 3.440 |
| Credit facilities to sole traders | 5.987 | 2.039 | 1.573 | 3.612 | 2.375 |
| | 45.155 | 22.784 | 3.807 | 26.591 | 18.564 |
| Total loans and advances | 244.171 | 133.365 | 50.287 | 183.652 | 60.519 |
| Provisions and changes to contractual cash flows due to modifications | (34.505) | (920) | (1.976) | (2.896) | (31.609) |
| Carrying amount | 209.666 | 132.445 | 48.311 | 180.756 | 28.910 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Analysis of loans and advances by borrower category (continued)***

| 31 December 2022 | Total loans and advances €'000 | Performing loans and advances Non-restructured €'000 | Performing loans and advances Restructured €'000 | Performing loans and advances Total €'000 | Non-performing loans and advances €'000 |
|---|---|---|---|---|---|
| *Loans and advances to corporate legal entities* | | | | | |
| Services | 50.397 | 34.811 | 5.664 | 40.475 | 9.922 |
| Construction & real estate | 64.074 | 34.832 | 23.160 | 57.992 | 6.082 |
| Industry | 11.829 | 1.991 | 1.642 | 3.633 | 8.196 |
| Hotels & catering | 39.487 | 22.297 | 13.857 | 36.154 | 3.333 |
| Agriculture | 3.210 | - | - | - | 3.210 |
| Other sectors | 1.064 | - | - | - | 1.064 |
| | 170.061 | 93.931 | 44.323 | 138.254 | 31.807 |
| *Loans and advances to retail legal entities* | | | | | |
| Services | 14.934 | 10.418 | 993 | 11.411 | 3.523 |
| Construction & real estate | 9.513 | 6.271 | 1.463 | 7.734 | 1.779 |
| Industry | 5.174 | 2.710 | 46 | 2.756 | 2.418 |
| Hotels & catering | 2.080 | 167 | - | 167 | 1.913 |
| Agriculture | 4.883 | 895 | - | 895 | 3.988 |
| Transport and storage | 2.610 | 1.943 | - | 1.943 | 667 |
| | 39.194 | 22.404 | 2.502 | 24.906 | 14.288 |
| *Loans and advances to private individuals* | | | | | |
| Loans and advances for the purchase/construction of immovable property | | | | | |
| Owner occupied | 17.005 | 10.219 | - | 10.219 | 6.786 |
| Consumer Loans | 12.569 | 5.718 | 23 | 5.741 | 6.828 |
| Current accounts | 4.544 | 1.272 | - | 1.272 | 3.272 |
| Credit facilities to sole traders | 6.409 | 2.474 | 1.594 | 4.068 | 2.341 |
| | 40.527 | 19.683 | 1.617 | 21.300 | 19.227 |
| Total loans and advances | 249.782 | 136.018 | 48.442 | 184.460 | 65.322 |
| Provisions and changes to contractual cash flows due to modifications | (33.553) | (947) | (1.977) | (2.924) | (30.629) |
| Carrying amount | 216.229 | 135.071 | 46.465 | 181.536 | 34.693 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Analysis of loans and advances on the basis of origination date***

| | 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **30 June 2023** | Total €'000 | Non-performing €'000 | Provision and modification amount €'000 | Total €'000 | Non-performing €'000 | Provision and modification amount €'000 | Total €'000 | Non-performing €'000 | Provision and modification amount €'000 | Total €'000 | Non-performing €'000 | Provision and modification amount €'000 |
| Within one year | 24.895 | 233 | 200 | 21.606 | 206 | 199 | 2.546 | - | - | 743 | 27 | 1 |
| Between one and two years | 17.389 | 88 | 87 | 11.373 | 43 | 38 | 4.034 | - | 3 | 1.982 | 45 | 46 |
| Between two and three years | 17.772 | 2.322 | 1.507 | 13.691 | 2.321 | 1.504 | 1.613 | - | - | 2.468 | 1 | 3 |
| Between three and five years | 32.066 | 800 | 637 | 25.342 | 708 | 564 | 3.389 | - | 5 | 3.335 | 92 | 68 |
| Between five and seven years | 26.612 | 3.290 | 1.727 | 24.428 | 1.892 | 1.345 | 230 | - | - | 1.954 | 1.398 | 382 |
| Between seven and ten years | 9.270 | 2.919 | 1.262 | 5.564 | 539 | 376 | 237 | - | - | 3.469 | 2.380 | 886 |
| Over ten years | 116.167 | 50.867 | 29.085 | 97.012 | 36.246 | 21.618 | 7.091 | 6.836 | 646 | 12.064 | 7.785 | 6.821 |
| | 244.171 | 60.519 | 34.505 | 199.016 | 41.955 | 25.644 | 19.140 | 6.836 | 654 | 26.015 | 11.728 | 8.207 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | Total | Non-performing | Provision and modification amount | Total | Non-performing | Provision and modification amount | Total | Non-performing | Provision and modification amount | Total | Non-performing | Provision and modification amount |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| Within one year | 24.841 | 2 | 11 | 19.894 | 2 | 8 | 3.076 | - | 2 | 1.871 | - | 1 |
| Between one and two years | 20.535 | 377 | 602 | 17.160 | 377 | 600 | 2.492 | - | 1 | 883 | - | 1 |
| Between two and three years | 18.563 | 1.419 | 888 | 14.948 | 1.380 | 886 | 1.013 | - | - | 2.602 | 39 | 2 |
| Between three and five years | 31.153 | 1 | 306 | 26.465 | - | 299 | 2.871 | - | 5 | 1.817 | 1 | 2 |
| Between five and seven years | 24.488 | 3.382 | 1.697 | 21.430 | 1.976 | 1.306 | 306 | - | - | 2.752 | 1.406 | 391 |
| Between seven and ten years | 7.912 | 4.287 | 2.232 | 5.121 | 2.055 | 1.582 | 117 | - | - | 2.674 | 2.232 | 650 |
| Over ten years | 122.290 | 55.854 | 27.817 | 104.237 | 40.305 | 20.672 | 7.130 | 6.786 | 447 | 10.923 | 8.763 | 6.698 |
| | 249.782 | 65.322 | 33.553 | 209.255 | 46.095 | 25.353 | 17.005 | 6.786 | 455 | 23.522 | 12.441 | 7.745 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

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

| **30 June 2023** | Non-performing loans and advances €'000 | Provisions €'000 | Carrying amount €'000 | Value of collateral security* €'000 |
|---|---|---|---|---|
| *Arrears* | | | | |
| Less than three months | 11.952 | 2.143 | 9.809 | 9.673 |
| Between three and six months | 1.682 | 894 | 788 | 764 |
| Between six months and one year | 1.960 | 250 | 1.710 | 1.698 |
| Over one year | 44.925 | 28.322 | 16.603 | 13.056 |
| Total | 60.519 | 31.609 | 28.910 | 25.191 |
| Of which loans and advances with renegotiated terms | 27.841 | 11.070 | 16.771 | 16.085 |

| **31 December 2022** | Non-performing loans and advances €'000 | Provisions €'000 | Carrying amount €'000 | Value of collateral security* €'000 |
|---|---|---|---|---|
| *Arrears* | | | | |
| Less than three months | 16.234 | 2.381 | 13.853 | 13.389 |
| Between three and six months | 647 | 121 | 526 | 503 |
| Between six months and one year | 1.511 | 150 | 1.361 | 1.334 |
| Over one year | 46.930 | 27.977 | 18.953 | 13.224 |
| Total | 65.322 | 30.629 | 34.693 | 28.450 |
| Of which loans and advances with renegotiated terms | 31.464 | 10.011 | 21.453 | 19.414 |

**Collateral securities as at 30 June 2023 are stated at market value capped to the carrying amount of loans and advances. Collateral securities as at 31 December 2022 are stated at forced sale value capped to the carrying amount of loans and advances.*

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

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

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

| **30 June 2023** | Maximum exposure to credit risk €'000 | Value of collateral | | | | Net exposure to credit risk €'000 |
|---|---|---|---|---|---|---|
| | | Cash €'000 | Property €'000 | Other €'000 | Total collateral €'000 | |
| Loans and advances to customers | | | | | | |
| Performing | | | | | | |
| Stage 1 | 120.836 | 1.577 | 90.953 | 3.292 | 95.822 | 25.014 |
| Stage 2 | 50.452 | 154 | 40.884 | 520 | 41.558 | 8.894 |
| POCI | 9.468 | - | 9.392 | - | 9.392 | 76 |
| | 180.756 | 1.731 | 141.229 | 3.812 | 146.772 | 33.984 |
| Non-performing | | | | | | |
| Stage 3 | 28.662 | 10 | 23.459 | 1.474 | 24.943 | 3.719 |
| POCI | 248 | - | 248 | - | 248 | - |
| | 28.910 | 10 | 23.707 | 1.474 | 25.191 | 3.719 |
| | 209.666 | 1.741 | 164.936 | 5.286 | 171.963 | 37.703 |
| **31 December 2022** | | | | | | |
| Loans and advances to customers | | | | | | |
| Performing | | | | | | |
| Stage 1 | 123.643 | 2.186 | 87.706 | 7 | 89.899 | 33.744 |
| Stage 2 | 51.205 | 183 | 41.803 | - | 41.986 | 9.219 |
| POCI | 6.688 | 37 | 6.555 | - | 6.592 | 96 |
| | 181.536 | 2.406 | 136.064 | 7 | 138.477 | 43.059 |
| Non-performing | | | | | | |
| Stage 3 | 31.656 | 10 | 24.221 | 1.182 | 25.413 | 6.243 |
| POCI | 3.037 | - | 3.037 | - | 3.037 | - |
| | 34.693 | 10 | 27.258 | 1.182 | 28.450 | 6.243 |
| | 216.229 | 2.416 | 163.322 | 1.189 | 166.927 | 49.302 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Provisions for impairment of doubtful accounts on loans and advances***

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

| | 30 June 2023 | | | | |
|---|---|---|---|---|---|
| | Stage 1<br>€'000 | Stage 2<br>€'000 | Stage 3<br>€'000 | POCI<br>€'000 | Total<br>€'000 |
| 1 January | 930 | 1.990 | 30.513 | 120 | 33.553 |
| Transfers to Stage 1 | - | - | - | - | - |
| Transfers to Stage 2 | - | 20 | (20) | - | - |
| Transfers to Stage 3 | (1) | (1) | 2 | - | - |
| Exchange differences | - | - | - | (7) | (7) |
| New loans originated or purchased | - | - | - | - | - |
| Changes to contractual cash flows due to modifications not resulting in derecognition | - | - | - | - | - |
| Loans and advances written off | - | - | (1.165) | - | (1.165) |
| Interest (provided) not recognised in the income statement | - | - | 1.298 | 45 | 1.343 |
| Loans derecognised or repaid | (37) | (9) | (845) | (1) | (892) |
| Change due to models and inputs | - | - | 1.673 | - | 1.673 |
| 30 June | 892 | 2.000 | 31.456 | 157 | 34.505 |

POCI: Purchased or originated as Credit Impaired

During the period ended 30 June 2023 exposures of €1.165 thousand (31 December 2022: €18.256 thousand) were written off, out of which €nil thousand (31 December 2022: €15.700) relate to accounting write offs.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.1 Credit risk (continued)

***Provisions for impairment of doubtful accounts on loans and advances (continued)***

| | 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| | €'000 | €'000 | €'000 | €'000 | €'000 |
| 1 January | 702 | 3.367 | 44.699 | 34 | 48.802 |
| Transfers to Stage 1 | 348 | (291) | (57) | - | - |
| Transfers to Stage 2 | (18) | 78 | (60) | - | - |
| Transfers to Stage 3 | - | (10) | 10 | - | - |
| Exchange differences | - | - | 3 | 12 | 15 |
| New loans originated or purchased | 12 | - | - | 71 | 83 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 260 | - | - | - | 260 |
| Loans and advances written off | - | (14) | (18.242) | - | (18.256) |
| Interest (provided) not recognised in the income statement | - | - | 3.086 | 3 | 3.089 |
| Loans derecognised or repaid | (3) | (74) | (948) | - | (1.025) |
| Change due to models and inputs | (371) | (1.066) | 2.022 | - | 585 |
| 31 December | 930 | 1.990 | 30.513 | 120 | 33.553 |

### 27.2 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.

#### 27.2.1 Price risk

*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 sovereign debt securities. The current portfolio of debt securities comprises of debt securities at FVOCI and debt securities at amortised cost. Changes in the value of securities at FVOCI affect the equity of the Group, whereas changes in the value of securities at amortised cost have no effect on equity. The Group's policy relating to valuation of debt securities, is stated in note 3 to these Interim Consolidated Financial Statements.

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

**27.2 Market Risk (continued)**

**27.2.1 Price risk (continued)**

| | 30 June 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Carrying amount €'000 | Change in market prices % | Effect on equity €'000 | Carrying amount €'000 | Change in market prices % | Effect on equity €'000 |
| Debt Securities | | | | | | |
| For below A3 rated bonds | 5.056 | +10% | 506 | 5.086 | +10% | 509 |
| For below A3 rated bonds | 5.056 | -10% | (506) | 5.086 | -10% | (509) |

*Concentration of debt securities*

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| By sector | | |
| Sovereigns | 45.385 | 85.688 |
| Corporate bonds | 4.583 | 4.541 |
| | 49.968 | 90.229 |
| By country | | |
| Cyprus | 24.404 | 65.598 |
| Greece | 11.108 | 10.160 |
| Italy | 14.456 | 14.471 |
| | 49.968 | 90.229 |

**27.2.2 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 rate 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.2 Market Risk (continued)

### 27.2.2 Interest rate risk (continued)

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

| 30 June 2023 | 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 | 278.464 | - | - | - | - | 1.169 | 279.633 |
| Balances with other banks | 1.447 | 1.001 | - | - | - | - | 2.448 |
| Loans and advances | 92.673 | 29.581 | 81.629 | - | - | 5.783 | 209.666 |
| Investments in equities | - | - | - | - | - | 315 | 315 |
| Investments in debt securities | 4.665 | - | 12.916 | 27.068 | 5.319 | - | 49.968 |
| Investments in associates | - | - | - | - | - | 705 | 705 |
| Premises and equipment | - | - | - | - | - | 6.333 | 6.333 |
| Intangible assets | - | - | - | - | - | 647 | 647 |
| Stock of property | - | - | - | - | - | 10.148 | 10.148 |
| Receivables and other assets | - | - | - | - | - | 3.777 | 3.777 |
| Total assets | 377.249 | 30.582 | 94.545 | 27.068 | 5.319 | 28.877 | 563.640 |
| **LIABILITIES & EQUITY** | | | | | | | |
| Bank borrowings | - | - | 2.117 | - | - | - | 2.117 |
| Client deposits | 26.978 | 20.757 | 136.384 | 11.917 | - | 292.031 | 488.067 |
| Deferred taxation | - | - | - | - | - | 301 | 301 |
| Accruals and other liabilities | - | - | - | - | - | 19.147 | 19.147 |
| Loan capital | - | - | 10 | - | 6.250 | 5.000 | 11.260 |
| Share capital | - | - | - | - | - | 8.655 | 8.655 |
| Reserves | - | - | - | - | - | 34.093 | 34.093 |
| Total liabilities and equity | 26.978 | 20.757 | 138.511 | 11.917 | 6.250 | 359.227 | 563.640 |
| Net position | 350.271 | 9.825 | (43.966) | 15.151 | (931) | (330.350) | - |
| Change in interest rates -1% - effect on profit | (3.503) | (98) | 440 | (152) | 9 | - | (3.304) |
| Change in interest rates +1% - effect on profit | 3.503 | 98 | (440) | 152 | (9) | - | 3.304 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.2 Market Risk (continued)

### 27.2.2 Interest rate risk (continued)

| 31 December 2022 | 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 | 219.426 | - | - | - | - | 938 | 220.364 |
| Balances with other banks | 1.250 | 1.000 | - | - | - | - | 2.250 |
| Loans and advances | 97.478 | 27.476 | 86.204 | - | - | 5.071 | 216.229 |
| Investments in equities | - | - | - | - | - | 142 | 142 |
| Investments in debt securities | - | 39.957 | 4.626 | 45.646 | - | - | 90.229 |
| Investments in associates | - | - | - | - | - | 670 | 670 |
| Premises and equipment | - | - | - | - | - | 6.386 | 6.386 |
| Intangible assets | - | - | - | - | - | 671 | 671 |
| Stock of property | - | - | - | - | - | 8.633 | 8.633 |
| Receivables and other assets | - | - | - | - | - | 1.941 | 1.941 |
| Total assets | 318.154 | 68.433 | 90.830 | 45.646 | - | 24.452 | 547.515 |
| **LIABILITIES & EQUITY** | | | | | | | |
| Bank borrowings | - | - | 2.328 | - | - | - | 2.328 |
| Client deposits | 22.565 | 33.386 | 107.510 | 1.779 | - | 321.601 | 486.841 |
| Deferred taxation | - | - | - | - | - | 301 | 301 |
| Accruals and other liabilities | - | - | - | - | - | 8.355 | 8.355 |
| Loan capital | - | - | - | - | 6.250 | 5.011 | 11.261 |
| Share capital | - | - | - | - | - | 8.655 | 8.655 |
| Reserves | - | - | - | - | - | 29.774 | 29.774 |
| Total liabilities and equity | 22.565 | 33.386 | 109.838 | 1.779 | 6.250 | 373.697 | 547.515 |
| Net position | 295.589 | 35.047 | (19.008) | 43.867 | (6.250) | (349.245) | - |
| Change in interest rates -1% - effect on profit | (2.956) | (350) | 190 | (439) | 63 | - | (3.492) |
| Change in interest rates +1% - effect on profit | 2.956 | 350 | (190) | 439 | (63) | - | 3.492 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.2 Market Risk (continued)

### 27.2.2 Interest rate risk (continued)

*Interest rate benchmark reform*

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

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

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

The Financial Conduct Authority ("FCA"), under their new use restriction power, also confirmed that they would prohibit new use of USD LIBOR from the end of 2021, except in specific circumstances. Given that EURIBOR was deemed to be compliant with the EU Benchmarks Regulation, it can continue to be used as a benchmark interest rate for existing and new contracts. Nonetheless, fallback rates to EURIBOR as well as fallback language in agreements involving EURIBOR are required.

The Group currently does not have exposures in currencies affected by the interest rate benchmark reform other than the EURIBOR and therefore does not consider that the Group's exposure to EURIBOR is affected by the BMR reform as at 30 June 2023 and 31 December 2022, other than having to establish the required EURIBOR fallback rates and language. CDB established a project to manage the transition to alternative interest rate benchmarks and EURIBOR fallback requirements. The Head of Treasury is the project owner and project manager with oversight by the Assets and Liabilities Committee ("ALCO"). Major participants in the project are the Legal, Treasury, Finance, Risk Management, Business and IT departments.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.2 Market Risk (continued)

### 27.2.3 Currency risk

Currency risk arises from adverse movements in the rates of exchange 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.

| | 30 June 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Net open position | Change in exchange rates | Effect on profits | Net open position | Change in exchange rates | Effect on profits |
| Currency | €'000 | % | €'000 | €'000 | % | €'000 |
| US Dollar | 549 | +10 | 55 | 518 | +10 | 52 |
| British Pound | 52 | +10 | 5 | 30 | +10 | 3 |
| Russian Rouble | 163 | +30 | 49 | 188 | +30 | 56 |
| Other currencies | (16) | +10 | (2) | 37 | +10 | 4 |
| | | | | | | |
| US Dollar | 549 | -10 | (55) | 518 | -10 | (52) |
| British Pound | 52 | -10 | (5) | 30 | -10 | (3) |
| Russian Rouble | 163 | -30 | (49) | 188 | -30 | (56) |
| Other currencies | (16) | -10 | 2 | 37 | -10 | (4) |

### 27.3 Liquidity Risk

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

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

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.3 Liquidity Risk (continued)

*Key liquidity ratios*

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

The LCR of the Group as at 30 June 2023 was 306% (31 December 2022: 304%), well above the regulatory minimum requirement of 100%. The NSFR of the Group as at 30 June 2023 was 224% (31 December 2022: 214%), well above the regulatory minimum requirement of 100% imposed in June 2021.

**Encumbered assets**

Balances with other banks as at 30 June 2023 do not include any encumbered amounts (31 December 2022: €1 million).

### 27.4 Operational risk

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

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

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

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

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.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.5 Capital management

The primary objective of the Group’s capital management is to ensure compliance with the applicable regulatory capital requirements and to maintain healthy capital adequacy ratios which can support the Group’s business and safeguard the interest of its shareholders and all other stakeholders.

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

The capital adequacy framework, as in force, was incorporated through the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD") which came into effect on 1 January 2014 with certain specified provisions implemented gradually. The CRR and CRD transposed the new capital, liquidity and leverage standards of Basel III into the European Union’s legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions. It is directly applicable in all EU member states. CRD governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD into national law and national regulators were allowed to impose additional capital buffer requirements.

On 27 June 2019, the revised rules on capital and liquidity (Regulation (EU) 2019/876 (CRR II) and Directive (EU) 2019/878 (CRD V)) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")), but most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for Common Equity Tier 1 ("CET1"), Additional Tier 1 ("AT1") and Tier 2 ("T2") instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement (as defined in the CRR) and a Net Stable Funding Ratio ("NSFR").

The amendments that came into effect on 28 June 2021 are in addition to those introduced in June 2020 through Regulation (EU) 2020/873, which among other, brought forward certain CRR II changes in light of the COVID-19 pandemic. The main adjustments of Regulation (EU) 2020/873 that had an impact on the Group’s capital ratio relate to the acceleration of the implementation of the new SME discount factor (lower RWAs), extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1 allowing to fully add back to CET1 any increase in ECL recognised in 2020 and 2021 for non-credit impaired financial assets and phasing in this starting from 2022 (phasing in at 25% starting in 2022).

Basel III Framework comprises of three Pillars:

- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory Review and Evaluation Process ("SREP")
- Pillar 3 – Market discipline

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.5 Capital management (continued)

*Pillar 1 – Minimum capital requirements*

Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Group uses the Standardised Approach for the calculation of minimum capital requirements against credit risk and the financial collateral simple method for credit risk mitigation purposes. The Group adopts the Basic Indicator Approach for the calculation of capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a 15% (as defined in CRR) on the average sum of total net income on a three-year basis net of non-recurring income.

*Pillar 2 – Supervisory Review and Evaluation Process ("SREP")*

Pillar 2 aims to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. The process can be divided into two major components:

- An internal assessment by the institution on internal governance, risk management, stress testing frameworks, business model and strategy, known as Internal Capital and Liquidity Adequacy Assessment Process ("ICAAP/ILAAP")
- A Supervisory Review and Evaluation Process ("SREP"), of which its key purpose is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms, as well as capital and liquidity to ensure a sound management and coverage of their risks to which they are or might be exposed to. This includes risks arising from stress testing exercises and risks an institution may pose to the financial system.

*Pillar 3 – Market discipline*

Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on CRR, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

The Group closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interest of its shareholders.

Pillar 3 disclosures are published on the Bank's website.

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.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.5 Capital management (continued)

The minimum Total Capital Regulatory requirements as at 30 June 2023 stood at 16,00% (31 December 2022: 15,70%) and the minimum CET 1 Regulatory requirement stood at 10,09% (31 December 2022: 9,93%).

The minimum Pillar 1 total capital requirement is 8% which should be met by at least 6% Tier 1 ("T1") capital of which 4,5% minimum Common Equity Tier 1 ("CET 1") capital, and with up to 2,00% by Tier 2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar 1 capital requirement (Pillar 2 add-ons). Applicable Regulation allows a part of the Pillar 2 Requirement (P2R) to be met also with AT1 and T2 capital and does not require solely the use of CET1. In the context of the annual SREP conducted by CBC in 2021 and based on the final 2021 SREP decision received on 8 February 2023, Pillar 2 requirement was set at 5,50% compared to the previous level of 5,20%, resulting to a minimum CET 1 regulatory requirement of 10,09% (from 9,93%) and to a minimum Total regulatory Capital requirement of 16,00% (from 15,70%) effective as of 8 February 2023. Furthermore, the final SREP 2021 decision introduced Pillar 2 Guidance which should be comprised entirely of CET 1 capital and held over and above the OCR.

In addition to the total SREP capital requirement, the Group is also required to maintain a Capital Conservation Buffer of 2,50% to be met entirely by CET 1 Capital.

The tables below present the regulatory capital requirements, at each reference date:

| **Regulatory Capital Requirements** | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Pillar 1 – Total Capital Requirement | 8,00% | 8,00% |
| Pillar 2 – Total Capital Requirement | 5,50% | 5,20% |
| Capital Conservation Buffer | 2,50% | 2,50% |
| **Minimum Total Capital Regulatory Requirements** | 16,00% | 15,70% |

| **Minimum CET1 Regulatory Capital Requirements** | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Pillar 1 – CET 1 Requirement | 4,50% | 4,50% |
| Pillar 2 – CET 1 Requirement | 3,09% | 2,93% |
| Capital Conservation Buffer | 2,50% | 2,50% |
| **Minimum CET 1 Regulatory Requirements** | 10,09% | 9,93% |

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the countercyclical buffer rate from 0,00% to 0,50% of the total risk exposure amount of each licensed credit institution incorporated in Cyprus. The new rate 0,50% must be observed from 30 November 2023.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.5 Capital management (continued)

CET 1 ratio as at 30 June 2023 stood at 17,90%, 781bps above the minimum regulatory CET 1 of 10,09%. The Group's Overall Capital Ratio ("OCR") as at 30 June 2023 stood at 22,69%, 669bps above the minimum regulatory OCR. The capital ratios as at 30 June 2023 include unaudited profits for the six-month period ended 30 June 2023. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to ensure compliance with the relevant regulatory capital requirements and to maintain healthy capital adequacy ratios to cover the risk of its business and support its strategy.

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

The Group's regulatory capital is analysed as follows:

| | |
|---|---|
| *Common Equity Tier I Capital:* | It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions. |
| *Additional Tier I Capital:* | It includes the Perpetual Unsecured Subordinated Note (note 22). |
| *Tier II Capital:* | It includes Unsecured Subordinated Bonds (note 22). |

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.5 Capital management (continued)

The Group's regulatory capital position on a transitional basis as at 30 June 2023 and 31 December 2022 was as follows:

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| ***Transitional basis:*** | | |
| **Regulatory capital** | | |
| Common Equity Tier 1 | 41.985 | 38.524 |
| Additional Tier 1 | 5.000 | 5.000 |
| Tier 2 | 6.250 | 6.250 |
| Total regulatory capital | 53.235 | 49.774 |
| **Risk weighted assets** | | |
| Credit risk | 210.191 | 215.812 |
| Operational risk | 24.395 | 24.395 |
| Total risk weighted assets | 234.586 | 240.207 |
| Common Equity Tier 1 ratio | **17,90%** | **16,04%** |
| T1 Capital ratio | **20,03%** | **18,12%** |
| **Overall capital adequacy ratio** | **22,69%** | **20,72%** |

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

| | 30 June 2023 | 31 December 2022 |
|---|---|---|
| ***Fully loaded basis:*** | | |
| Common Equity Tier 1 ratio | **17,90%** | **15,75%** |
| T1 Capital ratio | 20,03% | 17,84% |
| **Overall capital adequacy ratio** | **22,69%** | **20,45%** |

The above capital ratios include unaudited profits for the six-month period ended 30 June 2023.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 27. RISK MANAGEMENT (continued)

### 27.6 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 30 June 2023 was 7,36% (31 December 2022: 7,71%), well above the 3% minimum threshold applied by the competent authorities.

### 27.7 Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Bank, within the framework of the Bank Recovery and Resolution Directive ("BRRD"), is subject to the minimum requirement for own funds and eligible liabilities ("MREL"). The framework, which entered into effect on 1 January 2016, provides authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure.

On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and it must be transposed into National Law. BRRD II was transposed and implemented in Cyprus law in early May 2021. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

The Bank has received a formal notification from CBC, in its capacity as the National Resolution Authority, of its final decision for the binding MREL for the Bank. According to the decision the minimum MREL requirement for the Bank is set at 15,70% of risk weighted assets ("RWAs") and 4,25% of leverage ratio exposure ("LRE") and this must be met by 31 December 2025. Furthermore, the Bank must comply with an interim requirement of 14,50% of RWAs and 4,25% of LRE. The own funds used by the Bank to meet the Combined Buffer Requirement ("CBR") will not be eligible to meet its MREL requirements expressed in terms of risk weighted assets. The MREL ratio of the Group as at 30 June 2023 stood at 20,19 of RWA (31 December 2022: 18,22%) and at 7,36% of LRE (31 December 2022: 7,71%).

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 28. ANALYSIS OF ASSETS AND LIABILITIES BY EXPECTED MATURITY

| | 30 June 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Less than one year €'000 | Over one year €'000 | Total €'000 | Less than one year €'000 | Over one year €'000 | Total €'000 |
| **ASSETS** | | | | | | |
| Cash and balances with central banks | 274.779 | 4.854 | 279.633 | 215.805 | 4.559 | 220.364 |
| Balances with other banks | - | 2.448 | 2.448 | 2.250 | - | 2.250 |
| Loans and advances | 64.906 | 144.760 | 209.666 | 65.826 | 150.403 | 216.229 |
| Investments in equities | - | 315 | 315 | - | 142 | 142 |
| Investments in associates | - | 705 | 705 | - | 670 | 670 |
| Investments in debt securities | 17.579 | 32.389 | 49.968 | 44.582 | 45.647 | 90.229 |
| Premises and equipment | - | 6.333 | 6.333 | - | 6.386 | 6.386 |
| Intangible assets | - | 647 | 647 | - | 671 | 671 |
| Stock of property | 5.666 | 4.482 | 10.148 | 8.633 | - | 8.633 |
| Receivables and other assets | 3.133 | 644 | 3.777 | 1.274 | 667 | 1.941 |
| **Total assets** | **366.063** | **197.577** | **563.640** | **338.370** | **209.145** | **547.515** |
| **LIABILITIES** | | | | | | |
| Bank borrowings | 428 | 1.689 | 2.117 | 428 | 1.900 | 2.328 |
| Client deposits | 476.150 | 11.917 | 488.067 | 485.062 | 1.779 | 486.841 |
| Deferred taxation | - | 301 | 301 | - | 301 | 301 |
| Accruals and other liabilities | 18.552 | 595 | 19.147 | 8.131 | 224 | 8.355 |
| Loan capital | 10 | 11.250 | 11.260 | 11 | 11.250 | 11.261 |
| **Total liabilities** | **495.140** | **25.752** | **520.892** | **493.632** | **15.454** | **509.086** |

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 their contractual maturity. Current account balances are classified under the "less than one year" time band.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

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

- The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they do not have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

## 29. SHAREHOLDERS

The shareholding structure as at 30 June 2023 is shown below:

| | Shareholding structure as at 30 June 2023 |
|---|---|
| 7Q Invest AIF V.C.I.C. PLC I Multi Opportunities | 15,44% |
| 7Q Holdings Ltd | 2,75% |
| 7Q Financial Services Ltd | 1,80% |
| Path Holdings Ltd | 18,94% |
| Constantinos Shiacolas | 16,31% |
| Delphis Investments Ltd | 14,01% |
| 8Safe International Ltd | 9,90% |
| Intergaz Ltd | 9,49% |
| Leon Investment SARL | 4,86% |
| Leonidas Ioannou | 3,49% |
| Adamos Christodoulou | 1,61% |
| Shareholders with holdings below 1% | 1,40% |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 30. RELATED PARTY TRANSACTIONS

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

| | Six months ended 30 June | |
|---|---|---|
| | 2023 | 2022 |
| | €'000 | €'000 |
| **Director emoluments** | | |
| *Executives* | | |
| Salaries | 140 | 134 |
| Employer's contributions for social insurance, etc | 14 | 13 |
| Retirement benefits | 11 | 11 |
| | 165 | 158 |
| *Non-executives* | | |
| Fees | 115 | 110 |
| | 280 | 268 |
| **Key management personnel emoluments** | | |
| Salaries | 225 | 277 |
| Employer's contributions for social insurance, etc | 28 | 33 |
| Retirement benefits | 18 | 23 |
| | 271 | 333 |
| Total | 551 | 601 |

**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 include the remuneration of the members of the EXCO committee with voting rights.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 30. RELATED PARTY TRANSACTIONS (continued)

**Members of the Management Body and connected persons (continued)**

Transactions with members of the Management Body and connected persons:

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Loans and advances | 601 | 575 |
| Deposits | 170 | 158 |
| Unutilised limits | 2 | 43 |

| | Six months ended 30 June | |
|---|---|---|
| | 2023 €'000 | 2022 €'000 |
| Interest and other income for the period | 13 | 15 |

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.

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Loans and advances | 76 | 125 |
| Deposits | 172 | 174 |
| Guarantees and unutilised limits | 25 | 92 |

| | Six months ended 30 June | |
|---|---|---|
| | 2023 €'000 | 2022 €'000 |
| Interest and other income for the period | 1 | 2 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 30. RELATED PARTY TRANSACTIONS (continued)

**Key Management personnel who are not Directors and their connected persons (continued)**

Transactions with key management personnel are made according to the terms applicable to the rest of the personnel of the Bank.

**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 issued capital of the Bank.

Connected persons include the entities controlled by shareholders with significant influence as they are defined above.

As at 30 June 2023, there were no shareholders who had significant influence over the Bank and/or held directly or indirectly more than 20% of the issued share capital of the Bank.

**Transactions with associates**

| | 30 June 2023 €'000 | 31 December 2022 €'000 |
|---|---|---|
| Loans and advances | 597 | 597 |
| Other trading receivables | - | 11 |
| Other trading payables | 650 | 491 |
| Guarantees and unutilised limits | 3 | 3 |

| | Six months ended 30 June 2023 €'000 | Six months ended 30 June 2022 €'000 |
|---|---|---|
| Interest income for the period | 16 | 20 |
| Other trading income for the period | 30 | 34 |

**Transactions with subsidiaries**

The Bank is the holding company of the Group. The Bank enters into transactions with its subsidiaries in the normal course of business. Transactions with the subsidiaries have been eliminated on consolidation.

## 31. MATERIAL LITIGATION

As at 30 June 2023, there were pending litigations against the bank arising in the ordinary course of the Bank's business. Based on the information available, the Group has not recorded a provision against these cases either because the probability of outflow is low or it is too early to make an assessment.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 31. MATERIAL LITIGATION (continued)

*Claims relating to execution of transactions*

In September 2021 the Bank was served with a legal action against it by a client claiming certain wrongdoings by the Bank in accepting transfer instructions which allegedly relate to fraud by a third person. The litigation procedures are at a very early stage, and the Bank is closely monitoring this claim.

## 32. OPERATING ENVIRONMENT

During the first quarter of the year, the GDP growth of 3,4% was in line with the latest forecasts, exhibiting an anticipated slowdown compared to the strong post-pandemic rebound of 2022 and 2021 (5,6% and 6,6%, respectively). The Ministry of Finance's forecast is 2,8% for the entire year, 3,0% for 2024, 3,1% for 2025 and 3,2% for 2026. The main challenge continues to be the prolonged Russia/Ukraine conflict, whose global impact is reflected by the higher inflation, the energy and food crisis, the severe monetary tightening and the considerable economic and geopolitical uncertainty. The outlook of the Cyprus economy in the medium-to-long run continues to be positive, based once again on the resilience of Cyprus economy - compared to other EU economies - to external shocks. Nevertheless, the prevailing international economic and geopolitical challenges suggest that forecasts require continuous monitoring in order to ensure that they reflect the dynamic conditions. The Republic of Cyprus continues to hold an investment grade rating with S&P and Fitch.

As regards the banking sector, during the first six months of the year financial institutions further strengthened their financial position, a result of the favourable interest rate conditions and the significant reduction of the non-performing exposure levels. Banks monitor closely all economic and geopolitical developments, fully aware that any adverse changes, such as persistence of high inflation, interest rates and cost of living, will weaken the capacity of certain classes of borrowers to service their loans. Banks also monitor the developments in relation to any amendments to foreclosure framework, a critical aspect as regards the effective and functional management of non-performing residential loans including their restructuring. According to STATISTA, at the end of March 2023, the NPL ratio for Cyprus was 2,94%, the fifth highest in the EU/EEA and above the 1,75% average. Share prices of listed banks recorded large gains, attributed to a significant extent to the interest of foreign investors.

Tourism remains a vital industry for the economy of Cyprus. Despite the sizeable loss of tourism from Russia, the sector's performance is gradually returning to pre-pandemic levels, benefiting from the rollback of COVID-19-related travel restrictions, the increase of airline capacity and the penetration of new tourist feeder markets. Tourist arrivals for the first half of 2023 recorded a 32% increase compared to 2022, just 1% down compared to the record pre-pandemic levels of 2019. Equally important, receipts for the first five months of the year exceeded those for the same period of 2019 by 12%. The prospects for the remainder of the tourist season remain positive.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

### 32. OPERATING ENVIRONMENT (continued)

As regards inflation, despite the relative slowdown compared to the peak of 2022 (8,1% for the entire year), it remains at increased levels driven by the higher energy and food prices. For the first eight months of 2023 the Harmonised Index of Consumer Prices rose by 4,4%, whereas the increase compared to the same period in 2022 was 3,1%. According to the Ministry of Finance's Strategic Framework for Fiscal Policy 2024-2026, the inflation forecast is 3,2% for the entire year, 2,5% for 2024 and 2,0% for 2025-2026; however, the current developments suggest that there is still significant uncertainty as regards the normalisation of energy and food prices.

Employment developments reflect conditions of improved economic activity, with the unemployment level declining from 7,6% in 2020 to 6,8% in 2022 and 5,9% at the end of June 2023. The forecast for the entire 2023 is 6,5%. In the first eight months of 2023, the number of unemployed persons (seasonally adjusted) recorded a 5,0% decline, from 13.724 at the end of December 2022 to 13.042 at the end of August 2023. According to the Ministry of Finance's Strategic Framework for Fiscal Policy for 2024-2026, the unemployment level is expected to further decline to 5,8% in 2024, to 5,3% in 2025 and to 5,0% in 2026.

The real estate sector continued to exhibit significant growth, despite challenges such as increase of prices, increase of borrowing cost, increase of construction cost and economic uncertainty. The limited supply and high demand from local and foreign buyers continued to yield increases in volume and value of transactions. According to the Central Bank of Cyprus' bulletin for the first quarter of 2023, the number of sale contracts for the first quarter of 2023 registered an increase of 18,8%. As regards prices, for Q1-2023 the Residential Property Price Index of CBC (houses and apartments) recorded a quarterly increase of 2,1%, compared with 1,6% for the same period of 2023. On an annual basis, the RPPI recorded an increase of 7,7% in the first quarter of 2023 (apartment prices +8,4%, house prices +6,6%), compared with 6,6% for the same period of 2023. As regards the real estate sector activity after Q1-2023, according to the statistics released by the Department of Land and Surveys, the relevant activity for the first eight months of 2023 regarded 13.027 properties of a total transaction value of €2,565 billion, numbers in line with the respective activity for the entire 2022 (20.799 properties, transaction value €3,854 billion).

As a member of the euro area, Cyprus is directly impacted by the monetary decisions of the European Central Bank. Inflation remains a major concern for ECB's Governing Council, whose assessment is that inflation continues to decline but is still expected to remain too high, compared to the 2,0% medium-term target, for too long. Whereas the ECB offered nil to negative deposit facility rates from July 2012 to June 2022, it has since proceeded with a series of increases that drove the said rate to 4,0% in September 2023. It is worth noting that after the 2008 financial crisis, ECB did not set this rate to more than 3,25%. ECB's latest projections for the average inflation rate for the euro area, excluding energy and food, have been revised to 5,1% in 2023, 2,9% in 2024 and 2,2% in 2025. ECB has also lowered economic growth projections for the euro areas significantly, which are now set to 0,7% in 2023, 1,0% in 2024 and 1,5% in 2025. As regards the outlook of ECB's future decisions, its Governing Council has reiterated that its future decisions will be based on its assessment of the inflation outlook, in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the six-month period ended 30 June 2023**

## 33. EVENTS AFTER THE REPORTING PERIOD

On 11 September 2023 the Bank announced at the Cyprus Stock Exchange that discussions are taking place for a possible acquisition of business of the Bank by AstroBank. The competent bodies of the Bank are examining all relevant considerations. In the event that an agreement is reached, it will be subject to various approvals including those required under the applicable regulatory framework.

No other significant non adjusting events have taken place since 30 June 2023.