EUROBANK CYPRUS LTD

Report and
Financial Statements

For the year ended 31 December 2023

Eurobank Cyprus Ltd

Report and financial statements
for the year ended 31 December 2023

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

M. Redferne	Chair, Non Executive
S. Ioannou	Vice Chair, Non Executive
M. Louis	Executive
D. Shacallis	Executive
T. Phidia	Non Executive
C. Kitti	Non Executive
A. Pittas	Non Executive
E. Murray	Non Executive
C. McAnulty	Non Executive

Executive Committee

M. Louis	
D. Shacallis	
A. Petsas	
A. Malliotis	
A. Antoniou	
S. Kassianides	
D. Eliades	
N. Panayi	
M. Hadjikyriakos	
K. Charalambous	(appointed on 1/3/24)

Company Secretary

D. Shacallis

Registered office

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

Eurobank Cyprus Ltd

Management Report

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the Bank) for the year ended 31 December 2023.

Principal activity

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

Branches

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

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

The main financial highlights for the year are as follows:

	2023	2022
Key Financial Results	**€'000**	€'000
Net interest income	**276.279**	127.280
Operating income	**313.919**	164.484
Operating expenses	**55.694**	47.307
Profit from operations before impairments and provisions	**258.225**	117.177
Impairment allowances	**18.995**	1.440
Profit before income tax and government levies	**239.230**	115.737
Net profit	**199.438**	94.336
Balance Sheet and other Highlights	**€'000**	€'000
Customer deposits	**7.098.945**	7.202.822
Loans and advances to customers	**2.844.345**	2.729.918
Total assets	**8.272.143**	8.930.915
Equity	**854.211**	636.316
Invested assets under Management	**3.926.000**	2.825.067
Financial Ratios[1]	**%**	%
Cost to income	**17,7**	28,8
Return on equity	**26,8**	15,6
Loans to deposits	**40,1**	37,9
Cost of risk	**0,6**	0,1
NPE provisions coverage	**80,3**	77,0
Credit-impaired loans/gross loans	**2,4**	2,5
Capital adequacy ratio (all CET 1)	**34,1**	27,3
MREL ratio	**35,3**	28,6
Leverage ratio	**10,6**	7,2

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

Management Report (continued)

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

Over the past 4 years, the Bank has been engaged in a major transformation project, to adapt to the changing needs of the market. A material component of this initiative is the changing of the Bank's technology landscape and business process re-engineering and exposure to digital banking. The project includes the replacement of the Bank's core banking system along with a new wealth management system, digital channels, an ERP system, data analytics and compliance modules. April 2023 marked an important milestone in the history of the Bank by implementing the new Banking system and rolling out successfully the new technologies.

During 2023, the Bank also delivered robust financial performance despite the effects of the continuing Russia-Ukraine war, rising inflation in the local as well as the global economy and the increased risks emanating from the volatile geopolitical environment. Costs were maintained within the Bank's expectations and asset quality remained strong with improved indicators in this respect. Because of the increased profitability, capital generation continued with further strengthening of the Bank's capital indicators.

Profit after tax for the year amounted to €199,4 million recording 111% or €105,1 million increase in comparison to 2022's profit which amounted to €94,3 million. The main driver for this year's profitability is net interest income (NII) due to the rising interest rate environment, supported by healthy commission income.

NII reported a 117% or €149 million increase in 2023 vs 2022 mainly due to the rising interest rates which continued from the second half of 2022. Main contributors include interest income from excess liquidity due to the increase in the ECB Deposit Facility Rate, income from loans & advances to customers resulting from €50 million higher average balance of loans & advances vs 2022, interest income from the bond portfolio due to the expansion of the portfolio by €204 million on average vs 2022, and deposit cost containment.

Commission and other income for the year reported a marginal increase of €0,5 million in comparison to the previous year and amounted to €37,6 million. Main commission & other income drivers included transactional, wealth management and global markets related fees.

The increase in operating expenses was mainly due to the increase in headcount, regulatory costs and costs in relation to the Bank's information technology systems. Depreciation also increased because of the implementation and the 'go live' of the Bank's new core banking and other peripheral systems. The Bank's investment in new technologies and digital transformation is expected to positively contribute, among others, towards the operational efficiency of the Bank, which is already becoming more evident with the efficacy of the operation of the new systems.

Cost discipline has always been one of the Bank's main priorities and this is supported by the low cost/income ratio of 17,7% recording a further improvement vs last year's respective ratio of 28,8%. This ratio is significantly better in comparison to the Bank's local peers as well as the EU Bank average of 56% as reported for the 4Q'23 by the European Banking Authority (EBA) quarterly risk dashboard.

Management Report (continued)

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

In 2023, the Expected Credit Loss (ECL) amounted to €19 million, reflecting the Bank's adoption of a more prudent approach in its impairment estimations. This was driven by an analysis of various factors, including the enduring impact of elevated interest rates on borrowers' capacity to fulfil debt obligations, as well as the adverse effects stemming from recent conflicts in the Middle East, which may impact several sectors, such as tourism, shipping, and real estate. The ongoing conflict between Russia and Ukraine, with no immediate end in sight, further compounds these challenges, leaving room for potential additional adverse impacts.

Despite these adjustments, the Bank's credit portfolio continues to exhibit strong quality, with all relevant metrics securely aligned with established risk appetite thresholds. The measures implemented in 2023 led to an increase in the provision coverage ratio to 80% vs 77% in 2022, ensuring adequate risk mitigation.

As a result of the increased profitability, return on equity improved to 26,8% in 2022 vs 15,6% in 2022. This compares favourably with the EU bank average of 10,3% as reported for the 4Q’23 by the EBA quarterly risk dashboard.

Because of the increased interest rates environment, it was expected that customers would use their excess liquidity in an effort to reduce their funding costs and also seek alternative investments yielding higher returns vs deposit interest rates. As such, invested assets under management recorded strong results and grew by 39% or €1,1 billion in comparison to 2022 reaching €4 billion. On the other hand, customer deposits retracted marginally by €100 million in comparison to 2022 and reached €7,1 billion due to the conversion of deposits into invested assets by customers.

The Bank’s market share in the Cyprus deposits market to reached 13,6% from 13,8% as at last year end. The Bank’s overall cost of deposits increased by 0,69%, from 0,59% in December 2022 to 1,28% in December 2023.

The Bank’s liquid assets continue to exceed the minimum regulatory requirements of 100% in relation to the Liquidity Coverage Ratio (LCR) which as at 31 December 2023 stood at 236% vs 246% of last year-end. The liquidity surplus in LCR amounted to €3,9 billion at 31 December 2023 compared to €4,1 billion surplus as at 31 December 2022, mainly due to the use of the liquidity buffer to fund the expansion of the loan book and the repayment of the TLTRO.

At 31 December 2023, the Net Stable Funding Ratio (NSFR) stood at 230% compared to 197% at 31 December 2022, above the minimum regulatory requirement of 100%.

Loans & advances to customers amounted to €2,85 billion reporting €115 million or 4,2% increase vs 2022. Total loans granted during 2023 amounted to ~€630 million gross of scheduled and unscheduled repayments. The loan credit expansion covered all of the Bank’s main pillars with Corporate Banking Division reporting the highest loans delta followed by the Private Banking Division. The Bank’s market share in the Cyprus loans market increased to 11,7% vs 10,8% of 2022.

Management Report (continued)

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

The Bank has maintained its strong liquidity position with a Loans to Deposits ratio of 40,1% largely driven by a higher increase in deposits vs loans.

In line with the Bank's Investment policy, the Bond portfolio increased by €0,1 billion during 2023 so as to utilise ample liquidity surpluses and follow a conservative NII enhancement strategy through acquisitions of short- and medium-term high quality debt securities.

Total assets amounted to €8,3 billion vs €8,9 billion mainly due to the repayment of the €615 million of its borrowing from the TLTRO III - refinancing program.

Risk Weighted Assets (RWAs) increased by €253 million and reached €2,5 billion at the end of 2023 as a result of the increase of the Bank's loans & advances to customers, bond portfolio and operating income.

Total equity as at 31 December 2023 reported a 34% increase and amounted to €854,2 million mainly driven by this year's profitability. The strengthening of the Bank's capital base coupled by the active management of the RWAs resulted in the increase of the Bank's Capital adequacy and CET1 ratios as at the end of 2023 by ~680bps to 34,1%. Similarly, the Bank's MREL ratio significantly improved vs the 2022 position and amounted to 35,3%.

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

Business outlook and risks

The Cyprus economy remained in a sustained growth path in 2023, albeit it grew at a slower pace compared to the last two years, with an expected GDP growth of 2,2%, above the Euro-area growth of 0,5%. Economic activity was mainly supported by increased revenues from tourism, resilient private consumption and continued employment growth, and private investment on the back of the implementation of the Recovery and Resilience Plan (RRP). The strong fiscal performance and the continued improvement in the country's banking sector have led to credit rating improvements, despite the numerous headwinds stemming from the uncertain international economic and geopolitical setting and the high interest rates.

In its latest economic bulletin, published February 2024, the Central Bank of Cyprus (CBC) projects that the economy will grow by 2,2% in 2023 and then by 2,6%, 3,1% and 3,2% in 2024, 2025 and 2026 respectively. CBC forecasts look largely in sync with European Commission's latest forecasts for GDP growth. In its Winter 2024 Economic Forecast published February 2024, the EU Commission expects Cyprus' economy to grow by 2,8% and 3% in 2024 and 2025 respectively.

Management Report (continued)

Business outlook and risks (continued)

Despite numerous challenges, the recovery of the tourism sector supported the economic performance in 2023. Arrivals of tourists for 2023 totaled 3,85 million compared to 3,20 million for 2022, recording an increase of 20,1%. Even though tourist arrivals in 2023 remained 3,3% lower than in the pre-pandemic period of 2019, the revenue from tourism has more than recovered, measured 11% higher than in 2019. Revenue from tourism for 2023 is estimated at €2.990,6 million compared to €2.439,2 milion in the corresponding period of 2022, recording an increase of 22,2%. In the corresponding year of 2021 revenue from tourism was estimated at €1.513,6 million, €392 million in 2020 and €2.683 million for 2019.

Following years of price increases, inflation in Cyprus appears to have largely normalised close to the 2% inflation target. Harmonised Index of Consumer Prices (HICP) inflation slowed down to 3,9% in 2023, from 8,1% in 2022, mainly reflecting lower energy prices. In its economic bulletin, CBC projects inflation to stand at 2,4% in 2024, 2,0% in 2025 and 1,9% in 2026.

Supported by the positive economic momentum, employment conditions improved, and are set to improve further as labor-intensive sectors such as Tourism and ICT are forecasted to grow further.

Unemployment decreased to 6,4% in 2023 from 6,7% in 2022, and according to the CBC forecasts, the unemployment rate is expected to reach 6,0% and 5,6% in 2024 and 2025 respectively.

Cyprus' fiscal performance continues to be satisfactory, supported by the robust economic performance. According to CySTAT's preliminary fiscal results, the General Government fiscal balance for 2023 presented a surplus of €876,3 million (2,9% of GDP) compared to a surplus of €676,3 million (2,4% of GDP) for 2022. Primary balance recorded a surplus of €1.315,3 million versus a surplus of €1.086 million for 2022. The strong performance for 2023, was a result of robust revenues, which increased by 11,4% to €12.763,2 million and a slower increase in expenditure, which rose by 10,3% to €11.886,9 millon. According to European Commission economic forecasts for Cyprus, strong fiscal performance is set to continue and the budget surplus is expected to reach around 2,1% of GDP in 2024, and 2,5% in 2025.

According to the Finance Ministry's Public Debt Management Office, Cyprus Central Government debt declined to €22,4 billion at the end of 2023, marking a significant reduction in the year due to debt redemptions and early repayments amounting to €1,3 billion, including the maturity of a €1 billion EMTN bond which matured in July 2023. In April 2023, the Republic of Cyprus issued its first sustainable 10-year bond for a total amount of €1 billon and a coupon of 4,125%.

The Finance Ministry projects the 2023 debt-to-GDP ratio at 81,8%, from 88,2% in 2022 and further reductions are expected over the coming years, on the backdrop of positive expected nominal GDP growth and primary surpluses. The EU Commission expects the ratio to reach 71,5% by the end of 2024, and further decline to 66,3% in 2025.

Management Report (continued)

Business outlook and risks (continued)

2023 proved to be a focal year for Cyprus' credit outlook, which improved markedly, amid continued robust fiscal performance and a strengthening banking sector. In December, Fitch revised Cyprus' outlook to positive and affirmed its rating at BBB; reflecting "expectations of robust budget surpluses in the upcoming years; a decline in government indebtedness; and improved banking sector metrics". In September, Cyprus was upgraded to investment grade by Moody's after 11 years. The agency upgraded Cyprus by two notches to Baa2 from Ba1 with stable outlook, due to sustained improvements in the country's credit profile because of past and ongoing economic, fiscal, and banking reforms. Earlier in the year, S&P revised Cyprus' outlook to positive from stable and affirmed its rating at BBB, reflecting the ongoing macroeconomic normalization in Cyprus since the country's financial crisis in 2012-2013 and the pronounced progress made in cleaning up banking sector NPEs.

The reduction in the total NPEs in the Cyprus banking sector continued in the last months of 2023, albeit with a slower pace. Data published by the CBC showed that in November 2023 the NPEs in Cyprus decreased slightly by €16 million MoM to €1.998,8 million (NPL ratio at 8,26%) from €2.014,7 million (NPL ratio at 8,3%) in October 2023. Total NPEs stood at €2.684 million (NPL ratio at 10,5%) in November 2022, €2.963 million (NPL ratio at 10,9%) as at the end of 2021 and at €5.111 million (NPL ratio at 17,7%) as at the end of 2020.

Despite the robust performance in the last years, the Global as well as the Cypriot economy faces many headwinds in the coming years. The outlook remains uncertain with risks from a volatile geopolitical environment, high inflation and restrictive monetary policy clouding the outlook and threatening to push the global economy to recession. The effects from the ongoing war in Ukraine continue to spill over in the global economy, while the recently heightened conflict in the Middle-East add to the uncertainty.

Eurobank Cyprus continues to monitor closely the different risks and the shifts in the macroeconomic and geopolitical outlook so that they are effectively and timely managed. In addition, the Bank complies with the coordinated sanctions imposed by the USA, EU, UK and other countries against Russia, Belarus and to specific legal entities and physical persons.

Environmental sustainability, social responsibility and governance

Our approach towards sustainable development

Eurobank Cyprus is committed to investing in sustainable development and in designing its actions to improve its impact on environmental sustainability, social responsibility and corporate governance. A key strategic objective is to adapt its business and operation in a way that addresses climate change challenges, accommodate social needs within its business model, and safeguard prudent governance for itself and its counterparties, in accordance with supervisory initiatives and following international best practices.

Management Report (continued)

Environmental sustainability, social responsibility and governance (continued)

The Bank is in close communication with the Eurobank Group for the development of its ESG program in order to ensure alignment with the latest regulatory requirements/guidelines on Environmental, Social and Governance (ESG) related issues as the environment surrounding ESG is dynamic with a number of frameworks and standards in place.

In line with the United Nations Sustainable Development Goals and the 2030 Agenda goals, as well as the Paris Climate Agreement's targets, Eurobank Cyprus develops its approach across the ESG spectrum and business objectives across two distinct levels of impact:

i. Financed impact: Impact resulting from the Bank's lending and investing activities to specific sectors and clients;
ii. Operational impact: Impact arising from the Bank's operational activities and footprint.

These two pillars of impact aim to capture the essence of the Bank's business effect on the climate, the protection of the natural environment, its contribution to addressing societal challenges, the prosperity of its own people, its contribution to raising business capacity in the markets where the Bank operates, and the internal processes that build and secure the confidence of its stakeholders.

In 2023, the Bank continued the efforts on a number of activities on environmental impact (operational net zero, paperless banking, circular economy), on employer impact (diversity and inclusion, wellbeing, innovative environment), and social/business impact (socio-economic effect, transparency, ESG capacity) as well as on the Financed Impact, aiming to support customers and society in their transition efforts towards a more ESG-friendly economic environment.

Environmental impact

Eurobank Cyprus is committed to minimising its environmental footprint and to promoting a green economy.

In this context, the Bank has adopted and promoted environmentally friendly practices during 2023 on energy consumption, renewable energy sources, greenhouse gases emissions, paper and water consumption. Indicatively, the Bank has proceeded during 2023 with the following actions:

- Issuance of the Bank's Environmental Policy.
- Completion of the preparation of the revised energy Audit Reports (as demanded by the law).
- Implementation of ISO 14001:2015 – Environmental Management Systems and Eco-Management and Audit Scheme (EMAS) resulting in Eurobank Cyprus being the 1st bank in Cyprus to be certified under ISO 14001 & EMAS. Relevant awareness meetings and educational sessions about these systems also provided to the staff and Executive Committee members.
- Identification of certain Key Performance Indicators ("KPIs") for the monitoring and evaluation of the progress towards achieving the net zero emissions target. KPIs identified cover areas such as energy consumption, water usage, waste, business travel, etc. and facilitate the setting of environmental targets for the Bank.

Management Report (continued)

Environmental sustainability, social responsibility and governance (continued)

- Installation of Photovoltaic and other Energy Saving Systems and practices such as use of energy-saving LED lamps, automated HVAC systems, application of new sunscreens on the windows, using motion and lighting management sensors, replacement of existing HVAC Systems with higher energy efficiency systems, upgrade and replacement of 475 existing electronic devices (printers, PCs, laptops and screens).
- Providing double PC screens to 100+ users to prevent excess printing.
- Installation of Electric Car Charger at the Head Offices.
- Recycling Papers, PMD, inks/toner cartridges and e-waste.
- Transfer of basic services to Cloud thus improving the environmental imprint of the Bank.
- Replacing consumables with reusable, recyclable, and biodegradable materials
- Upgrading of the Bank's infrastructure with the implementation of the revolutionary Temenos Project which aims in full digitalisation and improvement of the Bank's Services contributing to minimizing its environmental footprint.
- Dissemination of informative materials to staff about recycling, efficiency, energy, water saving, rational use of energy, electrical and IT equipment creating a cultivating and environmental culture.

EU Taxonomy Regulation

The EU Taxonomy (Regulation (EU) 2020/852 of the European Parliament and of the Council) was adopted in 2020 by the European Parliament and represents an important step for the EU to achieve the Paris Agreement climate neutrality goals. It sets out the criteria to establish a common classification system for sustainable economic activities.

The EU Taxonomy Regulation determines whether an economic activity is environmentally sustainable and obligates financial and non-financial entities subject to the Non-Financial Reporting Directive (NFRD) to disclose the alignment of their activities. Separate reporting requirements and extensive criteria are established for financial and non-financial undertakings under the Art.8 Delegated Act of EU Taxonomy Regulation.

The key indicator of alignment for Credit Institutions is the Green Asset Ratio (GAR), which companies will publish starting in 2024. It determines the extent to which activities comply with the criteria of Taxonomy. It is the ratio of a company's taxonomy-aligned assets to covered assets (total assets excluding exposure to sovereigns, central banks and the trading portfolio).

CSRD

Further to the finalised reporting directive as regards corporate sustainability reporting (CSRD) published in December 2022, sustainability reporting requirements are expected to impact the Bank. CSRD went into effect on January 5, 2023, and EU Member States have until July 2024 to incorporate its provisions into national law, therefore 2025 is expected to be the initial year of reporting for the first companies in the scope of CSRD (as regards 2024 financial information).

Management Report (continued)

Environmental sustainability, social responsibility and governance (continued)

It should be noted that according to the European Commission's deadlines, the Bank should apply CSRD for the financial year starting on or after 1 January 2025. However, due to the fact that the Group will report for the financial year 2024, the Bank will take all required actions within 2024 to ensure alignment with the Group for consolidated reporting purposes.

Integration of Taxonomy in the Bank's business strategy, operating model, products and customers

The Bank recognises the significance of the impact of its activities to the society and the environment. It places high importance on the effective integration of Sustainability principles and ESG aspects throughout the activities of the organisation, the governance model and related commitments.

The Bank established its Governance Model on ESG issues in September 2022 with the establishment of a new ESG Management Committee, chaired by the Bank's CEO, while responsibilities have been assigned to all 3 lines of defence. Moreover, the Bank's Board of Directors monitors on a regular basis the ESG developments including the Bank's actions to address climate-related and environmental risks.

A project was initiated by the Bank in 2022 focusing on the development of the Bank's Sustainable Finance Framework and on ensuring full compliance with the ECB expectations as stated in the relevant ECB guide on climate and environmental risks.

Through the Sustainable Finance Framework, the Bank classifies sustainable lending solutions offered to its customers, specifying the applied classification approach and the activities defined as eligible to access sustainable financing (eligible green and social assets). The Framework's scope encompasses a wide range of ESG lending sustainable financial products and services covering the portfolios of the Bank. Conditions for granting lending sustainable financial products apply, according to the eligibility and exclusionary criteria which are laid down in the relevant framework. The Bank aims to fully integrate the Sustainable Finance Framework into its core operations within 2024.

Through the project on climate and environmental risks the Bank is expected to be aligned with the ECB's supervisory expectations by the end of 2024 at the latest, in line with deadlines set by ECB. The activities performed thus far in the context of this project established definitions of climate and environmental risks as standalone risks as well as drivers of existing risk categories within their risk management framework. Furthermore, assessments have been conducted of the impact of these risks on the Bank's activities. Within 2024, the Bank plans to expand upon those assessments and, among others, i) include climate and environmental risks in their governance, strategy and risk management and ii) integrate climate and environmental risks in the ICAAP and stress testing. Taking into account the significant impact of climate-related and environmental (CR&E) risks both on financial institutions and on the global economy, the Bank developed and approved its CR&E Risks Management Policy which aims at fostering a holistic understanding of the effects of CR&E risks on its business model, as well as support decision-making and provide a robust governance under its Risk Management Framework.

Management Report (continued)

Environmental sustainability, social responsibility and governance (continued)

The Bank is also cooperating with Artemis Credit Bureau Ltd which, through its sub-contractor (ICAP CRIF) provide the Bank with Environmental, Social & Governance (ESG) data, ESG score and information for clients of the Bank with credit facilities. The said services are provided in the context of a syndicated project among all Cyprus Banks, which was concluded with the coordination of the Association of Cyprus Banks.

Employer's Impact

Human capital constitutes the Bank's most valuable asset. Starting from the recruitment process, the Bank aims to establish a long-term and mutually beneficial relationship with every member of staff.

As of 31 December 2023, the Bank employed 472 (31 December 2022: 450) members of staff with an average age of ~40. Percentage of women and men in the workplace during the years 2020 – 2023 remain unchanged with women representing 62% of the Bank's total workforce.

To ensure equal and fair opportunities to all employees, the Bank follows several guidelines surrounding Compensation, Recruitment, People & Talent Development, Performance Management, Learning, Engagement & Communication, and Health & Safety. The Bank recognises the significance and the impact of its activities for its members of staff, customers and society.

Eurobank Cyprus is committed to fostering a culture of Diversity, Equity & Inclusion ("DE&I") whereby the DE&I principles are integrated throughout the everyday working practices of the Bank, its governance model and related commitments. The DE&I Policy outlines the Bank's corporate values, scope, related regulatory documents, commitments and approach to incorporating applicable regulatory requirements, initiatives as well as adopted international best practices in the formation of a diverse, equitable and inclusive working environment, responsive to different cultures and groups, where everyone can have the opportunity to flourish. The Bank welcomes and embraces multiple viewpoints and perspectives which help towards becoming more open and inclusive. Related matters mentioned above are also addressed in the Code of Conduct & Ethics for the Bank.

With the aim of creating a more human-centric work environment, Eurobank Cyprus emphasizes also on the health and well-being of its member of staff. Since 2023 the Bank has been implementing numerous initiatives included in a holistic well-being action plan. Actions such as the development of well-being training programs for all members of staff, relevant staff surveys, expert talks in collaboration with external partners, mental health employee assistance helpline, sponsoring physical activities.

Societal and Business Impact

Eurobank Cyprus is committed to addressing societal challenges and fostering innovation. During 2023 the Bank launched a number of CSR initiatives supporting society through charity and mobilisation of employee volunteer teams and actively supported entrepreneurship, research and innovation through its partnership with Cyprus Seeds.

Management Report (continued)

Going concern assessment

Taking into consideration the above factors as well as the Bank's capital and liquidity position and factors included in note 2, the Board of Directors is satisfied that the financial statements of the Bank are prepared on a going concern basis.

Financial risk management

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

Future developments of the Bank

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

Results

The Bank's results for the year are set out on pages 21 and 22. Net profit for the year ended 31 December 2023 is retained.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2023.

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2023 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2023 and up to the date of this report, except as disclosed below.

During March 2023, two new independent Board members were appointed at Eurobank Cyprus Ltd Board, Ms. C. McAnulty and Mr. M. Redferne, as part of Board succession planning, as some of the Directors' tenures as independent Board members reached their term completion. In particular, Mr. A. Soteriou, Non-Executive Independent Director, has retired from the Bank's Board of Directors, with effective date 27 April 2023, having completed 9 years of service.

Additionally, Mr. M. Redferne was appointed as the new Chair of the Bank's Board of Directors, with effective date 27 April 2023, taking on from Mr. O. Ellingham whose term as Chair of the Board of Directors ended on 27 April 2023.

Finally, Messrs. R. Kyprianou and O. Ellingham, Non-Executive Non-Independent Directors of Eurobank Cyprus, have resigned from the Bank's Board, with effect from 27 October 2023, having completed 11 and 9 years of service respectively.

Management Report (continued)

Board of Directors (continued)

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

Bank Management

The Bank's Executive Committee as at 31 December 2023 and at the date of this report is shown on page 1.

Events after the balance sheet date

Events after the balance sheet date are described in note 33 of the financial statements.

Auditors

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

By Order of the Board of Directors

Michalis Louis
Chief Executive Officer

Nicosia, 29 April 2024

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

EUROBANK CYPRUS LTD

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of the parent company Eurobank Cyprus Ltd (the "Bank"), which are presented on pages 26 to 176 and comprise the balance sheet as at 31 December 2023, and the income statement, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap.113").

Basis for opinion

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

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

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

<table>
<tr><th colspan="2">Impairment of loans and advances to customers</th></tr>
<tr><td colspan="2">Refer to note 3.1, 4.2.1.3 and 16 of the Financial statements</td></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>At 31 December 2023 the Bank reported total gross loans and advances to customers of €2.895.559 thousand and €51.214 thousand of expected credit losses (“ECL”).

Key judgments and estimates in respect of the timing and measurement of ECL include:
▪ Allocation of loans and advances to customers to stages 1, 2, or 3 using criteria in accordance with the relevant accounting standard;
▪ Accounting interpretations, modelling assumptions and estimations used to build the models that calculate ECL, including the determination of Probabilities of Default (‘PD’) which is considered the most significant judgemental aspect of the Bank’s ECL modelling approach;
▪ Inputs and assumptions used to estimate the impact of multiple economic scenarios, along with the weighted-probabilities used; and
▪ Measurements of individually assessed exposures.

As a result of the significance of the amount and the judgements and estimates involved, we have determined that ECL on loans and advances to customers is a key audit matter.</td><td>Our audit procedures in this area included, among others:

1. Selecting a sample of loans and advances to customers in stages 1 and 2 to assess the reasonableness of credit rating assigned and therefore determine the appropriateness of stage allocation within all three stages (stages 1, 2, and 3).

2. For stage 1 and stage 2 assets, with the support of our internal credit modelling specialists, we have:
▪ Inspected and assessed the model documentation and methodology for compliance with IFRS 9 and market practice.
▪ Tested the key assumptions, inputs and mathematical theory used in ECL model. This included assessing the mathematical theory of the model used, through testing that the methodology applied was appropriate including where relevant the mathematical integrity and statistical robustness of the model.
▪ Performed risk based substantive testing of models, including independently re-building certain assumptions and compared the calculated amount with the recognized amount.
▪ Performed reconciliations between the databases used to calculate ECL and the accounting data including the testing of the flow and transformation of data between source systems to the impairment calculation engine.
▪ For the critical data used in the year end ECL calculation, accuracy was tested by reconciling/tracing to source systems/documents.

3. For stage 3 assets, we performed credit assessment on a sample of loans and advances to customers, assessing the appropriateness of impairment loss allowance. This included an assessment of the main assumptions used to</td></tr>
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	assess the expected recovery flows, including realizable value of collaterals. 4. For a sample of valuations used in ECL calculation, with the support of our internal valuation specialists, we assessed the reasonableness and appropriateness of the methodology used by the Bank's external experts to determine the fair value of the property collaterals. Additionally, we assessed the competence and independence of the Bank's external experts. 5. We assessed the adequacy and appropriateness of disclosures for compliance with the relevant accounting standards.
Migration of IT Systems	
Key audit matter	**How the matter was addressed in our audit**
On April 7th, 2023, the Bank completed a system migration project, decommissioning its legacy system (bMaster) and transitioning to new IT systems (T24 and SAP). The IT advancements mentioned above pose audit risks, including the possibility of that such data will be corrupted, lost or does not migrate over completely or accurately. Such migrations may occur when systems are upgraded, replaced or merged.	Our audit procedures in this area included, among others: 1. Obtained and reviewed management's transitional process to the new system. 2. Discussed our approach and involvement on the migration process with executive management. 3. Attended the preparation of the migration process in relation to customer and securities static data that took place one day before the Go Live weekend and observed that the process followed was in accordance with the methodology. 4. With the assistance of our Data & Analytics specialist we reperformed the matching of specific data including trial balance accounts and clients data from b-master to the new systems (T24 and SAP) to verify completeness and accuracy of data transferred. 5. Obtained and reviewed management's reconciliations of data transferred. 6. In coordination with our IRM specialist we updated the Bank's IT environment understanding and test controls in IT processes including, access to programs and data, program changes, program acquisition and development and computer operations.

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

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

Report on other regulatory and legal requirements

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

Date of appointment and period of engagement
We were appointed auditors on 6 July 2018 by the Annual General Meeting of the Bank's members to audit the financial statements of the Bank for the year ended 31 December 2018. Our total uninterrupted period of engagement, having been renewed annually by shareholders' resolution is 6 years covering the periods ending 31 December 2018 to 31 December 2023.

Consistency of auditors' report to the additional report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report presented to the Audit Committee of the Bank, which is dated 29 April 2023.

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

Other legal requirements

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

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap 113, and the information given is consistent with the financial statements.

- In the light of the knowledge and understanding of the business and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

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

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

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

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

29 April 2024

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Interest income calculated using the effective interest method	5	**349.083**	137.962
Other interest income	5	**43.790**	17.885
Interest expense calculated using the effective interest method	5	**(81.324)**	(21.425)
Other interest expense	5	**(35.270)**	(7.142)
Net interest income		**276.279**	127.280
Banking fee and commission income	6	**43.423**	43.330
Banking fee and commission expense	6	**(6.602)**	(6.888)
Net banking fee and commission income		**36.821**	36.442
Net trading income	7	**694**	444
Net gains from other financial instruments	8	**117**	310
Other income		**8**	8
Net other operating income		**819**	762
Operating income		**313.919**	164.484
Staff costs	9	**(29.815)**	(26.017)
Depreciation and amortisation	19,20	**(6.557)**	(4.740)
Other operating expenses	10	**(19.322)**	(16.550)
Profit from operations before impairments and provisions		**258.225**	117.177
Impairment allowance on loans and advances	4.2.1.3	**(16.260)**	(1.233)
Other impairment allowances and provisions	11	**(2.735)**	(207)
Profit before income tax and government levies		**239.230**	115.737
Government levy on customer deposits	24	**(7.782)**	(6.992)
Income tax expense	12	**(32.010)**	(14.409)
Net profit		**199.438**	94.336

The notes on pages 26 to 176 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income
for the year ended 31 December 2023

		2023 **€'000**		2022 €'000
Net profit		**199.438**		94.336
Other comprehensive income:				
Items that are or may be subsequently reclassified to income statement:				
Debt securities at FVOCI (note 17)				
- net changes in fair value, net of tax	**18.667**		(29.333)	
- reclassified to income statement, net of tax	**(210)**	**18.457**	(160)	(29.493)
Other comprehensive income/(loss) for the year, net of tax		**18.457**		(29.493)
Total comprehensive income for the year		**217.895**		64.843

The notes on pages 26 to 176 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2023

	Note	2023 €'000	2022 €'000
Assets			
Cash and balances with central banks	13	**2.728.283**	3.266.706
Due from credit institutions	14	**1.184.606**	1.526.920
Derivative financial instruments	15	**11.938**	23.938
Loans and advances to customers	16	**2.844.345**	2.729.918
Investment securities	17	**1.424.253**	1.324.683
Investments in subsidiaries	18	**15.011**	10
Property and equipment	19	**23.899**	27.029
Intangible assets	20	**33.464**	27.595
Deferred tax assets	12	**2.152**	2.171
Other assets	21	**4.192**	1.945
Total assets		**8.272.143**	8.930.915
Liabilities			
Due to central banks	22	**-**	605.322
Due to credit institutions	23	**184.222**	361.643
Derivative financial instruments	15	**10.108**	26.887
Due to customers	24	**7.098.945**	7.202.822
Current tax liabilities	12	**7.084**	1.225
Deferred tax liabilities	12	**3.058**	2.046
Other liabilities	25	**114.515**	94.654
Total liabilities		**7.417.932**	8.294.599
Equity			
Share capital	26	**12.010**	12.010
Share premium	26	**245.384**	245.384
Other reserves	17	**(11.162)**	(29.619)
Retained earnings		**607.979**	408.541
Total equity		**854.211**	636.316
Total equity and liabilities		**8.272.143**	8.930.915

On 29 April 2024 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Michael Redferne, Chair of the Board of Directors

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 26 to 176 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity
for the year ended 31 December 2023

	Share capital €'000	Share premium €'000	Fair value reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2022	12.010	245.384	(126)	314.205	571.473
Net profit	-	-	-	94.336	94.336
Other comprehensive loss	-	-	(29.493)	-	(29.493)
Total comprehensive income for the year	-	-	(29.493)	94.336	64.843
Balance at 31 December 2022	12.010	245.384	(29.619)	408.541	636.316
Balance at 1 January 2023	**12.010**	**245.384**	**(29.619)**	**408.541**	**636.316**
Net profit	-	-	-	199.438	**199.438**
Other comprehensive income	-	-	18.457	-	**18.457**
Total comprehensive income for the year	**-**	**-**	**18.457**	**199.438**	**217.895**
Balance at 31 December 2023	**12.010**	**245.384**	**(11.162)**	**607.979**	**854.211**

The notes on pages 26 to 176 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2023

	Note	2023 €'000	2022 €'000
Cash flows from operating activities			
Profit before income tax and government levies		**239.230**	115.737
Adjustments for:			
Depreciation of property and equipment	19	**4.072**	4.026
Amortisation of intangible assets	20	**2.485**	714
Loss on property and equipment and intangible assets written off	19	**23**	10
Impairment allowance/(reversal of impairment allowance) on loans and advances to customers	4.2.1.3	**20.629**	(1.637)
Reversal of impairment allowance on balances with central banks	13	**-**	(13)
Reversal of impairment allowance on due from credit institutions	14	**(1)**	(27)
(Reversal of impairment allowance)/impairment allowance on credit related commitments and contingent liabilities	4.2.1.3	**(4.369)**	2.870
Impairment allowance on investments in subsidiaries	18	**2.618**	-
Foreign exchange differences on impairment allowance on loans and advances to customers	4.2.1.3	**193**	(67)
Foreign exchange differences on impairment allowance on due from credit institutions		**-**	3
Foreign exchange differences on right-of-use assets	19	**1**	(8)
Other income on investment securities	31	**(25.243)**	(56.657)
		239.638	64.951
Changes in operating assets and liabilities			
Net decrease/(increase) in cash and balances with central banks	13	**2.119**	(11.288)
Net decrease in due from credit institutions	14	**1**	24
Net (increase)/decrease in derivative financial instruments	15	**(4.779)**	12.223
Net increase in loans and advances to customers	16	**(135.249)**	(127.664)
Disposals, write-offs and adjustments to right-of-use assets	19	**(174)**	(2.271)
Net increase in other assets	21	**(2.247)**	(23)
Net decrease in due to central banks	22	**(605.322)**	(2.425)
Net (decrease)/increase in due to credit institutions	23	**(177.421)**	93.178
Net (decrease)/increase in due to customers	24	**(103.877)**	583.182
Net increase in other liabilities	25	**26.743**	16.751
		(1.000.206)	561.687
Government levy on customer deposits paid	24	**(7.782)**	(6.992)
Income tax paid	12	**(25.120)**	(14.317)
Net cash flows (used in)/from operating activities[1]		**(793.470)**	605.329
Cash flows from investing activities			
Purchases of property and equipment	19	**(778)**	(1.058)
Purchases of intangible assets	20	**(8.368)**	(9.458)
Proceeds from disposals, maturities and redemptions of investment securities	17	**184.204**	255.077
Payments for acquisition of investment securities	17	**(280.760)**	(560.868)
Interest received on investment securities	17	**40.686**	25.210
Investments in subsidiaries	18	**(17.619)**	-
Net cash flows used in investing activities		**(82.635)**	(291.097)
Cash flows from financing activities			
Payment of lease liabilities[2]	28	**(2.513)**	(2.456)
Net cash flows used in financing activities		**(2.513)**	(2.456)
Net (decrease)/increase in cash and cash equivalents		**(878.618)**	311.776
Cash and cash equivalents at beginning of year	31	**4.720.595**	4.408.819
Cash and cash equivalents at end of year	31	**3.841.977**	4.720.595

[1]Includes interest received of €345.803 thousand (2022: €139.460 thousand) and interest paid of €100.980 thousand (2022: €22.600 thousand).

[2]The Bank has classified cash payments for the principal portion of lease payments as financing activities and cash payments for the interest portion amounting to €287 thousand (2022: €261 thousand) as operating activities.

The notes on pages 26 to 176 form an integral part of these financial statements.

Notes to the financial statements

1 General information

Country of incorporation

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

Principal activity

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

2 Basis of preparation and material accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union (EU), and in particular with those standards and interpretations, issued and effective for annual periods beginning on 1 January 2023. The financial statements of the Bank have also been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113.

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

The accounting policies for the preparation of the financial statements have been consistently applied to the years 2023 and 2022, after taking into account the amendments in IFRSs as described in note 2.1.1 "New and amended standards and interpretations" and the amendments in the Bank's accounting policies as described in note 2.2 "Principal accounting policies". Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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

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

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

The Bank is not required by the Cyprus Companies Law, Cap. 113, to prepare consolidated financial statements because the ultimate parent company, Eurobank Ergasias Services and Holdings S.A., publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in Greece and the Bank does not intend to issue consolidated financial statements for the year ended 31 December 2023.

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

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

Going concern considerations

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

a) Position of the Group

Despite the fragile international environment, the economies of Greece, Bulgaria and Cyprus remained in expansionary territory in 2023, overperforming their European Union (EU) peers.

More specifically, according to provisional data by the Hellenic Statistical Authority (ELSTAT), the Greek economy expanded by 2% on an annual basis in 2023 (2022: 5,6%). According to its Winter Economic Forecast (February 2024), the European Commission (EC) expects a GDP growth rate of 2,3% in 2024 and 2025. Amid strong base effects and easing energy prices, the inflation rate, as measured by the annual change in the Harmonized Index of Consumer Prices (HICP) decelerated to 4,2% in 2023 from 9,3% in 2022 according to ELSTAT, with the EC forecasting further de-escalation to 2,7% in 2024, and 2% in 2025. The average quarterly unemployment rate decreased to 11,1% from 12,4% in 2022, with the International Monetary Fund forecasts for 2024 and 2025 standing at 9,2% and 8,5% in 2024 and 2025 respectively, according to its January 2024 Art. IV Country Report. The gross public debt-to-GDP ratio, having declined significantly to 172,6% in 2022 due to the strong economic recovery and the effect of the high inflation on nominal GDP, is expected to decline further to 160,3% in 2023 and 152,3% in 2024.

On the monetary policy front, the Governing Council of the ECB, in line with its strong commitment to its price stability mandate, proceeded with ten rounds of interest rate hikes in 2022 and in 2023 (the most recent one in September 2023), raising the three key ECB interest rates by 450 basis points on aggregate.

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

a) Position of the Group (continued)

In 2023, the Greek Government issued or re-opened twelve bonds of various maturities (from 5 to 19 years) through the Public Debt Management Agency (PDMA), raising a total of €11,45 billion from the international financial markets. In February 2024, the PDMA raised an additional €4,4 billion through a new 10-year bond issue and the reopening of two past issues. Following a series of sovereign rating upgrades in the second half of 2023, Greek government's long-term debt securities were considered investment grade by four out of the five Eurosystem-approved External Credit Assessment Institutions (Fitch, Scope, S&P: BBB-, stable outlook; DBRS: BBB(low), stable outlook), and one notch below investment grade by the fifth one, Moody's (Ba1, stable outlook) as of March 2024.

Regarding the outlook for the next 12 months, the major macroeconomic risks and uncertainties in Greece and the region are associated with: (a) the open war fronts in Ukraine and the Middle East, their implications regarding regional and global stability and security, and their repercussions on the global and the European economy, including the disruption in global trade caused by the recent attacks on trading vessels in the Red Sea, (b) a potential prolongation of the ongoing inflationary wave and its impact on economic growth, employment, public finances, and banks' asset quality, as well as any potential social and/or political ramifications these may entail, (c) the timeline of the anticipated interest rate cuts by the ECB and the Federal Reserve Bank, as persistence on high rates for longer may keep exerting pressure on sovereign and private borrowing costs and certain financial institutions' balance sheets, but early rate cuts entail the risk of a rebound in inflation, (d) the persistently large current account deficits that have started to become once again a structural feature of the Greek economy, (e) the absorption capacity of the Next Generation EU (NGEU) and the EU's long-term budget (MFF) funds and the attraction of new investments in the countries of presence, especially in Greece, (f) the effective and timely implementation of the reform agenda required to meet the Recovery and Resilience Facility (RRF) milestones and targets and to boost productivity, competitiveness, and resilience, and (g) the exacerbation of natural disasters due to the climate change and their effect on GDP, employment, fiscal balance and sustainable development in the long run.

Materialisation of the above risks, would have potentially adverse effects on the fiscal planning of the Greek government, as it could decelerate the pace of expected growth and on the liquidity, asset quality, solvency and profitability of the Greek banking sector. In this context, the Group Management and the Group Board are continuously monitoring the developments on the macroeconomic, financial and geopolitical fronts as well as the evolution of the Group's asset quality and liquidity KPIs and have increased their level of readiness, so as to accommodate decisions, initiatives and policies to protect the Group's capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business goals in accordance with the business plan for 2024-2026.

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

b) The Cyprus economy

The Cyprus economy remained in a sustained growth path in 2023, albeit it grew at a slower pace compared to the last two years, with an expected GDP growth of 2,2%, above the Euro-area growth of 0,5%. Economic activity was mainly supported by increased revenues from tourism, resilient private consumption and continued employment growth, and private investment on the back of the implementation of the Recovery and Resilience Plan (RRP). The strong fiscal performance and the continued improvement in the country's banking sector have led to credit rating improvements, despite the numerous headwinds stemming from the uncertain international economic and geopolitical setting and the high interest rates.

In its latest economic bulletin, published February 2024, the Central Bank of Cyprus (CBC) projects that the economy will grow by 2,2% in 2023 and then by 2,6%, 3,1% and 3,2% in 2024, 2025 and 2026 respectively. CBC forecasts look largely in sync with European Commission's latest forecasts for GDP growth. In its Winter 2024 Economic Forecast published February 2024, the EU Commission expects Cyprus' economy to grow by 2,8% and 3% in 2024 and 2025 respectively.

Despite numerous challenges, the recovery of the tourism sector supported the economic performance in 2023. Arrivals of tourists for 2023 totaled 3,85 million compared to 3,20 million for 2022, recording an increase of 20,1%. Even though tourist arrivals in 2023 remained 3,3% lower than in the pre-pandemic period of 2019, the revenue from tourism has more than recovered, measured 11% higher than in 2019. Revenue from tourism for 2023 is estimated at €2.990,6 million compared to €2.439,2 milion in the corresponding period of 2022, recording an increase of 22,2%. In the corresponding year of 2021 revenue from tourism was estimated at €1.513,6 million, €392 million in 2020 and €2.683 million for 2019.

Following years of price increases, inflation in Cyprus appears to have largely normalised close to the 2% inflation target. Harmonised Index of Consumer Prices (HICP) inflation slowed down to 3,9% in 2023, from 8,1% in 2022, mainly reflecting lower energy prices. In its economic bulletin, CBC projects inflation to stand at 2,4% in 2024, 2,0% in 2025 and 1,9% in 2026.

Supported by the positive economic momentum, employment conditions improved, and are set to improve further as labor-intensive sectors such as Tourism and ICT are forecasted to grow further.

Unemployment decreased to 6,4% in 2023 from 6,7% in 2022, and according to the CBC forecasts, the unemployment rate is expected to reach 6,0% and 5,6% in 2024 and 2025 respectively.

Cyprus' fiscal performance continues to be satisfactory, supported by the robust economic performance. According to CySTAT's preliminary fiscal results, the General Government fiscal balance for 2023 presented a surplus of €876,3 million (2,9% of GDP) compared to a surplus of €676,3 million (2,4% of GDP) for 2022. Primary balance recorded a surplus of €1.315,3 million versus a surplus of €1.086 million for 2022. The strong performance for 2023, was a result of robust revenues, which increased by 11,4% to €12.763,2 million and a slower increase in expenditure, which rose by 10,3% to €11.886,9 millon.

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

b) The Cyprus economy (continued)

According to European Commission economic forecasts for Cyprus, strong fiscal performance is set to continue and the budget surplus is expected to reach around 2,1% of GDP in 2024, and 2,5% in 2025.

According to the Finance Ministry's Public Debt Management Office, Cyprus Central Government debt declined to €22,4 billion at the end of 2023, marking a significant reduction in the year due to debt redemptions and early repayments amounting to €1,3 billion, including the maturity of a €1 billion EMTN bond which matured in July 2023. In April 2023, the Republic of Cyprus issued its first sustainable 10-year bond for a total amount of €1 billon and a coupon of 4,125%.

The Finance Ministry projects the 2023 debt-to-GDP ratio at 81,8%, from 88,2% in 2022 and further reductions are expected over the coming years, on the backdrop of positive expected nominal GDP growth and primary surpluses. The EU Commission expects the ratio to reach 71,5% by the end of 2024, and further decline to 66,3% in 2025.

2023 proved to be a focal year for Cyprus' credit outlook, which improved markedly, amid continued robust fiscal performance and a strengthening banking sector. In December, Fitch revised Cyprus' outlook to positive and affirmed its rating at BBB; reflecting "expectations of robust budget surpluses in the upcoming years; a decline in government indebtedness; and improved banking sector metrics". In September, Cyprus was upgraded to investment grade by Moody's after 11 years. The agency upgraded Cyprus by two notches to Baa2 from Ba1 with stable outlook, due to sustained improvements in the country's credit profile because of past and ongoing economic, fiscal, and banking reforms. Earlier in the year, S&P revised Cyprus' outlook to positive from stable and affirmed its rating at BBB, reflecting the ongoing macroeconomic normalisation in Cyprus since the country's financial crisis in 2012-2013 and the pronounced progress made in cleaning up banking sector NPEs.

The reduction in the total NPEs in the Cyprus banking sector continued in the last months of 2023, albeit with a slower pace. Data published by the CBC showed that in November 2023 the NPEs in Cyprus decreased slightly by €16 million MoM to €1.998,8 million (NPL ratio at 8,26%) from €2.014,7 million (NPL ratio at 8,3%) in October 2023. Total NPEs stood at €2.684 million (NPL ratio at 10,5%) in November 2022, €2.963 million (NPL ratio at 10,9%) as at the end of 2021 and at €5.111 million (NPL ratio at 17,7%) as at the end of 2020.

Despite the robust performance in the last years, the Global as well as the Cypriot economy faces many headwinds in the coming years. The outlook remains uncertain with risks from a volatile geopolitical environment, high inflation and restrictive monetary policy clouding the outlook and threatening to push the global economy to recession. The effects from the ongoing war in Ukraine continue to spill over in the global economy, while the recently heightened conflict in the Middle-East add to the uncertainty.

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

b) The Cyprus economy (continued)

Eurobank Cyprus continues to monitor closely the different risks and the shifts in the macroeconomic and geopolitical outlook so that they are effectively and timely managed. In addition, the Bank complies with the coordinated sanctions imposed by the USA, EU, UK and other countries against Russia, Belarus and to specific legal entities and physical persons.

c) Going concern assessment

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

2.1.1 New and amended standards and interpretations

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(a) New and amended standards adopted by the Bank as of 1 January 2023

The following standards and amendments to existing standards as issued by the IASB and endorsed by the EU, apply as of 1 January 2023:

IFRS 17, Insurance Contracts
IFRS 17, which supersedes IFRS 4 "Insurance Contracts" provides a comprehensive and consistent accounting model for insurance contracts. It applies to all types of insurance contracts as well as certain guarantees and financial instruments with discretionary participating features. Financial guarantee contracts are allowed to be within the scope of IFRS 17, if the entity has previously asserted that it regarded them as insurance contracts.

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

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

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) New and amended standards adopted by the Bank as of 1 January 2023 (continued)

IFRS 17, Insurance Contracts (continued)
In June 2020, the IASB issued Amendments to IFRS 17 to assist entities in its implementation. The amendments aim to assist entities to transition in order to implement the standard more easily, while they deferred the effective date, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2023.

In December 2021, the IASB issued a narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 "Financial Instruments" at the same time.

The Bank has not issued contracts within the scope of IFRS 17; therefore, the adoption of the standard had no impact on the financial statements.

IAS 8, Amendments, Definition of Accounting Estimates
The amendments in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" introduced the definition of accounting estimates and include other amendments to IAS 8 which are intended to help entities distinguish changes in accounting estimates from changes in accounting policies.

The amendments clarify how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are developed if the application of accounting policies requires items in the financial statements to be measured in a way that involves a measurement uncertainty and (ii) replacing the definition of a change in accounting estimates with the definition of accounting estimates, where accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". In addition, the amendments clarify that selecting an estimation or valuation technique and choosing the inputs to be used constitutes development of an accounting estimate and that the effects of a change in an input or technique used to develop an accounting estimate are changes in accounting estimates, if they do not result from the correction of prior period errors.

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

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies
IASB issued amendments to IAS 1 "Presentation of Financial Statements" that require entities to disclose their material accounting policies rather than their significant accounting policies.

According to IASB, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) New and amended standards adopted by the Bank as of 1 January 2023 (continued)

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (continued)
Furthermore, the amendments clarify how an entity can identify material accounting policy information and provide examples of when accounting policy information is likely to be material. The amendments to IAS 1 also clarify that immaterial accounting policy information does not need be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support the IAS 1 amendments, the Board has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process", as described in IFRS Practice Statement 2 "Making Materiality Judgements" to accounting policy disclosures.

The adoption of the amendments had no impact on the financial statements. The Bank took into account the amendments in disclosing its material accounting policies (note 2.2).

IAS 12, Amendments, Deferred Tax related to Assets and Liabilities arising from a Single Transaction
The amendments clarify that the exemption on initial recognition set out in IAS 12 "Income Taxes" does not apply for transactions such as leases and decommissioning obligations that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Accordingly, for such transactions an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

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

IAS 12, Amendment, International Tax Reform – Pillar Two Model Rules
The amendments introduce a mandatory temporary exception (relief) from the recognition and disclosure of deferred taxes arising from the implementation of the Organisation for Economic Co-operation and Development's (OECD) Pillar Two model rules ("the Pillar Two Income taxes") that are applicable as of 1 January 2024.

Additionally, the amendments require an entity to disclose that it has applied the above exception related to Pillar Two income taxes, while in the periods in which the legislation is (substantively) enacted but not yet effective, an entity is required to disclose of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. Subsequently, in the periods when the legislation is effective it is required to separately disclose its current tax expense/income related to Pillar Two income taxes.

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

2 Basis of preparation and material accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

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

A number of amendments to existing standards are effective after 2023, as they have not yet been endorsed by the EU or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2024)
The amendments, published in January 2020, introduce a definition of settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, an entity can ignore only those conversion options that are classified as equity.

In October 2022, the IASB issued *Non-current Liabilities with Covenants (Amendments to IAS 1)* with respect to liabilities for which an entity's right to defer settlement for at least 12 months is subject to the entity complying with conditions after the reporting period. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

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

IFRS 16, Amendment, Lease Liability in a Sale and Leaseback (effective 1 January 2024)
The amendment requires a seller-lessee to subsequently measure lease liabilities arising in a sale and leaseback transaction in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. Any gains and losses relating to the full or partial termination of a lease continue to be recognised when they occur. The amendment does not change the accounting for leases unrelated to sale and leaseback transactions.

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

IAS 21, Amendments, Lack of Exchangeability (effective 1 January 2025, not yet endorsed by EU)
The amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates", specify how an entity can determine whether a currency is exchangeable into another currency at the measurement date, and the spot exchange rate to use when it is not. In addition, when a currency is not exchangeable an entity should disclose information that would enable users of its financial statements to understand the related effects and risks as well as the estimated rates and techniques used.

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies

2.2.1 Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Euro (€), which is the functional and presentation currency of the Bank.

(ii) Transactions in foreign currency

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

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

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

2.2.2 Derivative financial instruments and hedging

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedging (continued)

Embedded derivatives

Embedded derivatives are components of hybrid contracts that also include non-derivative hosts with the effect that some of the cash flows of the combined instruments vary in a way similar to stand-alone derivatives.

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following the instruments' assessment of their contractual cash flows and their business model as described in note 2.2.12.

On the other hand, derivatives embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are assessed not to be closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separated in the balance sheet and treated similarly to stand-alone derivatives measured at fair value with changes in fair value recognised in the income statement.

Derivatives held for hedge accounting

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

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

The objectives of hedging with derivative financial instruments include:
- Reduce interest rate exposure that is in excess of the Bank's interest rate limits;
- Manage efficiently interest rate risk and achieve optimization and stabilization of the evolution of net interest margin and net interest income by tracking the evolution of interest rates and spreads and hedging the changes to movements of the benchmark interest rates represented by the prevailing reference rates;
- Reduce variability arising from the fair value changes of derivatives embedded in financial assets;
- Manage future variable cash flows;
- Reduce foreign currency risk or inflation risk;
- Reduce variability in the Bank's equity arising from translating a foreign net investment at different exchange rates.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Hedge accounting

The Bank has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, as endorsed by the European Union (IAS 39 "carve out"). In 2023, the Bank introduced a new risk management strategy which is the fair value hedging of the core deposits held. Accordingly, the Bank applied for the first time the provisions of IAS 39 carve-out that enables entities to designate core deposits as hedged items in a portfolio hedge of interest rate risk. Under the EU carve-out version of IAS 39, certain requirements related to hedge accounting were removed, in order to facilitate (a) the application of fair value hedge accounting to the macro-hedges used for structural hedges including demand deposits and (b) the hedge effectiveness assessment by permitting the use of bottom layer approach for the determination of the fair value of hedged item, attributable to interest rate risk.

For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument or group of hedging instruments and a related item or group of items to be hedged. A hedging instrument is a designated derivative or group of derivatives, or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item or group of items. Specifically, the Bank designates certain derivatives as hedges of the exposure to changes in fair value of recognised assets or liabilities on a single or portfolio basis or unrecognised firm commitments (fair value hedging).

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

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

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

2.2.2 Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

The Bank applied the Phase 1 and Phase 2 IBOR reform amendments to IFRS 9, IAS 39 and IFRS 7, that provided temporary reliefs on hedging relationships during the period before the replacement of the existing interest rate benchmarks with alternative risk-free rates (RFRs), assumed no change at its hedging relationship as a result of the IBOR reform, and amended accordingly its hedging documentation.

The Bank has successfully implemented its IBOR reform transition program, on the outstanding exposures that referenced the above rates, mainly referring to loans to customers and derivatives and therefore, the relative reliefs ceased to apply.

(i) Fair value hedging

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

Hedged items

The items that qualify for fair value hedge accounting include financial assets and liabilities such as:
- fixed rate investment securities measured at AC or FVOCI;
- fixed rate term deposits and debt securities in issue measured at amortized cost;
- portfolios of floating-rate loans and investment securities with embedded interest rate options (such as purchased interest rate floors) measured at AC;
- portfolios of fixed rate amortising loans (macro hedging) including securitised notes issued and held by the Group measured at AC;
- portfolios of liabilities and more specifically demand deposits (macro hedging) that are identified as interest rate-insensitive liabilities measured at AC. More specifically, demand deposits are liabilities with no contractual maturity date that the customers have the flexibility to withdraw at any time. Despite their contractual terms, and due to their nature, part of the demand deposits behave as a portfolio of longer term fixed rate liabilities, as they remain insensitive to interest rate movements. This part of demand deposits represent the core deposits.

Hedge effectiveness assessment

The Bank uses the dollar-offset method at inception (prospective measurement) and on an ongoing basis (retrospective measurement), in order to assess the effectiveness of fair value hedges, on a single or portfolio basis. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. The above comparison constitutes the dollar-offset ratio and should be within the range of 80% -125% for the hedge to be highly effective. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

(i) Fair value hedging (continued)

Hedge effectiveness assessment (continued)

The Bank may also use the hypothetical derivative method, an approach to the dollar offset method, mainly applied in portfolio hedges that carry embedded derivatives, where the hedged risk is modelled through hypothetical derivatives, which replicate the embedded derivative. The fair value of the hypothetical derivative is used as a proxy for the net present value of the hedged future cash flows against which changes in value of the actual hedging instrument are compared to assess effectiveness and measure ineffectiveness. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves as well as differences between expected and actual cash flows.

In addition, for hedging relationships where the critical terms of the hedged item match the ones of the hedging instrument such as coupon, maturity, and payment frequency, it is presumed that by construction, effectiveness is expected to be within the range of 80% to 125%.

The Bank has identified the following sources of ineffectiveness:
• Differences in the repricing frequency of the hedged items and hedging instruments.
• The use of different interest rate curves applied to discount the hedged items and hedging instruments.

Fair value hedging adjustments and discontinuation of hedge accounting

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement line “net trading income” together with the changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk (fair value hedging adjustments). Fair value hedging adjustments to the hedged items measured at amortised cost are recorded as part of their carrying value in the balance sheet, with the exception of hedging adjustments for portfolios of fixed rate assets in the context of macro-hedging (see below). If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

The Bank discontinues hedge accounting prospectively in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortised to profit or loss in the income statement line “interest income” over the remaining period to maturity with amortisation commencing no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to the income statement by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

<u>*Hedge accounting (continued)*</u>

(i) Fair value hedging (continued)

Portfolio hedging of interest rate risk (macro-hedging)

With reference to portfolio hedging of interest rate risk, a dynamic hedging strategy is applied according to which the Group voluntarily designates and de-designates the hedge relationship on a monthly basis.

For the core deposits' portfolios, the Bank determines their aggregated balances and allocation into time buckets by applying a modelled approach that is based on regulatory standards under the standardised framework, as those are reflected in the Bank's ''Interest Rate Risk in the Banking Book (IRRBB)" policy for hedging strategies. More specifically, the portfolio of core deposits to be hedged is determined by an internal designated behavioural model that utilises a number of assumptions regarding the behaviour and evolution of demand deposits balances, which are assessed, monitored and documented in accordance with the Bank's IRRBB framework. The approach involves the allocation of demand deposits in sub-categories considering their nature, ie. retail and wholesale, their idiosyncratic behavioral analysis, their sensitivity on interest rates and their withdrawal patterns and expected maturity profile analysed in time buckets. Furthermore, the model performs a capacity check per time bucket to ensure that there is sufficient hedge capacity on the hedged item amortising profile, compared to the hedging instruments' profile in order to ensure that there is no over hedge.

Against this modelled interest rate exposure, the Bank then uses groups of interest rate swaps replicating in aggregate the estimated amortisation profile of the core deposits and designated as hedging instruments appropriately to their repricing time periods. Following the above allocation into time buckets, the designated hedged principal and the resulting percentage of the portfolio hedged (hedge ratio) for each time bucket are determined.

For hedge effectiveness assessment purposes, the dollar-offset method also applies to portfolio hedging of interest rate risk and hedge effectiveness is measured on a monthly basis. For prospective effectiveness measurement, the dollar-offset method involves a comparison of the sensitivity of fair value to a change of 1 basis point in interest rates (Dollar Value of a basis point - DV01) between the hedging instruments and the hedged assets or liabilities. A PV01 offset within the threshold of 80% to 125% demonstrates that the hedge is expected to be highly effective. Retrospective effectiveness is measured by comparing fair value changes of the designated portion of the portfolio of assets or liabilities attributable to the hedged risk, against the fair value changes of the derivatives, to ensure that they are within an 80% to 125% range.

Furthermore, the pool of hedging instruments is managed dynamically and therefore when new derivatives are added in the pool of hedging instruments, they are included in the next period's hedge assessment and consequently the change in fair value in the month of their inception affects the profit and loss. Similarly, when existing swaps are de-designated, either to improve expected hedge effectiveness or to be liquidated, the respective change in fair value from de-designation up to the next designation or liquidation date, affects the profit or loss.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

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

Changes in the fair value of derivative financial instruments that are entered into for trading purposes or as economic hedges of assets, liabilities or net positions in accordance with the Bank's hedging objectives and risk management policies that may not qualify for hedge accounting, are recognised in the income statement under "net trading income".

The fair values of derivative instruments held for trading, including those entered into as economic hedges, and hedge accounting purposes are disclosed in note 15.

2.2.3 Offsetting financial instruments

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

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

2.2.4 Interest income and expense

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.4 Interest income and expense (continued)

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

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortised cost of the financial asset (i.e. gross carrying amount adjusted for the ECL allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount with the exception of POCI assets for which interest income does not revert to gross basis calculation.

For inflation-linked instruments the Bank recognises interest income and expense by adjusting the effective interest rate on each reporting period due to changes in expected future cash flows, incorporating changes in inflation expectations over the term of the instruments. The adjusted effective interest rate is applied in order to calculate the new gross carrying amount on each reporting period.

The changes to the basis for determining the financial instruments' contractual cash flows, required in the context of IBOR reform, are accounted for as an update to the instruments' EIR.

Presentation

Interest income and expense are presented separately in the income statement for all interest bearing financial instruments within net interest income.

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.5 Fees and commissions

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

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

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

2.2.6 Net trading income

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

2.2.7 Net gains from other financial instruments

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

2.2.8 Income tax

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

(i) Current income tax

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.8 Income tax (continud)

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The principal temporary differences arise from impairment and accounting write-offs relating to loans and advances to customers, depreciation of property and equipment and amortisation of computer software.

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

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

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

(iii) Uncertain tax positions

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.9 Property and equipment

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

Depreciation is calculated using the straight-line method to write down the cost of property and equipment, to their residual values over their estimated useful life as follows:

- Motor vehicles and motor cycles: 5 years
- Equipment: 5 to 12 years
- Leasehold improvements: 12 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.2.11).

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

2.2.10 Intangible assets

Computer software

Acquired computer software licenses/programs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and measured at cost less accumulated amortisation and any accumulated impairment losses.

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.10 Intangible assets (continued)

Software is amortised on a straight-line basis in profit or loss over its estimated usefule life, from the date on which it is available for use. The annual amortisation rates used range between 8% and 33,33%. The useful life of the Bank's new core system is 20 years.

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

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

2.2.11 Impairment of non-financial assets

Non-financial assets, including property and equipment and intangible assets, are assessed for indications of impairment at each reporting date by considering both external and internal sources of information such as a significant reduction in the asset's value and evidence that the economic performance of the asset is or will be worse than expected. When events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

2.2.12 Financial assets

Financial assets - Classification and measurement

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

Financial Assets measured at Amortised Cost (AC)

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

These financial assets are recognised initially at fair value plus or minus direct and incremental transaction costs and fees received that are attributable to the acquisition of these assets, and are subsequently measured at amortised cost, using the EIR method (as described in note 2.2.4 above).

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

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

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

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus or minus direct and incremental transaction costs that are attributable to the acquisition of these assets.

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

Equity Instruments designated at FVOCI

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

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

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI and financial assets held for trading. Derivative financial instruments are measured at FVTPL, with changes in fair value recognised in the income statement, unless they are designated as effective hedging instruments, where hedge accounting requirements under IAS 39 apply (as described in note 2.2.2).

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

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

Business model and contractual characteristics assessment

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

Types of business models

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

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

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

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

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

Cash flow characteristics assessment

For a financial asset to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. For the purpose of this assessment principal is defined as the fair value of the asset at initial recognition and interest as the consideration for the time value of money, credit risk, other basic lending risks and a profit margin.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

Cash flow characteristics assessment (continued)

More specifically, at initial recognition of a financial asset, an assessment is performed of whether the financial asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. The Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options, terms that introduce leverage including index linked payments, features that change contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

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

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial assets - Classification and measurement (continued)

Cash flow characteristics assessment (continued)

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

Derecognition of financial assets

The Bank derecognises a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognised even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. Control is transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

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

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

Modification of financial assets that may result in derecognition

In addition, derecognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is derecognised and a new one is recognised. Substantial modifications resulting in derecognition may include among others change in borrower, change in the asset's denomination currency, debt consolidation of unsecured exposure into a single new secured asset. The Bank records the modified asset as a "new" financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

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

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

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

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

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

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

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.13 Reclassification of financial assets

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

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

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

2.2.14 Financial liabilities

Classification and measurement

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

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

Financial liabilities held for trading, which include short positions of debt securities (sold but not yet purchased), are liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities (continued)

Classification and measurement (continued)

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

Derecognition of financial liabilities

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

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

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

2.2.15 Fair value measurement of financial instruments

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.15 Fair value measurement of financial instruments (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognised in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortised on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

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

For assets and liabilities that are measured at fair value on a recurring basis, the Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected.

2.2.16 Impairment of financial assets

The Bank recognises allowance for expected credit losses that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments.

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

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

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-month ECL is recorded. The 12–month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognised following a substantial modification accounted for as a derecognition, are classified initially in Stage 1.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- POCI - POCI assets are financial assets that are credit-impaired on initial recognition. They are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses. Accordingly, ECL are only recognised to the extent that there is a subsequent change in the assets' lifetime expected credit losses. Any subsequent favourable change to their expected cash flows is recognised as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition. Apart from purchased assets directly from the market or through a business combination, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a derecognition (refer to note 2.2.12).

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure and regulatory definition of default as applied by the Bank on 1 January 2021 (refer to note 4.2.1.3). The accounting definition of default is also consistent with the one used for internal credit risk management purposes.

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

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or unpaid amounts, above specified materiality thresholds, for more than 90 consecutive days.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organisation.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Definition of default (continued)

- For POCI financial assets, a purchase or origination at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle-based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

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

Significant increase in credit risk (SICR) and staging allocation

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

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

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

As a primary criterion for SICR assessment, the Bank compares the credit rating at origination with the credit rating at each reporting date. If the original credit rating is exceeded by a predetermined number of notches (note 3.1) then it is considered a case of SICR. Further to this indicator the Bank applies additional indicators such an absolute threshold on 12-month PD, an absolute threshold on internal credit rating, the granting or not of forbearance and finally a backstop rule of 30 days past due.

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

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

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the loan portfolio. Specifically, the Bank takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Bank as a trigger for SICR identification. Internal credit risk rating models include borrower specific information as well as, forward-looking information regarding the prospects of the industry in which it operates.

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

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance, unless they are considered credit-impaired or the net present value of their cash flows before and after the restructuring exceed the threshold of 1%, in which case they are classified as Stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

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

Transfers from Stage 2 to Stage 1

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

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

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterised as credit-impaired, are no longer valid and/or the applicable probation period for the assets’ return in non impaired status, ranging from three to twelve months, has passed.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Criteria for grouping of exposures based on shared credit risk characteristics

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

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

The shared credit risk characteristics used for the segmentation of exposures include several elements such as: portfolio type, asset class, industry, credit risk rating, geographical location of the borrower, forbearance status and days in arrears.

The Bank identifies individually significant exposures and performs the ECL measurement based on borrower specific information. This measurement is performed at a borrower level, hence the criteria are defined at this level, while both qualitative and quantitative factors are taken into consideration including forward looking information.

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

Measurement of Expected Credit Losses

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Measurement of Expected Credit Losses (continued)

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

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

ECL Key Inputs

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

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

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

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

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

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

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

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Forward-looking information

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

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

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

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

Modified financial assets

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough (for the triggers of derecognition, refer to Derecognition of Financial Assets in note 2.2.12 above), the modification date is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. Such a modified asset is typically classified as Stage 1 for ECL measurement purposes. However, in some circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the new financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognised as an originated credit-impaired financial asset (POCI).

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Presentation of impairment allowance

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

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a financial asset either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount written-off is considered as derecognised. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

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

During 2021, the Bank updated the write off policy with the introduction of a new approval procedure. The policy defines in detail the circumstances under which a facility may be written off, in order for the Bank to accurately estimate the recoverable amount and also maximise recoveries through the use of appropriate tools such as forbearance and debt forgiveness.

The Risk Management Unit and the Debt Recovery Unit are closely monitoring cases of non-performing borrowers and jointly recommend the write off amount based on the recovery analysis performed for such borrowers.

2.2.17 Sale and repurchase agreements, securities lending and borrowing

(i) Sale and repurchase agreements

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.17 Sale and repurchase agreements, securities lending and borrowing (continued)

(ii) Securities lending and borrowing

Securities lent to counterparties against the receipt of a fee continue to be recognised in the financial statements. Securities borrowed are recognised as trading liabilities when sold to third parties and measured at fair value with any gains or losses included in the income statement.

2.2.18 Leases

The Bank enters into leases as a lessee.

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

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

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

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

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.19 Employee benefits

(i) Defined contribution plans

The Bank provides defined contribution pension plans where annual contributions are invested and allocated to specific asset categories. Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as “staff costs” in the income statement. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term employee benefits

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.2.20 Related party transactions

Related parties of the Bank include:

a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;
b) an entity that has significant influence over the Bank and entities controlled by this entity;
c) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
d) associates and joint ventures of the Bank and the Group;
e) fellow subsidiaries,
f) post-employment benefit plans established for the benefit of the Bank’s employees.

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

2.2.21 Provisions and contingent liabilities

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

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

2.2.21 Provisions and contingent liabilities (continued)

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

A provision is not recognised and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non-occurrence of one or more uncertain future events.

2.2.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

Dividend distribution on shares is recognised as a deduction in the Bank's equity when approved by the General Meeting of shareholders and the required regulatory approvals, if any, are obtained. Interim dividends are recognised as a deduction in the Bank's equity when approved by the Board of Directors.

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

2.2.23 Financial guarantees and commitments to extend credit

Financial guarantees

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

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

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.23 Financial guarantees and commitments to extend credit (continued)

Commitments to extend credit

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

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

2.2.24 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand, unrestricted deposits with central banks, all interbank placements and reverse sale agreements with other banks with original maturities of three months or less. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents.

Cash and cash equivalents are carried at amortised cost.

2.2.25 Government grants

Government grants are transfers of resources to the Bank by a government entity such as government, government agencies and similar bodies whether local, national or international, in return for compliance with certain past of future conditions related to the Bank’s operating activities.

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

2.2.26 Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

2 Basis of preparation and material accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.26 Investments in subsidiaries (continued)

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

2.2.27 Other payables

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

2.2.28 Fiduciary activities

The Bank provides custody, depositary, execution, investment management and advisory services to third parties that result in the holding or investing of assets on behalf of its clients. This involves the Bank making allocation, purchase and sale decisions in relation to a wide range of financial instruments. The Bank receives fee income for providing these services. Those assets that are held in a fiduciary capacity are not assets of the Bank and are not recognised in the financial statements. In addition, the Bank does not guarantee these investments and as a result it is not exposed to any credit risk in relation to them.

3 Critical accounting estimates and judgments in applying accounting policies

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

3.1 Impairment losses on loans and advances to customers

On the back of the overall economic uncertainty mentioned above, the Bank continued its robust performance, as evidenced by the level of its credit quality indicators at year end 2023 that outperformed the expected levels in terms of NPE ratio, whereas it remains cautious towards the risks that may eventually affect vulnerable corporate borrowers (like those that operate in the food industry, the energy sector, the supply of raw materials for the construction sector etc.) and erode the disposable income and the repayment capacity of private individuals.

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

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

In this context, in the fourth quarter of 2023, the Bank revised the key macroeconomic variables incorporated in the IFRS 9 expected credit losses' models, in order to reflect, to the extent possible, the recent developments in the local economy.

ECL measurement

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

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. In addition, temporary adjustments may be required to capture new developments and information available, which are not reflected yet in the ECL calculation through the risk models.

The elements of the ECL models that are considered significant accounting judgments and estimates include:

Determination of a significant increase in credit risk

IFRS 9 does not include a definition of what constitutes a significant increase in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment (note 2.2.16).

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

As of 31 December 2023 and 2022, the credit rating deterioration thresholds as per applicable borrower internal rating scale, that trigger allocation to Stage 2 per rating bands for the Bank's portfolio are set out in the table below:

Internal rating bands	SICR threshold range
1-2	Three notches or more
3-5	Two notches or more
6	One notch or more
≥7	SICR

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

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

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum of three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome. Each of the scenarios is based on Management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. Changes in these assumptions and in other external factors could significantly impact ECL. As at 31 December 2023 and 2022, the probability weights for the above mentioned scenarios applied by the Bank in the ECL measurement calculations are 50% for the baseline scenario and 25% for the adverse and optimistic scenarios.

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

• *Base scenario:*
Despite the war in Ukraine, the strong GDP growth momentum in 2021 (+6,6%) lost little pace in 2022 (+5,6%), as tourism recovered strongly for the second consecutive year and household consumption rose significantly (+7,8%, following +4,5% in 2021), favoured by no imposition of COVID-19-related measures, amid surging consumer prices since Q2 2022 due to the war. After a 4,4% contraction in 2021, Gross Fixed Capital Formation (GFCF) expanded by 6,6% in 2022, due to a rise in construction of dwellings (+6,0%) and intellectual property creation (+32,2%), with the latter trend possibly related to the State strategy for attracting foreign businesses, which led to the registration of more than 1.100 companies in Cyprus's Business Facilitation Unit up to October 2022, of which many are active in the ICT sector. The growth momentum showed signs of moderation in Q4 2022 (+4,4%YoY), with GDP growth decelerating further in Q1-Q2 2023, resulting to a H1 2023 print of +2,8%YoY against +6,5%YoY in H1 2022, mainly from a deterioration in the external balance, as exports fell by 2,3%YoY and imports rose by 7,3%YoY. That said, imports growth is related to investments is shipping, so their negative impact on GDP was largely offset by a strong GFCF expansion (+9,9%YoY). The labour market tightened further H1 2023, with the average unemployment rate at 6,4%, a 12,5-year low, 0,3 percentage points down on an annual basis. Available data for Q3 2023 indicate a rising deficit in the goods balance, and a halt in disinflation that started in August 2022, most probably because of a rebound in oil prices globally, as well as higher partial wage indexation from June 2023 onwards (66,7% instead of 50% previously), which, besides sustaining inflation, will support private consumption in the remainder of 2023 and in 2024-2025. Apart from household consumption, robust activity in the tourism sector and the ICT sector is expected to be among the main growth drivers in the medium-term, with investments from these sectors as well as those in housing also contributing to GDP growth. Construction activity is closely linked to financial and insurance services; thus, these will also be growing sectors in the coming years. On the other hand, for as long the monetary policy remains tight, in order to curb persisting inflation through high interest rates, credit demand will also remain subdued, mitigating the growth dynamics of the financial sector and the Cypriot economy in general.

Other risks ahead to the downside that could materialise are mainly associated with the implications of the lingering war in Ukraine, through weaker economic activity in the EU that will weaken exports demand, extended monetary policy tightening and persisting inflation, from disruptions in international supply chains, especially for energy products, which will weigh on investments and private consumption respectively.

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

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

Determination of scenarios, scenario weights and macroeconomic factors (continued):

The evidenced by the IMF high pass-through of inflation to wages in Cyprus could trigger a wage-prices spiral, which could sustain a higher-for-longer inflation (Cyprus 2023 Article IV Report, Country Report No. 23/192, June 2023). Such effects are most possible to materialise in H2 2023 and 2024 and gradually fade from 2025 onwards.

Concerning upward risks over the forecasting horizon, these include a strong boost to dwellings construction from the forthcoming revision of the foreclosure suspension scheme, a stronger than expected pick up in tourism and the ICT sector, with positive implications for investments, a termination of the war in Ukraine in the near-term horizon, as well as an acceleration in the implementation of the Recovery and Resilience Plan (RRP), which progresses in 2023 albeit with delays, and the Multiannual Financial Framework (MFF) 2021-2027. Considering the above, GDP growth is expected to weaken further in H2 2023 and remain subdued in H1 2024, with potential strong negative effects during this time for fixed investment from high interest rates. A strong recovery should kick in H2 2024 and it is projected to continue in the medium-term, supported by household consumption, on the back of a tight labour market, and rising investments in the fields discussed above, as the monetary policy stance will be gradually loosened.

• *Optimistic scenario:*
A de-escalation and termination of the war in Ukraine in the period ahead, up to end 2023 – early 2024, is assumed, leading to a decompression in energy and commodity prices, as disruptions in the supply chains and global trade ease, and consumer – business confidence steadily improves. However, a high degree of restauration of supply chains is assumed to have been achieved towards the end of the forecasting horizon, from 2026 onwards. Accordingly, inflationary pressures will ease quicker than in the baseline scenario resulting in a milder trim in the disposable income and the private consumption respectively. Also, the tight monetary policy stance will be relaxed at a faster pace, boosting investments and business confidence. Overall, under such conditions, economic recovery will be facilitated, and GDP growth could stand on average at higher levels than those under the baseline scenario.

• *Adverse scenario:*
Assuming a very protracted conflict in Ukraine, up to H2 2024, together with a full cut-off of Russian gas and crude oil flows from Q4 2023 and additional sanctions by Western countries on Russia, would result to further disruptions in the affected supply chains and α stronger pickup of inflation compared to the baseline scenario, as well as a further deterioration in financing conditions. On the other hand, diversification in energy supplies has progressed since the war started, in the EU and elsewhere, limiting the potential implications of the above developments for energy - commodities supply relative to a year ago. These adverse dynamics will be reinforced by a resurgence of the COVID-19 pandemic in Q4-2023 and Q1-2024, weighing on GDP, employment and economic sentiment, although severe protection measures will not be taken (e.g., lockdown in numerous economic activities, restrictions on the movement of citizens), and more energetic strategies will be followed (e.g., extensive use of protective masks, another round of vaccination). Furthermore, the fiscal space for support measures against war and pandemic-related implications in 2024-2025 would be limited compared to the period 2020-2022. Accordingly, the hit on the economy would be harder at least in Q4 2023, 2024 and early 2025, placing the rebound in the period afterwards.

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

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

Forward-looking information

The Bank ensures that impairment estimates and macroeconomic forecasts, as provided by Economic Analysis & Financial Markets Research Division, applicable for business and regulatory purposes are fully consistent.

The averages of the scenarios' probability-weighted annual forecasts used in the ECL measurement for the year ended 31 December 2023 and 31 December 2022, are set in the following table:

Key macroeconomic indicator	**31 December 2023 Average (2024-2026) annual forecast**	31 December 2022 Average (2023-2025) annual forecast
Gross Domestic Product growth	**2,73**	1,63%
Gross capital formation	**4,83**	3,85%

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

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount. The Bank independently validates all models and underlying methodologies used in the ECL measurement through competent resources, who are independent of the model development process.

Assessment of LGD

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

As at 31 December 2023, the weighted average collateral realisation haircut used in the Stages 1 and 2 ECL calculation approximates to 28,14% (2022: 28,0%) while the respective weighted average recovery period for property collaterals approximates to 9 years (2022: 8 years).

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

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

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

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

Assessment of LGD (continued)

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

As at 31 December 2023, the weighted average collateral realisation haircut used in Stage 3 ECL calculation approximates to 26,32% (2022: 27,46%), while the respective weighted average recovery period for property collaterals approximates to 8,50 years (2022: 7,76 years).

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

For the purposes of ECL measurement the Bank performs the necessary model parameterisation based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EADs, PDs, LGDs, etc., incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as GDP and the effect on PDs. For EADs the carrying amount of the facility is used as at reference date; for off balance sheet exposures appropriate CCFs are applied. The CCF and expected lifetime of revolving facilities has been estimated based on past statistical data.

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of macroeconomic variables, such as GDP, which are used as independent variables for optimum predictive capability. In 2023, the Bank proceeded with the recalibration of its PD models, by introducing industry specific macro variables in corporate borrowers and applying interest rate and inflation scalars.

The ECL models are based on linear regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment.

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

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

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

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

Modeling and Management overlays / adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. The models have been validated by a related group entity who is independent of the model development process and are approved by the Board Risk Committee (BRC).

Sensitivity analysis on lending portfolios

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

Based on the above favourable and adverse scenario weighting variation, a re-estimation of key indicators linked to these variations, namely recovery periods, haircuts and PDs, was performed.

The tables below present the estimated effect in the Bank's ECL measurement (including off-balance sheet items) per stage, due to combined changes of forecasts in key indicators:

Increase/(decrease) on ECL for loans and advances to customers at amortised cost classified in 12 month ECL (Stage 1) and lifetime ECL not credit-impaired (Stage 2)		
	2023	2022
	€'000	€'000
Macroeconomic projections as per the adverse IFRS9 scenario	**15.516**	2.010
Macroeconomic projections as per the optimistic IFRS9 scenario	**(5.587)**	(1.148)
Full base scenario: 100% base IFRS9 scenario	**(4.532)**	(419)
Increase the expected recovery period by 1 year	**599**	214
Decrease the expected recovery period by 1 year	**(1.019)**	(47)
Increase the collateral realisation haircut by 5%	**1.227**	781
Decrease the collateral realisation haircut by 5%	**(1.169)**	(639)
Increase in the PDs by 20%	**2.500**	2.969
Decrease in the PDs by 20%	**(2.674)**	(3.018)

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

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

Sensitivity analysis on lending portfolios (continued)

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost classified in lifetime ECL credit-impaired (Stage 3)	
	2023	2022
	€'000	€'000
Macroeconomic projections as per the adverse IFRS9 scenario	**3.933**	2.458
Macroeconomic projections as per the optimistic IFRS9 scenario	**(2.956)**	(1.635)
Full base scenario: 100% base IFRS9 scenario	**(489)**	(199)
Increase the expected recovery period by 1 year	**1.567**	1.388
Decrease the expected recovery period by 1 year	**(1.481)**	(610)
Increase the collateral realisation haircut by 5%	**2.790**	2.364
Decrease the collateral realisation haircut by 5%	**(2.362)**	(1.978)

In the first three scenarios of the above list, the ECL was estimated with the application of 100% weight on each one of the base, adverse and optimistic IFRS 9 scenarios.

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

3.2 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.

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

3.2 Fair value of financial instruments (continued)

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the financial instrument. The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs.

Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value measurement and consequently even when unobservable inputs are used, fair values will use some market observable inputs.

Information in respect of the fair valuation of the Bank's financial assets and liabilities is provided in note 4.5.

3.3 Classification of financial instruments

The Bank applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank's business objectives. In general, the assessment is performed at the business unit level for lending exposures and based on the measurement category for debt securities. However, further disaggregation may be performed by business strategy or region, etc.

In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a “hold to collect” business model depending on their objective and their acceptable level and frequency.

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

3.3 Classification of financial instruments (continued)

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of lending exposures and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible business units when considering whether certain contractual features significantly affect future cash flows. Accordingly, for non-recourse financial assets, the Bank assesses jointly criteria such as the adequacy of equity, LTV (Loan-to-Value) and DSCR (Debt-Service-Coverage-Ratio) ratios as well as the existence of corporate and personal guarantees. Furthermore, in order to assess whether any variability in the cash flows is introduced by the modified time value of money element, the Bank performs a quantitative assessment (as described in note 2.2.12). Moreover, the Bank evaluates certain cases on whether the existence of performance-related terms exposes the Bank to asset risk rather to the borrower's credit risk.

The Bank has established a robust framework to perform the necessary assessments in accordance with Bank policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff.

3.4 Provisions and contingent liabilities

The Bank recognises provisions when it has a present legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of its amount.

A provision is not recognised and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non-occurrence of one or more uncertain future events.

Considering the subjectivity and uncertainty inherent in the determination of the probability and amount of the abovementioned outflows, the Bank takes into account a number of factors such as legal advice, the stage of the matter and historical evidence from similar cases.

Further information in relation to the Bank’s provisions and contingent liabilities is provided in note 29.

3.5 Leases

The Bank, as a lessee, determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain or not to exercise an option to renew or terminate the lease, by considering all relevant factors and economic aspects that create an economic incentive. The Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate, such as significant leasehold improvements or significant customisation of the leased asset.

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

3.5 Leases (continued)

In measuring lease liabilities, the Bank uses the lessees' incremental borrowing rate (IBR) when it cannot readily determine the interest rate implicit in the lease. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Therefore, estimation is required when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as government bond yields) as a starting point when available, and performs certain additional entity-specific adjustments, such as credit spread adjustments or adjustments to reflect the lease terms and conditions.

4 Financial risk management and fair value

4.1 Use of financial instruments

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

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

The Bank also invests in financial instruments where it takes positions in traded on organised markets and over the counter instruments including derivatives, to hedge interest rate risks and to utilise excess liquidity at higher interest rates.

4.2 Financial risk factors

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

Risk Management objectives and policies

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

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

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

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

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

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

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

Board Risk Committee

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

Risk Management Unit

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

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

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

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

4.2.1 Credit risk

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

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

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

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

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

(a) Credit approval process

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

(b) Credit risk monitoring

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

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(b) Credit risk monitoring (continued)

Credit Risk Unit

The Credit Risk Unit:

- reviews all proposals that require approval from the appropriate Credit Committee;
- is the Secretary of the local Credit Committees being responsible for the circulation of agendas, preparation of minutes and assurance of approvals;
- maintains records of all approved borrowers limits & credit exposures;
- validates independently the credit ratings assigned to borrowers;
- prepares internal and regulatory reports related to Credit Risk;
- reviews and aligns internal policies with supervisory requirements and international standards.

Credit Control Unit

The Credit Review (Control) Unit monitors and evaluates on an ongoing basis the quality of the credit portfolio, allocates provision charges per specific borrower or portfolios of borrowers in line with IFRS9 requirements and verifies adherence to the Bank's Credit Policy Manual. More specifically:

- submits a report on a periodic basis regarding the credit quality of the portfolio, provision charges and break down per sector of business activity for the corporate banking clients;
- monitors delinquencies and informs the responsible business units and the Bank's senior management for all customer cases with significant arrears;
- conducts field reviews on a periodic basis on specific business units and customer portfolios. Field reviews cover a pre-selected segment of customers based on criteria such as a) rating (all customer cases rated high risk are reviewed), b) largest exposures c) expired limits d) collateral shortfalls etc. A detailed report is submitted to the RMU and the responsible business units outlining the findings of the review and recommending appropriate action. A follow up review takes place within 6 months in order to ensure compliance;
- participates in the ICAAP and the Recovery Plan processes for all aspects relating to credit risk;
- supervises the rating process and is responsible for the proper functioning of the rating systems in use by the Bank;
- maintains appropriate records and follows up restructured loans;
- is responsible for the regulatory reporting regarding credit risk;
- drafts and maintains credit-related policies and provides relevant input to other Bank's policies, as required
- is responsible for the implementation of the impairment policy of the Bank, as approved by the BRC.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(c) Rating systems

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

The Bank periodically reviews rating systems and adapts them to particular market conditions, products or borrowers.

The Bank employs the following rating models for its portfolio:

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

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

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

(d) Credit risk mitigation

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

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

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(d) Credit risk mitigation (continued)

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets.

The valuation and hence eligibility is based on the following factors:

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

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

Collateral policy and documentation

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

Counterparty risk

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

(d) Credit risk mitigation (continued)

Counterparty risk (continued)

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

Forbearance practices on lending activities

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

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

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

Classification of Forborne loans

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Impairment assessment

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

4.2.1.1 Maximum exposure to credit risk before collateral held

The tables below represent the maximum credit risk exposure of the Bank at 31 December 2023 and 2022, without taking into account any collateral held or other credit enhancements that do not qualify for offset in the Bank's financial statements.

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

	2023		2022	
	€'000		€'000	
Credit risk exposures relating to on-balance sheet assets:				
Balances with central banks		**2.718.768**		3.258.922
Due from credit institutions at AC	**1.184.607**		1.526.922	
Less: impairment allowance	**(1)**	**1.184.606**	(2)	1.526.920
Derivative financial instruments		**11.938**		23.938
Loans and advances to customers at AC:				
Retail lending:				
- Mortgage	**14.124**		14.060	
- Consumer	**4.375**		20.625	
- Affluent banking	**108.936**		86.008	
- Credit cards	**989**		895	
Wholesale lending:				
- Large corporate	**1.614.103**		1.549.219	
- Wealth management	**444.292**		404.684	
- International business banking	**489.021**		471.844	
- Shipping	**219.719**		228.213	
Less: impairment allowance	**(51.214)**	**2.844.345**	(45.630)	2.729.918
Investment securities at FVOCI		**458.252**		494.490
Investment securities at AC	**964.583**		828.578	
Less: impairment allowance	**(624)**	**963.959**	(344)	828.234
Investment securities mandatorily at FVTPL		**2.042**		1.959
Other assets		**2.890**		652
Total		**8.186.800**		8.865.033
Credit risk exposures relating to off-balance sheet items (note 29):				
Financial guarantee contracts and other credit related commitments		**214.900**		206.974
Loan commitments		**609.362**		445.897
Less: impairment allowance		**(3.885)**		(8.254)
Total		**820.377**		644.617

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Due from credit institutions

The credit quality of placements and settlement balances with credit institutions and reverse repurchase agreements receivable from credit institutions held at amortised cost and at FVTPL, based on rating agencies' counterparty ratings, is analysed as follows as at 31 December 2023 and 2022:

	2023	2022
At amortised cost:	**€'000**	€'000
Aaa to Aa3	**8.980**	5.419
A1 to A3	**57.343**	24.442
Baa1 to Baa3	**1.118.172**	-
Ba1 to Ba3	**-**	1.496.526
Not rated	**112**	535
Gross carrying amount	**1.184.607**	1.526.922
Less impairment allowance	**(1)**	(2)
Carrying amount	**1.184.606**	1.526.920

Amounts due from credit institutions include reverse repurchase agreements of €1.098.322 thousand as at 31 December 2023 (2022: €1.490.836 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2023, approximately €1.072.906 thousand (2022: €1.245.373 thousand), have underlying securities which are rated as investment grade.

The movement in impairment allowance of amounts due from credit institutions in 2023 and 2022 is as follows:

	2023 12-month ECL €'000	2022 12-month ECL €'000
Balance at 1 January	**2**	26
Impact of ECL net remeasurement	**-**	(8)
Financial assets that have been derecognised	**(1)**	(15)
Foreign exchange	**-**	(1)
Balance at 31 December	**1**	2

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers

(a) Credit quality of loans and advances to customers

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

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

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

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

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

The following tables present the total gross carrying and nominal amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances and credit related commitments respectively that are classified as not credit-impaired (Stage 1 and Stage 2) and those classified as credit-impaired (Stage 3), as well as the carrying amount of those loans and advances to customers carried at FVTPL. They also present the total impairment allowance recognised in respect of all loans and advances and credit related commitments, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk. In addition, the value of collateral presented in the tables below is capped to the respective gross carrying amount.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2023								
	Non-impaired		Credit-impaired		Impairment allowance				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount / nominal exposure	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Carrying amount	Value of collateral
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers at amortised cost:									
Retail lending:									
- Mortgage	14.026	-	98	14.124	9	-	98	**14.017**	
Value of collateral	*13.425*	*-*	*98*						***13.523***
- Consumer	3.939	7	429	4.375	6	-	429	**3.940**	
Value of collateral	*1.314*	*7*	*411*						***1.732***
- Affluent banking	107.581	1.334	21	108.936	203	41	17	**108.675**	
Value of collateral	*100.916*	*1.198*	*4*						***102.118***
- Credit card	927	21	41	989	6	-	28	**955**	
Value of collateral	*45*	*1*	*13*						***59***
- Large corporate	1.352.954	216.210	44.939	1.614.103	5.033	4.746	28.429	**1.575.895**	
Value of collateral	*1.055.086*	*191.472*	*42.452*						***1.289.010***
- Wealth management	401.842	19.446	23.004	444.292	635	480	11.011	**432.166**	
Value of collateral	*383.811*	*19.171*	*21.921*						***424.903***
-International business banking	488.945	28	48	489.021	-	-	26	**488.995**	
Value of collateral	*488.365*	*17*	*39*						***488.421***
- Shipping	219.719	-	-	219.719	17	-	-	**219.702**	
Value of collateral	*219.682*	*-*	*-*						***219.682***
Total	**2.589.933**	**237.046**	**68.580**	**2.895.559**	**5.909**	**5.267**	**40.038**	**2.844.345**	***2.539.448***
Value of collateral	***2.262.644***	***211.866***	***64.938***	***2.539.448***					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	208.402	5.834	664	214.900	118	177	219		
Loan commitments	550.521	53.259	5.582	609.362	1.035	2.336	-		
	758.923	**59.093**	**6.246**	**824.262**	**1.153**	**2.513**	**219**		
Value of collateral	***290.279***	***29.751***	***1.669***	***321.699***					

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2022								
	Non-impaired		Credit-impaired		Impairment allowance				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount / nominal exposure	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Carrying amount	Value of collateral
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers at amortised cost:									
Retail lending:									
- Mortgage	13.881	82	97	14.060	1	-	-	14.059	
Value of collateral	*13.340*	*82*	*97*						*13.519*
- Consumer	20.582	1	42	20.625	200	-	42	20.383	
Value of collateral	*1.310*	-	-						*1.310*
- Affluent banking	84.983	995	30	86.008	142	12	12	85.842	
Value of collateral	*79.769*	*847*	*18*						*80.634*
- Credit card	823	25	47	895	6	1	41	847	
Value of collateral	*58*	-	*6*						*64*
Wholesale lending:									
- Large corporate	1.284.316	212.005	52.898	1.549.219	3.171	3.197	26.810	1.516.041	
Value of collateral	*1.020.024*	*189.208*	*50.120*						*1.259.352*
- Wealth management	373.405	16.270	15.009	404.684	615	249	9.186	394.634	
Value of collateral	*344.599*	*15.781*	*14.225*						*374.605*
-International business banking	471.742	59	43	471.844	-	-	6	471.838	
Value of collateral	*471.219*	*55*	*37*						*471.311*
- Shipping	226.380	-	1.833	228.213	106	-	1.833	226.274	
Value of collateral	*226.339*	-	-						*226.339*
Total	2.476.112	229.437	69.999	2.775.548	4.241	3.459	37.930	2.729.918	*2.427.134*
Value of collateral	*2.156.658*	*205.973*	*64.503*	*2.427.134*					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	188.193	18.374	407	206.974	2.374	343	302		
Loan commitments	411.963	32.709	1.225	445.897	1.474	3.761	-		
	600.156	51.083	1.632	652.871	3.848	4.104	302		
Value of collateral	*159.044*	*20.160*	*1.005*	*180.209*					

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

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

The following tables present the distribution of the gross carrying amount of loans and advances to customers carried at amortised cost and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocations used in 2023 and 2022:

		31 December 2023			
		Non-impaired		Credit-impaired	
		12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total gross carrying amount €'000
Retail lending:					
- Mortgage	Strong	13.484	-	-	**13.484**
	Satisfactory	542	-	-	**542**
	Impaired	-	-	98	**98**
- Consumer	Strong	3.906	7	-	**3.913**
	Satisfactory	33	-	-	**33**
	Impaired	-	-	429	**429**
- Affluent banking	Strong	81.405	410	-	**81.815**
	Satisfactory	26.176	924	-	**27.100**
	Impaired	-	-	21	**21**
- Credit card	Strong	667	1	-	**668**
	Satisfactory	260	19	-	**279**
	Watch list	-	1	-	**1**
	Impaired	-	-	41	**41**
Wholesale lending:					
- Large corporate	Strong	900.334	16.730	-	**917.064**
	Satisfactory	452.620	187.808	-	**640.428**
	Watch list	-	11.672	-	**11.672**
	Impaired	-	-	44.939	**44.939**
- Wealth management	Strong	370.715	1.215	-	**371.930**
	Satisfactory	31.127	17.001	-	**48.128**
	Watch list	-	1.230	-	**1.230**
	Impaired	-	-	23.004	**23.004**
- International business banking	Strong	486.636	18	-	**486.654**
	Satisfactory	2.309	10	-	**2.319**
	Impaired	-	-	48	**48**
- Shipping	Strong	219.686	-	-	**219.686**
	Satisfactory	33	-	-	**33**
		2.589.933	**237.046**	**68.580**	**2.895.559**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

		31 December 2022			
		Non-impaired		Credit-impaired	
		12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total gross carrying amount €'000
Retail lending:					
- Mortgage	Strong	13.881	82	-	13.963
	Impaired	-	-	97	97
- Consumer	Strong	20.500	-	-	20.500
	Satisfactory	82	1	-	83
	Impaired	-	-	42	42
- Affluent banking	Strong	62.379	210	-	62.589
	Satisfactory	22.604	785	-	23.389
	Impaired	-	-	30	30
- Credit card	Strong	542	5	-	547
	Satisfactory	281	20	-	301
	Impaired	-	-	47	47
Wholesale lending:					
- Large corporate	Strong	778.435	3.976	-	782.411
	Satisfactory	505.881	184.795	-	690.676
	Watch list	-	23.234	-	23.234
	Impaired	-	-	52.898	52.898
- Wealth management	Strong	342.951	1.245	-	344.196
	Satisfactory	30.454	13.865	-	44.319
	Watch list	-	1.160	-	1.160
	Impaired	-	-	15.009	15.009
- International business banking	Strong	469.249	55	-	469.304
	Satisfactory	2.493	4	-	2.497
	Impaired	-	-	43	43
- Shipping	Strong	226.352	-	-	226.352
	Satisfactory	28	-	-	28
	Impaired	-	-	1.833	1.833
		2.476.112	229.437	69.999	2.775.548

As at 31 December 2023 and 2022, there were no loans and advances to customers measured at FVTPL.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2023			
	Non-impaired		**Credit-impaired**	
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Total nominal exposure €'000**
Credit related commitments:				
Financial guarantee contracts and other credit related commitments:				
Strong	137.241	300	-	**137.541**
Satisfactory	71.161	5.349	-	**76.510**
Watch list	-	185	-	**185**
Impaired	-	-	664	**664**
Loan commitments:				
Strong	424.291	3.156	-	**427.447**
Satisfactory	126.230	46.609	-	**172.839**
Watch list	-	3.494	-	**3.494**
Impaired	-	-	5.582	**5.582**
	758.923	**59.093**	**6.246**	**824.262**

	31 December 2022			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total nominal exposure €'000
Credit related commitments:				
Financial guarantee contracts and other credit related commitments:				
Strong	137.588	10.021	-	147.609
Satisfactory	50.605	7.849	-	58.454
Watch list	-	504	-	504
Impaired	-	-	407	407
Loan commitments:				
Strong	296.563	174	-	296.737
Satisfactory	115.400	31.641	-	147.041
Watch list	-	894	-	894
Impaired	-	-	1.225	1.225
	600.156	51.083	1.632	652.871

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

The table below depicts the internal credit rating bands that correspond to the credit quality classification categories presented in the above tables.

Credit quality classification categories	Bank SME Model	ICR Scorecard	PB Rating Methodology	Slotting Rating Model
Strong	1 – 3.9	1 - 4	1 - 4	Strong / Good
Satisfactory	4 – 7.5	5 - 6	5 - 6	Satisfactory
Watch list	7.6 – 9.9	7 – 9	7 – 9	Watchlist / Weak
Impaired	10	10	10	NPL / Default

The following table presents exposure-weighted probabilities of default (PD) for performing exposures, based on the credit quality classification categories used in 2023 and 2022. For stage 1 exposures 12-month PDs were used, whereas for stage 2 exposures Lifetime PDs were used.

	31 December 2023		31 December 2022	
Credit Quality Classification Category	**Wholesale**	**Retail**	Wholesale	Retail
Strong	1,7%	1,9%	1,1%	1,5%
Satisfactory	10,5%	2,9%	5,6%	2,5%
Watchlist	62,2%	5,8%	13,9%	0,2%

The tables on the next pages present the movement of the gross carrying amounts for loans and advances to customers carried at amortised cost by product line and stage in 2023 and 2022, respectively:

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2023						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Gross carrying amount at 1 January	**2.355.843**	**228.334**	**69.783**	**120.269**	**1.103**	**216**	**2.775.548**
New financial assets originated or purchased	727.380	-	-	26.631	-	-	**754.011**
Transfers:							
- To 12-month ECL	54.186	(40.934)	(13.252)	240	(233)	(7)	**-**
- To lifetime ECL not credit-impaired	(98.249)	103.804	(5.555)	(557)	555	2	**-**
- To lifetime ECL credit-impaired	(11.341)	(27.417)	38.758	(15)	-	15	**-**
Financial assets derecognised	(8.148)	-	-	(1.019)	-	-	**(9.167)**
Amounts written off	-	-	(16.834)	-	-	(37)	**(16.871)**
Repayments	(528.273)	(39.884)	(6.961)	(29.416)	(100)	(170)	**(604.804)**
Foreign exchange difference and other movements	(27.938)	11.781	2.052	10.340	37	570	**(3.158)**
Gross carrying amount at 31 December	**2.463.460**	**235.684**	**67.991**	**126.473**	**1.362**	**589**	**2.895.559**
Less impairment allowance	(5.685)	(5.226)	(39.466)	(224)	(41)	(572)	**(51.214)**
Carrying amount at 31 December	**2.457.775**	**230.458**	**28.525**	**126.249**	**1.321**	**17**	**2.844.345**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

	31 December 2022						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Gross carrying amount at 1 January	2.283.556	213.439	62.074	86.194	1.409	542	2.647.214
New financial assets originated or purchased	867.075	-	-	31.787	-	-	898.862
Transfers:							
- To 12-month ECL	27.320	(27.152)	(168)	883	(524)	(359)	-
- To lifetime ECL not credit-impaired	(83.948)	86.055	(2.107)	(334)	334	-	-
- To lifetime ECL credit-impaired	(2.580)	(17.520)	20.100	(44)	(9)	53	-
Financial assets derecognised	(2.832)	(1.574)	(2.994)	(1.059)	-	-	(8.459)
Amounts written off	-	-	(49)	-	-	-	(49)
Repayments	(743.919)	(38.426)	(9.461)	(9.840)	(297)	(55)	(801.998)
Foreign exchange difference and other movements	11.171	13.512	2.388	12.682	190	35	39.978
Gross carrying amount at 31 December	2.355.843	228.334	69.783	120.269	1.103	216	2.775.548
Less impairment allowance	(3.892)	(3.446)	(37.835)	(349)	(13)	(95)	(45.630)
Carrying amount at 31 December	2.351.951	224.888	31.948	119.920	1.090	121	2.729.918

The above balances contain €434 million of facilities secured by cash collateral as at 31 December 2023 (31 December 2022: €453,1 million). For these facilities no ECL is estimated as due to the nature of the security, no credit risk is assumed for these exposures.

The contractual amount outstanding on lending exposures that were written off during the year ended 31 December 2023 and that are still subject to enforcement activity is €34.135 thousand (2022: €nil).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

The following tables present the movement of the nominal amounts of financial guarantee contracts and other credit related commitments, and loan commitments by stage in 2023 and 2022 respectively:

	31 December 2023						
	Loan commitments			**Financial guarantee contracts and other credit related commitments**			
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**12-month ECL €'000**	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Total €'000**
Nominal amount at 1 January	**411.963**	**32.709**	**1.225**	**188.193**	**18.374**	**407**	**652.871**
Net increase/(decrease)	162.039	2.100	(674)	22.251	(14.289)	(36)	**171.391**
Transfers:							
- To 12-month ECL	10.065	(10.065)	-	747	(747)	-	**-**
- To lifetime ECL not credit-impaired	(29.095)	29.112	(17)	(2.552)	2.552	-	**-**
- To lifetime ECL credit-impaired	(4.451)	(597)	5.048	(237)	(56)	293	**-**
Nominal amount at 31 December	**550.521**	**53.259**	**5.582**	**208.402**	**5.834**	**664**	**824.262**

	31 December 2022						
	Loan commitments			Financial guarantee contracts and other credit related commitments			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Nominal amount at 1 January	508.096	31.573	776	152.277	14.148	356	707.226
Net increase/(decrease)	(83.958)	(10.442)	(148)	47.456	(7.297)	34	(54.355)
Transfers:							
- To 12-month ECL	5.163	(5.103)	(60)	1.224	(1.224)	-	-
- To lifetime ECL not credit- impaired	(17.239)	17.280	(41)	(12.757)	12.757	-	-
- To lifetime ECL credit-impaired	(99)	(599)	698	(7)	(10)	17	-
Nominal amount at 31 December	411.963	32.709	1.225	188.193	18.374	407	652.871

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

The following tables present the movement of the impairment allowances for loans and advances to customers by product line and stage in 2023 and 2022, respectively:

	31 December 2023						
	Wholesale lending			**Retail lending**			
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**12-month ECL €'000**	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Total €'000**
Balance at 1 January	**3.892**	**3.446**	**37.835**	**349**	**13**	**95**	**45.630**
New financial assets originated or purchased	2.354	-	-	60	-	-	**2.414**
Transfers:							
- To 12-month ECL	1.216	(1.168)	(48)	9	(2)	(7)	**-**
- To lifetime ECL not credit-impaired	(512)	4.966	(4.454)	(3)	1	2	**-**
- To lifetime ECL credit- impaired	(108)	(76)	184	-			**-**
Impact of ECL net remeasurement	(1.158)	(1.944)	21.476	(151)	27	(35)	**18.215**
Amounts written off	-	-	(16.834)	(37)	-	-	**(16.871)**
Recoveries from written off loans	-	-	1.633	-	-	-	**1.633**
Foreign exchange difference and other movements	1	2	(326)	(3)	2	517	**193**
Balance at 31 December	**5.685**	**5.226**	**39.466**	**224**	**41**	**572**	**51.214**

	31 December 2022						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Balance at 1 January	4.743	3.916	37.560	234	17	194	46.664
New financial assets originated or purchased	2.025	-	-	74	-	-	2.099
Transfers:							
- To 12-month ECL	1.363	(1.350)	(13)	111	(3)	(108)	-
- To lifetime ECL not credit-impaired	(406)	439	(33)	(1)	1	-	-
- To lifetime ECL credit- impaired	(496)	(239)	735	(2)	(1)	3	-
Impact of ECL net remeasurement	(3.290)	674	(1.053)	(75)	(1)	9	(3.736)
Amounts written off	-	-	(49)	-	-	-	(49)
Recoveries from written off loans	-	-	719	-	-	-	719
Foreign exchange difference and other movements	(47)	6	(31)	8	-	(3)	(67)
Balance at 31 December	3.892	3.446	37.835	349	13	95	45.630

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

The following tables present the movement of the impairment allowances on financial guarantee contracts and other credit related commitments, and loan commitments by stage in 2023 and 2022, respectively:

	31 December 2023						
	Loan commitments			**Financial guarantee contracts and other credit related commitments**			
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**12-month ECL €'000**	**Lifetime ECL not credit-impaired €'000**	**Lifetime ECL credit-impaired €'000**	**Total €'000**
Balance at 1 January	**1.474**	**3.761**	**-**	**2.374**	**343**	**302**	**8.254**
Net increase/(decrease)	1.389	(79)	-	(1.326)	(67)	(82)	**(165)**
Transfers:							
- To 12-month ECL	21	(21)	-	3	(3)	-	**-**
- To lifetime ECL not credit-impaired	(1.591)	1.591	-	(95)	95	-	**-**
- To lifetime ECL credit- impaired	-	-	-	-	(14)	14	**-**
Impact of ECL net remeasurement	(258)	(2.916)	-	(838)	(177)	(15)	**(4.204)**
Balance at 31 December	**1.035**	**2.336**	**-**	**118**	**177**	**219**	**3.885**

	31 December 2022						
	Loan commitments			Financial guarantee contracts and other credit related commitments			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Balance at 1 January	1.307	2.290	-	1.114	390	283	5.384
Net increase/(decrease)	383	(101)	-	1.627	(87)	21	1.843
Transfers:							
- To 12-month ECL	11	(11)	-	1	(1)	-	-
- To lifetime ECL not credit-impaired	(1.332)	1.332	-	(135)	135	-	-
Impact of ECL net remeasurement	1.105	251	-	(233)	(94)	(2)	1.027
Balance at 31 December	1.474	3.761	-	2.374	343	302	8.254

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

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

The impairment losses relating to loans and advances to customers and on financial guarantee contracts and other credit related commitments and loan commitments recognised in the Bank's income statement for the year ended 31 December 2023 amounted to €16.260 thousand (2022: €1.233 thousand) and are analysed as follows:

	2023	2022
	€'000	€'000
Impairment allowance/(reversal of impairment allowance) on loans and advances to customers	**20.629**	(1.637)
(Reversal of impairment allowance)/impairment allowance on loan commitments	**(1.864)**	1.638
(Reversal of impairment allowance)/impairment allowance on financial guarantee contracts and other credit related commitments	**(2.505)**	1.232
Total	**16.260**	1.233

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

Credit-impaired loans and advances to customers

The following tables present the ageing analysis of credit-impaired (Stage 3) loans and advances to customers by product line at their gross carrying amounts, as well as the respective cumulative impairment allowances and the value of collaterals held to mitigate credit risk as at 31 December 2023 and 2022, respectively:

	31 December 2023								
	Retail lending				**Wholesale lending**				
	Mortgage €'000	**Consumer €'000**	**Affluent banking €'000**	**Credit card €'000**	**Large corporate €'000**	**Wealth management €'000**	**International business banking €'000**	**Shipping €'000**	**Lifetime ECL credit-impaired €'000**
Up to 89 days	-	417	21	11	33.320	11.827	25	-	**45.621**
90 to 179 days	-	-	-	17	3.334	8.296	15	-	**11.662**
180 to 360 days	-	-	-	10	6.257	514	1	-	**6.782**
More than 360 days	98	12	-	3	2.028	2.367	7	-	**4.515**
Total gross carrying amount	**98**	**429**	**21**	**41**	**44.939**	**23.004**	**48**	**-**	**68.580**
Impairment allowance	(98)	(429)	(17)	(28)	(28.429)	(11.011)	(26)	-	**(40.038)**
Carrying amount	**-**	**-**	**4**	**13**	**16.510**	**11.993**	**22**	**-**	**28.542**
Value of collateral	**98**	**411**	**4**	**13**	**42.452**	**21.921**	**39**	**-**	**64.938**

	31 December 2022								
	Retail lending				Wholesale lending				
	Mortgage €'000	Consumer €'000	Affluent banking €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	Shipping €'000	Lifetime ECL credit-impaired €'000
Up to 89 days	-	4	18	34	38.184	8.849	13	-	47.102
90 to 179 days	-	-	5	2	669	352	26	-	1.054
180 to 360 days	-	26	7	8	46	11	3	-	101
More than 360 days	97	12	-	3	13.999	5.797	1	1.833	21.742
Total gross carrying amount	97	42	30	47	52.898	15.009	43	1.833	69.999
Impairment allowance	-	(42)	(12)	(41)	(26.810)	(9.186)	(6)	(1.833)	(37.930)
Carrying amount	97	-	18	6	26.088	5.823	37	-	32.069
Value of collateral	97	-	18	6	50.120	14.225	37	-	64.503

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

Loans and advances to customers at amortised cost – overdue status

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

	31 December 2023			31 December 2022		
	Stage 1	**Stage 2**	**Total**	Stage 1	Stage 2	Total
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
Current	2.567.118	235.912	**2.803.030**	2.473.237	225.849	2.699.086
Overdue less than 30 days	22.815	152	**22.967**	2.875	2	2.877
Overdue more than 30 days	-	982	**982**	-	3.586	3.586
Gross carrying amount	**2.589.933**	**237.046**	**2.826.979**	2.476.112	229.437	2.705.549
Impairment allowance	(5.909)	(5.267)	**(11.176)**	(4.241)	(3.459)	(7.700)
Carrying amount	**2.584.024**	**231.779**	**2.815.803**	2.471.871	225.978	2.697.849

Regulatory definitions

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance

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

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

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

	2023	2022
	€'000	€'000
Forbearance measures:		
Loan term extension	**72.621**	67.707
Arrears capitalisation	**466**	1.446
Reduced payment below interest owed	**216**	244
Interest rate reduction	**8.065**	57
Reduced payment above interest owed	**18.461**	30.598
Arrears repayment plan	**1.367**	1.620
Interest only	**15.261**	8.382
Grace period	**29.875**	22.794
Other	**1.223**	1.296
Total gross carrying amount	**147.555**	134.144
Less impairment allowance	**(29.770)**	(20.515)
Total carrying amount	**117.785**	113.629

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

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

	31 December 2023		
	Total loans & advances at amortised cost €'000	**Forborne loans & advances €'000**	**% of forborne loans & advances to total loans & advances**
Gross carrying amount:			
12-month ECL	2.589.933	-	-
Lifetime ECL not credit-impaired	237.046	101.180	42,7
Lifetime ECL credit-impaired	68.580	46.375	67,6
Total gross carrying amount	**2.895.559**	**147.555**	**5,1**
Impairment allowance:			
12-month ECL	5.909	-	-
Lifetime ECL not credit-impaired	5.267	1.630	30,9
Lifetime ECL credit-impaired	40.038	28.140	70,3
Total impairment allowance	**51.214**	**29.770**	**58,1**
Carrying amount	**2.844.345**	**117.785**	**4,1**
Collateral received	**2.539.448**	**146.508**	

	31 December 2022		
	Total loans & advances at amortised cost €'000	Forborne loans & advances €'000	% of forborne loans & advances to total loans & advances
Gross carrying amount:			
12-month ECL	2.476.112	-	-
Lifetime ECL not credit-impaired	229.437	91.911	40,1
Lifetime ECL credit-impaired	69.999	42.233	60,3
Total gross carrying amount	2.775.548	134.144	4,8
Impairment allowance:			
12-month ECL	4.241	-	-
Lifetime ECL not credit-impaired	3.459	959	27,7
Lifetime ECL credit-impaired	37.930	19.556	51,6
Total impairment allowance	45.630	20.515	45,0
Carrying amount	2.729.918	113.629	4,2
Collateral received	2.427.134	129.593	

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

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

	2023	2022
	€'000	€'000
Gross carrying amount at 1 January	**134.144**	130.341
Forbearance measures in the year[1]	**53.492**	19.741
Repayment of loans	**(21.344)**	(12.620)
Forborne loans derecognised	**-**	690
Write-offs of forborne loans	**(2.106)**	-
Loans & advances that exited forbearance status	**(16.631)**	(4.008)
Gross carrying amount	**147.555**	134.144
Less impairment allowance	**(29.770)**	(20.515)
Carrying amount at 31 December	**117.785**	113.629

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

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

	2023	2022
	€'000	€'000
Retail lending:		
- Consumer	**411**	
- Affluent banking	**267**	74
Wholesale lending:		
- Large corporate	**117.796**	109.878
- Wealth management	**29.081**	24.192
Total gross carrying amount	**147.555**	134.144
Less impairment allowance	**(29.770)**	(20.515)
Total carrying amount	**117.785**	113.629

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(b) Forbearance (continued)

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

	2023	2022
	€'000	€'000
Cyprus	**134.255**	133.900
Other European countries	**8.937**	-
Other countries	**4.363**	244
Total gross carrying amount	**147.555**	134.144
Less impairment allowance	**(29.770)**	(20.515)
Total carrying amount	**117.785**	113.629

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

Modified lending exposures	**2023**	2022
	€'000	€'000
Loans modified during the year with impairment allowance measured at an amount equal to lifetime ECL		
Carrying amount	**25.498**	26.757
Modification loss	**-**	-
Loans modified since initial recognition at a time when impairment allowance was based on lifetime ECL		
Gross carrying amount at 31 December for which impairment allowance has changed to 12-month ECL measurement	**14.669**	1.185

In the year ended 31 December 2023, the gross carrying amount of loans previously modified for which the loan allowance has reverted to being measured at an amount equal to lifetime ECL amounted to €598 thousand (2022: €151 thousand).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Collaterals held and other credit enhancements

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

The LTV ratio as at 31 December 2023 and 2022 is presented below:

	2023	2022
	€'000	€'000
Less than 50%	**824.065**	788.100
50%-70%	**603.576**	489.921
71%-80%	**74.301**	82.554
81%-90%	**73.354**	62.850
91%-100%	**63.505**	32.347
101%-120%	**12.996**	40.583
121%-150%	**19.808**	42.265
Greater than 150%	**76.376**	81.019
Total exposure	**1.747.981**	1.619.639
Average LTV	**72%**	68%

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

	31 December 2023 Value of collateral received				
	Real Estate	**Financial**	**Other Collateral**	**Total**	**Guarantees received**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Retail lending	105.004	12.427	2	117.433	-
Wholesale lending	1.535.854	669.062	203.918	2.408.834	13.180
Total	**1.640.858**	**681.489**	**203.920**	**2.526.267**	**13.180**

	31 December 2022 Value of collateral received				
	Real Estate	Financial	Other Collateral	Total	Guarantees received
	€'000	€'000	€'000	€'000	€'000
Retail lending	85.251	10.276	-	95.527	-
Wholesale lending	1.429.747	660.539	232.250	2.322.537	9.071
Total	1.514.998	670.815	232.250	2.418.064	9.071

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

The movement in impairment allowance of investment securities in 2023 and 2022 is as follows:

	31 December 2023			
	Investment securities at FVOCI			**Investment securities at amortised cost**
	12-month ECL	**Lifetime ECL not credit-impaired**	**Total**	**12-month ECL**
	€'000	**€'000**	**€'000**	**€'000**
Balance at 1 January	628	148	776	344
New financial assets purchased	14	-	14	428
Transfer from 12-month ECL to Lifetime ECL not credit-impaired	161	(161)	-	-
Impact of ECL net remeasurement	(230)	13	(217)	(114)
Financial assets disposed during the year	-	-	-	(27)
Financial assets redeemed during the year	(7)	-	(7)	(7)
Balance at 31 December	**566**	**-**	**566**	**624**

	31 December 2022			
	Investment securities at FVOCI			Investment securities at amortised cost
	12-month ECL	Lifetime ECL not credit-impaired	Total	12-month ECL
	€'000	€'000	€'000	€'000
Balance at 1 January	832	-	832	171
New financial assets purchased	563	-	563	213
Transfer from 12-month ECL to Lifetime ECL not credit-impaired	(39)	39	-	-
Impact of ECL net remeasurement	(697)	109	(588)	(33)
Financial assets disposed during the year	(19)	-	(19)	-
Financial assets redeemed during the year	(12)	-	(12)	(7)
Balance at 31 December	628	148	776	344

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities (continued)

The tables below present an analysis of debt securities by external credit rating agency designation at 31 December 2023 and 2022, respectively, based on Moody's ratings or their equivalent:

	31 December 2023		
	Investment securities at FVOCI	**Investment securities at amortised cost**	**Total**
	€'000	**€'000**	**€'000**
Aaa	160.392	498.661	**659.053**
Aa1 to Aa3	12.478	22.867	**35.344**
A1 to A3	72.800	37.803	**110.603**
Baa1 to Baa3	189.445	311.340	**500.785**
Ba1 to Ba3	23.137	30.641	**53.778**
Not rated	-	63.271	**63.271**
Gross carrying amount	**458.252**	**964.583**	**1.422.835**
Impairment allowance	-	(624)	**(624)**
Carrying amount	**458.252**	**963.959**	**1.422.211**

	31 December 2022		
	Investment securities at FVOCI	Investment securities at amortised cost	Total
	€'000	€'000	€'000
Aaa	170.281	395.825	566.106
Aa1 to Aa3	22.234	23.756	45.990
A1 to A3	31.232	3.893	35.125
Baa1 to Baa3	185.555	-	185.555
Ba1 to Ba3	64.526	307.458	371.984
B1 to B3	20.662	7.213	27.875
Not rated	-	90.433	90.433
Gross carrying amount	494.490	828.578	1.323.068
Impairment allowance	-	(344)	(344)
Carrying amount	494.490	828.234	1.322.724

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors

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

	31 December 2023												
	Cyprus				Other European countries				Other countries				
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	Total gross carrying amount / nominal amount less imp. allowance €'000
Loans and advances to customers													
Retail lending:													
- Mortgage	13.484	-	98	(107)	542	-	-	-	-	-	-	-	**14.017**
- Consumer	3.939	7	429	(435)	-	-	-	-	-	-	-	-	**3.940**
- Affluent banking	105.230	1.334	22	(257)	1.412	-	-	(2)	938	-	-	(2)	**108.675**
- Credit cards	917	21	41	(34)	5	-	-	-	5	-	-	-	**955**
Wholesale lending:													
- Large corporate	847.529	202.835	43.293	(36.035)	467.974	10.866	1.108	(1.902)	37.452	2.509	537	(271)	**1.575.895**
- Wealth management	247.491	14.664	16.362	(8.838)	148.429	4.537	6.641	(3.244)	5.923	245	-	(44)	**432.166**
- International business banking	412.396	23	17	(13)	75.591	5	2	(2)	957	-	30	(11)	**488.995**
- Shipping	65.580	-	-	(9)	154.120	-	-	(8)	19	-	-	-	**219.702**
Total	**1.696.566**	**218.884**	**60.262**	**(45.728)**	**848.073**	**15.408**	**7.751**	**(5.158)**	**45.294**	**2.754**	**567**	**(328)**	**2.844.345**
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	201.199	5.834	662	(513)	1.457	-	-	(1)	5.746	-	2	-	**214.386**
Loan commitments	451.580	44.100	5.524	(3.022)	48.047	6.628	21	(137)	50.894	2.531	37	(212)	**605.991**
Total	**652.779**	**49.934**	**6.186**	**(3.535)**	**49.504**	**6.628**	**21**	**(138)**	**56.640**	**2.531**	**39**	**(212)**	**820.377**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2022												
	Cyprus				Other European countries				Other countries				
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	Total gross carrying amount / nominal amount less imp. allowance €'000
Loans and advances to customers													
<u>Retail lending:</u>													
- Mortgage	13.881	82	97	(1)	-	-	-	-	-	-	-	-	14.059
- Consumer	20.582	1	42	(242)	-	-	-	-	-	-	-	-	20.383
- Affluent banking	84.058	995	30	(165)	846	-	-	(1)	79	-	-	-	85.842
- Credit cards	813	25	47	(48)	7	-	-	-	3	-	-	-	847
<u>Wholesale lending:</u>													
- Large corporate	848.659	198.032	51.695	(31.384)	384.665	13.973	1.203	(1.771)	50.992	-	-	(23)	1.516.041
- Wealth management	245.680	9.894	14.236	(9.127)	123.002	6.093	612	(739)	4.723	283	161	(184)	394.634
- International business banking	407.504	55	22	-	63.499	1	7	(6)	739	3	14	-	471.838
- Shipping	63.573	-	-	(31)	147.894	-	1.833	(1.901)	14.913	-	-	(7)	226.274
Total	1.684.750	209.084	66.169	(40.998)	719.913	20.067	3.655	(4.418)	71.449	286	175	(214)	2.729.918
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	176.592	16.013	399	(2.718)	10.715	2.361	-	(301)	886	-	8	-	203.955
Loan commitments	289.778	30.752	1.154	(3.744)	117.684	1.953	8	(1.488)	4.501	4	63	(3)	440.662
Total	466.370	46.765	1.553	(6.462)	128.399	4.314	8	(1.789)	5.387	4	71	(3)	644.617

As at 31 December 2023 and 2022, there were no loans and advances to customers measured mandatorily at FVTPL.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2023				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	Total €'000
On-balance sheet assets					
Balances with central banks	-	2.718.768			**2.718.768**
Due from credit institutions at AC	-	32	1.140.719	43.856	**1.184.607**
Derivative financial instruments	-	222	11.715	1	**11.938**
Investment debt securities at FVOCI	-	63.671	236.110	158.471	**458.252**
Investment debt securities at AC	24.528	308.516	321.617	309.922	**964.583**
Other investment securities mandatorily at FVTPL	-	2.042	-	-	**2.042**
Other assets	-	1.860	961	69	**2.890**
Gross carrying amount	**24.528**	**3.095.111**	**1.711.122**	**512.319**	**5.343.080**
Balances with central banks	-	-	-	-	**-**
Due from credit institutions at AC	-	-	1	-	**1**
Investment debt securities at AC	14	280	197	133	**624**
Other assets	-	-	-	-	**-**
Impairment allowance	**14**	**280**	**198**	**133**	**625**
Carrying amount	**24.514**	**3.094.831**	**1.710.924**	**512.186**	**5.342.455**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2022				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	Total €'000
On-balance sheet assets					
Balances with central banks	-	3.258.922	-	-	3.258.922
Due from credit institutions at AC	-	31	1.520.935	5.956	1.526.922
Derivative financial instruments	-	125	23.813	-	23.938
Investment debt securities at FVOCI	4.625	79.211	250.777	159.877	494.490
Investment debt securities at AC	25.102	303.394	174.568	325.514	828.578
Other investment securities mandatorily at FVTPL	-	1.959	-	-	1.959
Other assets	-	321	294	37	652
Gross carrying amount	29.727	3.643.963	1.970.387	491.384	6.135.461
Balances with central banks	-	-	-	-	-
Due from credit institutions at AC	-	-	2	-	2
Investment debt securities at AC	26	146	90	82	344
Other assets	-	-	-	-	-
Impairment allowance	26	146	92	82	346
Carrying amount	29.701	3.643.817	1.970.295	491.302	6.135.115

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

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

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

	31 December 2023																				
	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total carrying amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers																					
Retail lending:																					
- Mortgage	-	-	-	-	14.026	-	98	(107)	-	-	-	-	-	-	-	-	-	-	-	-	**14.017**
- Consumer	67	-	-	(1)	3.871	7	425	(429)	-	-	-	-	-	-	5	(5)	-	-	-	-	**3.940**
- Affluent banking	2.428	-	-	(3)	105.020	1.334	21	(258)	17	-	-	-	-	-	-	-	116	-	-	-	**108.675**
- Credit cards	165	-	6	(7)	756	21	35	(27)	6	-	-	-	-	-	-	-	-	-	-	-	**955**
Wholesale lending:																					
- Large corporate	1.167.786	188.463	38.983	(31.774)	9.990	865	2.235	(2.167)	31.067	10.050	1.395	(1.223)	143.096	16.014	2.325	(3.007)	1.016	818	-	(37)	**1.575.895**
- Wealth management	233.690	12.824	19.512	(8.783)	166.861	6.123	3.395	(3.336)	442	-	-	(5)	55	-	96	-	794	500	-	(2)	**432.166**
- International business banking	456.665	18	37	(22)	8.358	9	12	(4)	-	-	-	-	23.919	-	-	-	3	-	-	-	**488.995**
- Shipping	219.701	-	-	(17)	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**219.702**
Total	**2.080.502**	**201.305**	**58.538**	**(40.607)**	**308.900**	**8.359**	**6.221**	**(6.328)**	**31.532**	**10.050**	**1.395**	**(1.228)**	**167.070**	**16.014**	**2.426**	**(3.012)**	**1.929**	**1.318**	**-**	**(39)**	**2.844.345**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2022																				
	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total carrying amount
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances to customers																					
Retail lending:																					
- Mortgage	-	-	-	-	13.881	82	97	(1)	-	-	-	-	-	-	-	-	-	-	-	-	14.059
- Consumer	16.687	-	26	(225)	3.895	1	12	(13)	-	-	-	-	-	-	4	(4)	-	-	-	-	20.383
- Affluent banking	1.848	-	-	(1)	82.990	995	30	(165)	111	-	-	-	-	-	-	-	34	-	-	-	85.842
- Credit cards	135	-	7	(8)	684	25	40	(40)	3	-	-	-	-	-	-	-	1	-	-	-	847
Wholesale lending:																					
- Large corporate	1.067.550	199.524	46.659	(27.489)	12.891	662	4.327	(3.532)	40.138	4.132	1.536	(1.179)	162.680	6.765	376	(955)	1.057	922	-	(23)	1.516.041
- Wealth management	214.865	11.709	8.465	(5.145)	157.258	3.984	6.544	(4.903)	195	-	-	-	140	-	-	(1)	947	577	-	(1)	394.634
- International business banking	439.549	6	32	-	7.265	53	11	(6)	-	-	-	-	24.928	-	-	-	-	-	-	-	471.838
- Shipping	226.363	-	1.833	(1.939)	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	226.274
Total	1.966.997	211.239	57.022	(34.807)	278.881	5.802	11.061	(8.660)	40.447	4.132	1.536	(1.179)	187.748	6.765	380	(960)	2.039	1.499	-	(24)	2.729.918

As at 31 December 2023 and 2022, there were no loans and advances to customers measured mandatorily at FVTPL.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2023																				
	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Nominal amount				Nominal amount				Nominal amount				Nominal amount				Nominal amount				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Imp. allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Imp. allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Imp. allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Imp. allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Imp. allowance €'000	Total nominal amount less imp. allowance €'000
Off-balance sheet items																					
Financial guarantee contracts and other credit related commitments	128.974	4.649	499	(451)	2.378	6	2	(1)	74.045	916	-	(25)	2.702	263	163	(37)	303	-	-	-	**214.386**
Loan commitments	341.227	36.868	5.206	(2.097)	67.023	440	172	(164)	17.280	12.156	-	(281)	123.782	3.786	204	(823)	1.209	9	-	(6)	**605.991**
Total	**470.201**	**41.517**	**5.705**	**(2.548)**	**69.401**	**446**	**174**	**(165)**	**91.325**	**13.072**	**-**	**(306)**	**126.484**	**4.049**	**367**	**(860)**	**1.512**	**9**	**-**	**(6)**	**820.377**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2022																				
	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Nominal amount				Nominal amount				Nominal amount				Nominal amount				Nominal amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total nominal amount less imp. allowance
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Off-balance sheet items																					
Financial guarantee contracts and other credit related commitments	121.729	15.859	402	(1.559)	2.388	3	-	(7)	58.781	2.417	-	(1.445)	4.798	95	5	(8)	497	-	-	-	203.955
Loan commitments	261.825	27.708	1.166	(4.402)	63.739	316	59	(248)	12.632	3.528	-	(350)	72.297	1.147	-	(233)	1.470	10	-	(2)	440.662
Total	383.554	43.567	1.568	(5.961)	66.127	319	59	(255)	71.413	5.945	-	(1.795)	77.095	1.242	5	(241)	1.967	10	-	(2)	644.617

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2023								
	Central banks €'000	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Construction €'000	Manufacturing €'000	Other €'000	Total €'000
On-balance sheet assets									
Balances with central banks	2.718.768	-	-	-	-	-	-	-	**2.718.768**
Due from credit institutions at AC	-	-	-	1.184.607	-	-	-	-	**1.184.607**
Derivative financial instruments	-	-	82	11.718	10	128	-	-	**11.938**
Investment debt securities at FVOCI	-	342.573	-	77.646	-	-	-	38.033	**458.252**
Investment debt securities at AC	-	645.528	-	108.052	-	-	-	211.003	**964.583**
Other investment securities mandatorily at FVTPL	-	-	-	2.042	-	-	-	-	**2.042**
Other assets	-	-	2.821	-	-	-	-	69	**2.890**
Gross carrying amount	**2.718.768**	**988.101**	**2.903**	**1.384.065**	**10**	**128**	**-**	**249.105**	**5.343.080**
Balances with central banks	-	-	-	-	-	-	-	-	**-**
Due from credit institutions at AC	-	-	-	1	-	-	-	-	**1**
Investment debt securities at AC	-	434	-	130	-	-	-	60	**624**
Other assets	-	-	-	-	-	-	-	-	**-**
Impairment allowance	**-**	**434**	**-**	**131**	**-**	**-**	**-**	**60**	**625**
Carrying amount	**2.718.768**	**987.667**	**2.903**	**1.383.934**	**10**	**128**	**-**	**249.045**	**5.342.455**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2022								
	Central banks €'000	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Construction €'000	Manufacturing €'000	Other €'000	Total €'000
On-balance sheet assets									
Balances with central banks	3.258.922	-	-	-	-	-	-	-	3.258.922
Due from credit institutions at AC	-	-	-	1.526.922	-	-	-	-	1.526.922
Derivative financial instruments	-	-	125	23.812	1	-	-	-	23.938
Investment debt securities at FVOCI	-	360.669	-	85.507	-	-	-	48.314	494.490
Investment debt securities at AC	-	614.528	-	16.486	-	-	-	197.564	828.578
Other investment securities mandatorily at FVTPL	-	-	-	1.959	-	-	-	-	1.959
Other assets	-	-	615	-	-	-	-	37	652
Gross carrying amount	3.258.922	975.197	740	1.654.686	1	-	-	245.915	6.135.461
Balances with central banks	-	-	-	-	-	-	-	-	-
Due from credit institutions at AC	-	-	-	2	-	-	-	-	2
Investment debt securities at AC	-	224	-	59	-	-	-	61	344
Other assets	-	-	-	-	-	-	-	-	-
Impairment allowance	-	224	-	61	-	-	-	61	346
Carrying amount	3.258.922	975.973	740	1.654.625	1	-	-	245.854	6.135.115

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.6 Other financial assets

Balances with central banks

The Bank held balances with central banks of €2.718.768 thousand at 31 December 2023 (2022: €3.258.922 thousand), which are not rated. The Central Bank of Cyprus is not rated by itself. The rating of Republic of Cyprus, which was Baa2 (Moody's rating scale) as at 31 December 2023, can be used as an approximation.

Investment securities – equity shares

The Bank did not hold equity shares as at 31 December 2023 and 2022.

Investment securities – UCIT funds

The Bank held UCIT funds of €2.042 thousand at 31 December 2023 (2022: €1.959 thousand) which are not rated.

4.2.2 Market risk

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

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

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

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

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

Interest rate risk

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

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

The Bank is monitoring the IRRBB affecting both its earnings and economic value using Gap analysis. The Bank uses internal reports for the monitoring of IRRBB taking into account FVOCI and AC portfolios (loans, deposits and debt securities), including sensitivity of NII and sensitivity of Bank’s EVE (Economic Value of Equity) on multiple scenarios of interest rates. For the calculation of these sensitivities, the Bank is applying behavioural modelling for its non-maturity deposits (NMDs). The Bank takes all appropriate measures to limit the interest rate risk associated with these financial instruments either by matching interest-bearing financial assets with interest bearing financial liabilities of the same re-pricing maturity, or entering into interest rate swaps to hedge interest rate risk. Additionally, the Bank is monitoring credit spread risk in the banking book (CSRBB).

Currency risk

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

Equity price risk

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

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Interest Rate Gap Analysis (IR Gap)

The table below exhibits the IR Gap analysis of the on- and off-balance sheet items of the Bank. The allocated percentages at each time band correspond to the proportion of the repricing amount of each balance sheet category.

	31 December 2023				
	less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
On-Balance Sheet:					
Cash & bank balances	80%	20%	0%	0%	0%
Loans & advances to customers	40%	51%	6%	1%	2%
Investment securities	10%	7%	14%	51%	18%
Due to banks	47%	19%	11%	17%	6%
Customer deposits	56%	11%	16%	13%	4%
Off-Balance Sheet :					
Derivative assets	55%	14%	8%	18%	5%
Derivative liabilities	74%	12%	3%	6%	5%

	31 December 2022				
	less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
On-Balance Sheet:					
Cash & bank balances	89%	11%	0%	0%	0%
Loans & advances to customers	55%	34%	8%	1%	2%
Investment securities	9%	3%	10%	68%	10%
Due to banks	96%	3%	0%	0%	1%
Customer deposits	86%	7%	7%	0%	0%
Off-Balance Sheet :					
Derivative assets	51%	28%	11%	9%	1%
Derivative liabilities	43%	27%	1%	15%	14%

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

MtM Volatility - VaR summary

The Bank measures the financial risk of the FVOCI portfolio using a "Value at Risk" (VaR) model.

The VaR model is used to measure the amount of potential negative change in the market value of the FVOCI portfolio over a specified period of time and at a given confidence level. The Bank uses a VaR model based on 99% confidence level and a holding period of 10-day. The methodology used for the calculation is Monte Carlo simulation (full re-pricing of the positions is performed).

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

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

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

The below table shows VaR by risk type for the Bank's FVOCI portfolio:

	2023	2022
	€'000	€'000
Interest rate risk	**2.106**	2.599
Foreign exchange risk	**320**	737
Issuer specific risk	**1.032**	1.751
Total VaR	**2.233**	3.010

The largest portion of the Bank's VaR figure is attributable to the risk associated with interest rate and credit spread risk factors. The aggregate of the VaR results per risk factor does not constitute the Bank's total VaR due to correlations and consequent diversification effects among risk factors.

The stabilisation in the financial markets has improved the negative MtM of the FVOCI bond portfolio as at the end of 2023 compared to the end of 2022 / beginning of 2023.

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

MtM Volatility - VaR summary (continued)

The interest rate risk exposure of the Bank's FVOCI portfolio is analysed into time bands as shown in the following tables:

	31 December 2023				
	less than 1 month €'000	**1-3 months €'000**	**3-12 months €'000**	**1-5 years €'000**	**More than 5 years €'000**
Investment securities	**149.665**	**104.363**	**201.705**	**709.579**	**282.438**
Fixed coupon bonds	4.525	70.136	201.705	709.579	282.438
Variable coupon bonds	145.140	34.227	-	-	-

	31 December 2022				
	less than 1 month €'000	1-3 months €'000	3-12 months €'000	1-5 years €'000	More than 5 years €'000
Investment securities	130.656	44.104	117.631	874.098	199.705
Fixed coupon bonds	20.360	10.000	117.631	874.098	199.705
Variable coupon bonds	110.296	34.104	-	-	-

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Foreign exchange risk

The following tables present the Bank's exposure to foreign currency exchange risk as at 31 December 2023 and 2022, respectively:

	31 December 2023						
	USD €'000	GBP €'000	CHF €'000	RUB €'000	Other €'000	Euro €'000	Total €'000
ASSETS							
Cash and balances with central banks	607	506	9	-	2	2.727.159	2.728.283
Due from credit institutions	354.412	3.405	949	1.231	10.280	814.329	1.184.606
Derivative financial instruments	1.538	38	-	-	22	10.340	11.938
Loans and advances to customers	292.285	517.709	10.500	-	2.907	2.020.944	2.844.345
Investment securities	578.929	-	-	-	-	845.324	1.424.253
Investments in subsidiaries	-	-	-	-	-	15.011	15.011
Property and equipment	-	-	-	-	-	23.899	23.899
Intangible assets	-	-	-	-	-	33.464	33.464
Deferred tax assets	-	-	-	-	-	2.152	2.152
Other assets	149	20	8	6	16	3.993	4.192
Total assets	1.227.920	521.678	11.466	1.237	13.227	6.496.615	8.272.143
LIABILITIES							
Due to credit institutions	23.890	522	-	-	281	159.529	184.222
Derivative financial instruments	61	945	-	-	-	9.102	10.108
Due to customers	1.602.993	241.441	13.956	1.205	18.237	5.221.113	7.098.945
Current tax liabilities	-	-	-	-	-	7.084	7.084
Deferred tax liabilities	-	-	-	-	-	3.058	3.058
Other liabilities	4.004	130	-	25	150	110.206	114.515
Total liabilities	1.630.948	243.038	13.956	1.230	18.668	5.510.092	**7.417.932**
Equity	(9.912)	8	-	-	-	864.115	**854.211**
Net on balance sheet position	(393.116)	278.632	(2.490)	7	(5.441)	122.408	-
Derivative forward foreign exchange position	393.148	(278.632)	2.490	(7)	5.441	(122.440)	-
Total foreign exchange position	**(32)**	**-**	**-**	**-**	**-**	**32**	**-**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Foreign exchange risk (continued)

	31 December 2022						
	USD €'000	GBP €'000	CHF €'000	RUB €'000	Other €'000	Euro €'000	Total €'000
ASSETS							
Cash and balances with central banks	682	308	7	-	2	3.265.707	3.266.706
Due from credit institutions	345.232	1.548	1.724	1.775	5.269	1.171.372	1.526.920
Derivative financial instruments	5.613	43	-	-	1	18.281	23.938
Loans and advances to customers	310.636	385.738	10.637	-	4.211	2.018.696	2.729.918
Investment securities	575.399	-	-	-	-	749.284	1.324.683
Investments in subsidiaries	-	-	-	-	-	10	10
Property and equipment	57	-	-	-	-	26.972	27.029
Intangible assets	-	-	-	-	-	27.595	27.595
Deferred tax assets	-	-	-	-	-	2.171	2.171
Other assets	322	42	-	28	-	1.553	1.945
Total assets	1.237.941	387.679	12.368	1.803	9.483	7.281.641	8.930.915
LIABILITIES							
Due to central banks	-	-	-	-	-	605.322	605.322
Due to credit institutions	39.816	503	-	-	881	320.443	361.643
Derivative financial instruments	75	25	-	-	1	26.786	26.887
Due to customers	1.852.118	274.417	11.185	1.755	18.969	5.044.378	7.202.822
Current tax liabilities	-	-	-	-	-	1.225	1.225
Deferred tax liabilities	-	-	-	-	-	2.046	2.046
Other liabilities	1.902	163	-	24	150	92.415	94.654
Total liabilities	1.893.911	275.108	11.185	1.779	20.001	6.092.615	8.294.599
Equity	(18.152)	(13)	-	-	-	654.481	636.316
Net on balance sheet position	(637.818)	112.584	1.183	24	(10.518)	534.545	-
Derivative forward foreign exchange position	637.827	(112.584)	(1.183)	(24)	10.522	(534.558)	-
Total foreign exchange position	9	-	-	-	4	(13)	-

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk

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

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

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

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

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

The following list summarises the main reports which are produced on a periodic basis:
- Daily monitoring of the Bank’s customers deposits base;
- The regular analysis of the Bank’s liquidity buffer;
- Stress test scenarios. These scenarios evaluate the impact of a number of stress scenarios on the Bank's liquidity position;
- The regulatory report of Liquidity Coverage Ratio (LCR);
- The regulatory report of Net Stable Funding Ratio (NSFR);
- The regulatory report of Additional Liquidity Monitoring Metrics (ALMM);
- Regular monitoring of the liquidity gap of the Bank.

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The tables below present maturity analysis of financial assets as at 31 December 2023 and 2022, respectively, based on their contractual undiscounted cash flows. Derivative assets are reported in the liquidity analysis at current market value. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

	31 December 2023				
	Less than 1 month €'000	**1 – 3 months €'000**	**3 months to 1 year €'000**	**Over 1 year €'000**	**Total €'000**
Cash and balances with central banks	2.728.283	-	-	-	**2.728.283**
Due from credit institutions	1.197.161	-	-	-	**1.197.161**
Loans and advance to customers	597.235	50.212	295.771	2.750.814	**3.694.032**
Investment securities – debt securities	47.504	35.284	246.915	1.335.007	**1.664.710**
Investment securities – other equity	2.042	-	-	-	**2.042**
Derivative financial instruments	3.034	138	19	8.747	**11.938**
Other assets	2.791	-	-	99	**2.890**
	4.578.050	**85.634**	**542.705**	**4.094.667**	**9.301.056**

	31 December 2022				
	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	Total €'000
Cash and balances with central banks	3.266.706	-	-	-	3.266.706
Due from credit institutions	802.276	728.157	-	-	1.530.433
Loans and advance to customers	353.086	52.340	202.637	2.549.089	3.157.152
Investment securities – debt securities	23.223	13.591	138.501	1.319.932	1.495.247
Investment securities – other equity	1.959	-	-	-	1.959
Derivative financial instruments	794	9	37	23.098	23.938
Other assets	553	-	-	99	652
	4.448.597	794.097	341.175	3.892.218	9.476.087

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

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

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

	31 December 2023				
	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	Total €'000
Financial liabilities					
Non-derivative liabilities:					
- Due to credit institutions	122.411	468	19.629	43.927	**186.435**
- Due to customers	5.724.760	532.475	794.900	64.218	**7.116.353**
- Other liabilities	85.303	1.741	9.260	15.454	**111.757**
of which: lease liabilities	*204*	*403*	*1.840*	*15.454*	***17.901***
	5.932.474	**534.684**	**823.789**	**123.599**	**7.414.545**
Derivative financial instruments:	5.694	2.646	510	1.258	**10.108**

	31 December 2023		
	Less than 1 year €'000	Over 1 year €'000	Total €'000
Off-balance sheet items			
Financial guarantee contracts and other credit related commitments	214.900	-	**214.900**
Loan commitments	609.362	-	**609.362**
Capital expenditure	677	150	**827**
	824.939	**150**	**825.089**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

	31 December 2022				
	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	Total €'000
Financial liabilities					
Non-derivative liabilities:					
- Due to central banks	246.236	-	298.084	65.997	610.317
- Due to credit institutions	283.463	33.515	902	47.277	365.157
- Due to customers	6.184.177	511.049	514.169	1	7.209.396
- Other liabilities	63.939	1.639	4.442	17.737	87.757
of which: lease liabilities	*203*	*412*	*1.889*	*17.737*	*20.241*
	6.777.815	546.203	817.597	131.012	8.272.627
Derivative financial instruments:	23.141	1.662	-	2.084	26.887

	31 December 2022		
	Less than 1 year €'000	Over 1 year €'000	Total €'000
Off-balance sheet items			
Financial guarantee contracts and other credit related commitments	206.974	-	206.974
Loan commitments	445.897	-	445.897
Capital expenditure	2.728	150	2.878
	655.599	150	655.749

With regards to derivatives, the current market value (allocated per time bucket) is presented as a good proxy of the expected outflow.

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

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

a) Cash and balances with central banks in excess of Mandatory Reserve Requirement (2023: €2.657.371 thousand vs 2022: €3.193.675 thousand);
b) Eligible bonds and other financial assets for collateral purposes (2023: €2.364.386 thousand vs 2022: €1.912.751 thousand); and

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

c) Current accounts with credit institutions and interbank placings maturing within one month (2023: €72.667 thousand vs 2022: €36.253 thousand).

The Bank's liquidity buffers are well above the minimum regulatory requirements and allow the Bank to meet business as usual needs as well as to absorb any unexpected liquidity shocks.

4.2.4 Operational risk

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

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

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

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

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

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

Overall, the Operational Risk management framework functioned in an efficient way mitigating any impact from operational risks during 2023.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.5 Interest Rate Benchmark reform – IBOR

Following the cessation of the remaining USD LIBOR tenors (overnight, 1-, 3-, 6-, 12-month) on 30 June 2023, the Bank has successfully implemented its IBOR reform transition program, on the outstanding exposures that referenced the above rates, mainly referring to loans to customers. Specifically, within 2023, loans to customers have transitioned to the new alternative benchmark rates (SOFR) on their first roll date after cessation date.

The Bank continuously monitors any developments about further market initiatives on interest rate benchmark reform, in order to ensure compliance where required.

4.3 Financial assets pledged as collateral

The Bank may sell or re-pledge any securities obtained through reverse repurchase agreements and has an obligation to return the securities. The counterparty retains substantially all the risks and rewards of ownership and therefore the securities are not recognised by the Bank. As at 31 December 2023, the Bank had obtained through reverse repurchase agreements securities of face value of €1.265.419 thousand and fair value €1.200.938 thousand (2022: €1.739.664 thousand and €1.626.191 thousand). None of these securities have been lent out through securities lending agreements as at 31 December 2023 and 2022.

As at 31 December 2023 and 2022, the cash value of the assets transferred by the Bank through repurchase agreements amounted to €nil.

4.4 Capital management

The Bank's capital adequacy position is presented in the following table:

	2023	2022
	€'000	€'000
Ordinary shareholders' equity	**854.211**	636.316
Less: other regulatory adjustments	**(7.430)**	(27.657)
Total Tier 1 capital	**846.781**	608.659
Total regulatory capital	**846.781**	608.659
Risk Weighted Assets	**2.485.254**	2.232.749
Ratios:	**%**	%
Core Tier 1	**34,1**	27,3
Tier 1	**34,1**	27,3
Capital Adequacy Ratio	**34,1**	27,3

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

The Bank has sought to maintain an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) which have been incorporated in the European Union legislation through the Directive 2013/36/EU (known as CRD IV) along with the Regulation No 575/2013/EU (known as CRR), as they are in force. The above Directive has been transposed into Cyprus legislation by (i) Business of Credit Institutions Law of 1997 (L66(I)/1997) (as amended and applied), (ii) Directive on Internal Governance of Credit Institutions of 2021 (as amended and applied), and (iii) The Macroprudential Oversight of Institutions Law 2015 (L6(I)/2015) (as amended and applied).

Supplementary to the above, in the context of Internal Capital Adequacy Assessment Process (ICAAP), the Bank considers a broader range of risk types and the Bank's risk management capabilities. ICAAP aims ultimately to ensure that the Bank has sufficient capital to cover all material risks that it is exposed to, over a three-year horizon.

Based on Council Regulation No 1024/2013, the European Central Bank conducts annually a Supervisory Review and Evaluation Process (SREP) in order to define the prudential requirements of the institutions under its supervision. The key purpose of the SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks the institution may pose to the financial system.

According to the 2022 SREP decision, from January 2023 the P2R for the Bank stands at 2,25% in terms of total capital (or at 1,27% in terms of CET1 capital), reflecting the improved Bank's financial position particularly in terms of asset quality. Thus, for year 2023, the Bank was required to meet a Common Equity Tier 1 Ratio of at least 9,64% and a Total Capital Adequacy Ratio of at least 14,12% (Overall Capital Requirement or OCR) including Combined Buffer Requirement of 3,87%, which is covered with CET1 capital and sits on top of the Total SREP Capital Requirement (TSCR).

Moreover, based on the SREP decision, the ECB expects the Bank to adhere to a Pillar 2 guidance (P2G) of 1,5%, which is over and above the OCR, bringing the total OCR and Pillar 2 guidance to 15,62%. We note that based on the SREP decision received during October 2023, the Bank's Pillar 2 Guidance will decrease to 1,25% from 1 January 2024 onwards.

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

The breakdown of the Bank's CET1 and Total Capital requirements inclusive of P2G as at 31 December 2023 is presented below.

	CET1 Capital Requirements	Total Capital Requirements
Minimum regulatory requirement	**4,50%**	**8,00%**
Pillar 2 Requirement (P2R)	1,27%	2,25%
Total SREP Capital Requirement (TSCR)	**5,77%**	**10,25%**
Combined Buffer Requirement (CBR)		
Capital conservation buffer (CCoB)	2,50%	2,50%
Countercyclical capital buffer (CCyB)	0,62%	0,62%
Other systemic institutions buffer (O-SII)	0,75%	0,75%
Overall Capital Requirement (OCR)	**9,64%**	**14,12%**
Pillar 2 Guidance (P2G)	**1,50%**	**1,50%**
Overall Capital Requirement and Pillar 2 Guidance	**11,14%**	**15,62%**

The Bank's Overall Capital Requirement is projected to rise to 14,45% from June 2024 (due to the 1% countercyclical buffer imposed on Cyprus-related exposures by the Central Bank of Cyprus from then onwards), in terms of total capital (or projected at 9,95% in terms of CET1 capital). The countercyclical capital buffer is calculated on a quarterly basis in accordance with the countercyclical capital buffer rates applicable in each country to which the Bank has exposures.

Minimum Requirements for Eligible Own Funds and Eligible Liabilities (MREL)
Under the Directive 2014/59 (Bank Recovery and Resolution Directive) as in force, which was transposed into the Cyprus legislation pursuant to Business of Credit Institutions Laws of 1997 (as amended from time to time thereafter) and the Resolution of Credit Institutions and Investment Firms Law of 2016 (22(I)/2016) (as amended from time to time thereafter), European banks are required to meet the minimum requirement for own funds and eligible liabilities. The Single Resolution Board (SRB) has determined Eurobank S.A. as the Group's resolution entity and a Single Point of Entry (SPE) strategy for resolution purposes. The Bank is assessed by the SRB as a Material Legal Entity of the resolution group.

Based on the latest official SRB's decision in November 2023, the fully calibrated MREL-TREA (final target) to be met by the Bank by 1 January 2024 is set at 23,17% of its total risk weighted assets ("RWAs"), plus a fully-loaded combined buffer requirement (CBR) of 3,87%. The SRB's decision also included an MREL-LRE minimum requirement of 5,91% of the Bank's total leverage exposure measure. The final MREL target is updated by the SRB on an annual basis.

The binding MREL-TREA target, which is applicable on 31 December 2023, stands at 27,04% of RWAs, including a CBR of 3,87%. As at 31 December 2023, the Bank's MREL ratio stands at 35,28% of RWAs (31 December 2022: 28,60%), which is above the aforementioned binding MREL target.

As at 31 December 2023, the Bank's leverage ratio stands at 10,6% (31 December 2022: 7,2%), which is above the aforementioned binding MREL-LRE target.

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

Minimum Requirements for Eligible Own Funds and Eligible Liabilities (MREL) (continued)
We note that the MREL liabilities must be repaid in full on 31 May 2025, however they'll cease to be MREL-eligible from 31 May 2024, when the remaining maturity will be less than one year and thus will not contribute towards Eligible Own Funds and Eligible Liabilities from that date onwards. Considering this, the Bank is expected to exercise its right to call for an early redemption of the MREL liabilities on 31 May 2024.

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

The level of the leverage ratio with reference date 31 December 2023 amounts to 10,6 % (31 December 2022: 7,2%), according to the transitional definition of Tier 1 capital, which is significantly over the 3% minimum threshold applied by the competent authorities.

The Pillar III Disclosures Report (unaudited) of the Bank for the year ended 31 December 2023 with respect to the requirements of the Capital Requirements Regulation (EU) No 575/2013 as amended by CRR II applicable as at the reporting date, is published on the Bank's website www.eurobank.com.cy.

4.5 Fair value of financial assets and liabilities

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

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

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

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

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

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

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

Financial instruments carried at fair value

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2023 and 2022 is presented in the following tables:

	At 31 December 2023		
	Level 1	**Level 2**	**Total**
	€'000	**€'000**	**€'000**
Financial assets measured at fair value on a recurring basis:			
Derivative financial instruments designated as fair value hedges	-	7.994	**7.994**
Derivatives for which hedge accounting is not applied/held for trading	-	3.994	**3.994**
Investment securities at FVOCI	400.774	57.478	**458.252**
Investment securities mandatorily at FVTPL	2.042	-	**2.042**
Total financial assets measured at fair value on a recurring basis	**402.816**	**69.466**	**472.282**
Financial liabilities measured at fair value on a recurring basis:			
Derivative financial instruments designated as fair value hedges	-	505	**505**
Derivatives for which hedge accounting is not applied/held for trading	-	9.603	**9.603**
Total financial liabilities measured at fair value on a recurring basis	-	**10.108**	**10.108**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments carried at fair value (continued)

	At 31 December 2022		
	Level 1	Level 2	Total
	€'000	€'000	€'000
Financial assets measured at fair value on a recurring basis:			
Derivative financial instruments designated as fair value hedges	-	21.454	21.454
Derivatives for which hedge accounting is not applied/held for trading	-	2.484	2.484
Investment securities at FVOCI	393.041	101.449	494.490
Investment securities mandatorily at FVTPL	1.959	-	1.959
Total financial assets measured at fair value on a recurring basis	395.000	125.387	520.387
Financial liabilities measured at fair value on a recurring basis:			
Derivative financial instruments designated as fair value hedges	-	93	93
Derivatives for which hedge accounting is not applied/held for trading	-	26.794	26.794
Total financial liabilities measured at fair value on a recurring basis	-	26.887	26.887

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

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

Valuation processes and techniques

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

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

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Valuation processes and techniques (continued)

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

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

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

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

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

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

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments not carried at fair value

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

	At 31 December 2023				
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Fair Value €000**	**Carrying amount €'000**
Financial assets not carried at fair value:					
Balances with central banks	-	2.718.768	-	**2.718.768**	**2.718.768**
Due from credit institutions	-	1.184.606	-	**1.184.606**	**1.184.606**
Loans and advances to customers	-	-	2.899.823	**2.899.823**	**2.844.345**
Investment securities at AC	593.513	371.402	-	**964.915**	**963.959**
Other assets	-	2.890	-	**2.890**	**2.890**
	593.513	**4.277.666**	**2.899.823**	**7.771.002**	**7.714.568**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	184.222	**-**	**184.222**	**184.222**
Due to customers	-	7.098.945	**-**	**7.098.945**	**7.098.945**
Other liabilities	-	110.630	**-**	**110.630**	**110.630**
	-	**7.393.797**	**-**	**7.393.797**	**7.393.797**

	At 31 December 2022				
	Level 1 €'000	Level 2 €'000	Level 3 €000	Fair Value €000	Carrying amount €'000
Financial assets not carried at fair value:					
Balances with central banks	-	3.258.922	-	3.258.922	3.258.922
Due from credit institutions	-	1.526.920	-	1.526.920	1.526.920
Loans and advances to customers	-	-	2.755.580	2.755.580	2.729.918
Investment securities at AC	457.759	348.283	-	806.042	828.234
Other assets	-	652	-	652	652
	457.759	5.134.777	2.755.580	8.348.116	8.344.646
Financial liabilities not carried at fair value:					
Due to credit institutions	-	361.643	-	361.643	361.643
Due to customers	-	7.202.822	-	7.202.822	7.202.822
Other liabilities	-	86.400	-	86.400	86.400
	-	7.650.865	-	7.650.865	7.650.865

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments not carried at fair value (continued)

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

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

The Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected. During the years ended 31 December 2023 and 2022, the Bank did not make any transfers into and out of the fair value hierarchy levels.

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

4.6 Fiduciary activities

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

4.7 Offsetting of financial assets and financial liabilities

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

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

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

Regarding the former, financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (the offset criteria), as also set out in the Bank's accounting policy 2.2.3.

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

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

The following tables present financial assets and financial liabilities that meet the criteria for offsetting and thus are reported on a net basis in the balance sheet, as well as amounts that are subject to enforceable master netting arrangements and similar agreements for which the offset criteria mentioned above are not satisfied. The latter amounts, which mainly relate to derivatives, repurchase agreements and reverse repurchase agreements, are not set off in the balance sheet.

In respect of these transactions, the Bank receives and provides collateral in the form of marketable securities and cash that are included in the tables below under columns “financial instruments” and “cash collateral” at their fair value.

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

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

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2023 and 31 December 2022:

	31 December 2023					
				Amounts subject to master netting and similar arrangements not offset in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a)	Gross amounts offset in the balance sheet (b)	Net amounts after offsetting in the balance sheet (c) = (a) – (b)	Financial instruments including non-cash collaterals (d)	Cash collateral received/ pledged (e)	Net amount (c) – (d) – (e)
	€000	€000	€000	€000	€000	€000
Assets						
Placements with credit institutions	13.516	-	13.516	-	13.516	-
Settlement balances with credit institutions	6.329	-	6.329	-	6.329	-
Loans and advances to customers	6.519	4.400	2.119	-	-	2.119
Reverse repurchase agreements receivables	1.098.322	-	1.098.322	1.098.322	-	-
Derivative financial instruments	11.693	-	11.693	-	11.693	-
Total assets subject to offsetting, master netting and similar arrangement	**1.136.379**	**4.400**	**1.131.979**	**1.098.322**	**31.538**	**2.119**
Liabilities						
Deposits from credit institutions	2.435	-	2.435	-	2.435	
Settlement balances with credit institutions	6.007	-	6.007	-	19.844	(13.837)
Due to customers	4.400	4.400	-	-	-	-
Derivative financial instruments	9.259	-	9.259	-	9.259	-
Total liabilities subject to offsetting, master netting and similar arrangement	**22.101**	**4.400**	**17.701**	**-**	**31.538**	**(13.837)**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

	31 December 2022					
				Amounts subject to master netting and similar arrangements not offset in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a)	Gross amounts offset in the balance sheet (b)	Net amounts after offsetting in the balance sheet (c) = (a) – (b)	Financial instruments including non-cash collaterals (d)	Cash collateral received/ pledged (e)	Net amount (c) – (d) – (e)
	€000	€000	€000	€000	€000	€000
Assets						
Placements with credit institutions	1.423	-	1.423	-	1.423	-
Settlement balances with credit institutions	4.260	-	4.260	-	4.260	-
Loans and advances to customers	9.074	9.054	20	-	-	20
Reverse repurchase agreements receivables	1.490.836	-	1.490.836	1.490.836	-	-
Derivative financial instruments	23.801	-	23.801	-	23.801	-
Total assets subject to offsetting, master netting and similar arrangement	1.529.394	9.054	1.520.340	1.490.836	29.484	20
Liabilities						
Deposits from credit institutions	8.195	-	8.195	-	4.204	3.991
Settlement balances with credit institutions	74.079	-	74.079	-	-	74.079
Due to customers	9.054	9.054	-	-	-	-
Derivative financial instruments	25.280	-	25.280	-	25.280	-
Total liabilities subject to offsetting, master netting and similar arrangement	116.608	9.054	107.554	-	29.484	78.070

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the Balance Sheet on the following bases:
- assets and liabilities with credit institutions: amortised cost;
- loans and advances to customers: amortised cost;
- reverse repurchase agreements receivables; amortised cost;
- derivative financial instruments: fair value; and
- due to customers: amortised cost.

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

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

	31 December 2023				
	Net amounts €'000	**Line item in the balance sheet**	**Carrying amount in the balance sheet €'000**	**Financial assets/ liabilities not in scope of offsetting disclosures €'000**	***Note***
Types of financial assets:					
Placements with credit institutions	13.516	Due from credit institutions	40.317	26.801	*14*
Settlement balances with credit institutions	6.329	Due from credit institutions	45.967	39.638	*14*
Loans and advances to customers	2.119	Loans and advances to customers	2.844.345	2.842.226	*16*
Reverse repurchase agreements receivables	1.098.322	Due from credit institutions	1.098.322	-	*14*
Derivative financial instruments	11.693	Derivative financial instruments	11.938	245	*15*
Types of financial liabilities:					
Deposits from credit institutions	2.435	Due to credit institutions	138.341	135.906	*23*
Settlement balances with credit institutions	6.007	Due to credit institutions	45.881	39.874	*23*
Due to customers	-	Due to customers	7.098.945	7.098.945	*24*
Derivative financial instruments	9.259	Derivative financial instruments	10.108	849	*15*

	31 December 2022				
	Net amounts €'000	Line item in the balance sheet	Carrying amount in the balance sheet €'000	Financial assets/ liabilities not in scope of offsetting disclosures €'000	*Note*
Types of financial assets:					
Placements with credit institutions	1.423	Due from credit institutions	7.048	5.625	*14*
Settlement balances with credit institutions	4.260	Due from credit institutions	29.036	24.776	*14*
Loans and advances to customers	20	Loans and advances to customers	2.729.918	2.729.898	*16*
Reverse repurchase agreements receivables	1.490.836	Due from credit institutions	1.490.836	-	*14*
Derivative financial instruments	23.801	Derivative financial instruments	23.938	137	*15*
Types of financial liabilities:					
Deposits from credit institutions	8.195	Due to credit institutions	220.981	212.786	*23*
Settlement balances with credit institutions	74.079	Due to credit institutions	140.662	66.583	*23*
Due to customers	-	Due to customers	7.202.822	7.202.822	*24*
Derivative financial instruments	25.280	Derivative financial instruments	26.887	1.607	*15*

5 Net interest income

	2023 €'000	2022 €'000
Interest income		
Interest income calculated using the effective interest method		
Interest from amounts due from credit institutions - *measured at amortised cost*	**149.487**	24.776
Interest from loans and advances to customers - *measured at amortised cost*	**164.213**	92.183
Interest from investment securities		
- *measured at amortised cost*	**28.646**	15.847
- *measured at FVOCI*	**6.737**	5.156
Total interest income calculated using the effective interest method	**349.083**	137.962
Other interest income		
Interest from derivative financial instruments - *measured at FVTPL*	**43.790**	17.885
Total other interest income	**43.790**	17.885
Interest expense		
Interest expense calculated using the effective interest method		
Interest on due to credit institutions - *measured at amortised cost*[1]	**(11.304)**	(1.519)
Interest on due to customers - *measured at amortised cost*	**(69.733)**	(13.566)
Negative interest on financial assets	**-**	(6.071)
Interest on lease liabilities (note 28)	**(287)**	(261)
Other interest expense	**-**	(8)
Total interest expense calculated using the effective interest method	**(81.324)**	(21.425)
Other interest expense		
Interest on derivative financial instruments - *measured at FVTPL*	**(35.270)**	(7.142)
Total other interest expense	**(35.270)**	(7.142)
Net interest income	**276.279**	127.280

[1]Includes the benefit attached to the TLTRO III program (note 22).

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

	2023 €'000	2022 €'000
Financial assets measured at amortised cost	**7.711.677**	8.336.580
Financial assets measured at FVOCI	**458.252**	494.489
Total	**8.169.929**	8.831.069
Financial liabilities measured at amortised cost	**7.283.167**	8.169.787

6 Net banking fee and commission income

	2023 €'000	2022 €'000
Banking fee and commission income		
Bank transfer commissions	**11.829**	11.143
Other fees and commissions	**31.594**	32.187
Total banking fee and commission income	**43.423**	43.330
Banking fee and commission expense		
Fees on lien agreements (note 32)	**(1.809)**	(2.521)
Other fees and commissions	**(4.793)**	(4.367)
Total banking fee and commission expense	**(6.602)**	(6.888)
Net banking fee and commission income	**36.821**	36.442

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

	2023 €'000	2022 €'000
Lending related activities	**1.950**	2.368
Wealth management	**8.075**	6.051
Network and other transactional activities	**33.398**	34.911
Total banking fee and commission income	**43.423**	43.330
Fee and commission expense	**(6.602)**	(6.888)
Net banking fee and commission income	**36.821**	36.442

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

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

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

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

6 Net banking fee and commission income (continued)

- *Wealth management services, including safekeeping of assets and asset management services*
  Fees from these services are calculated based on a fixed percentage of the value of assets managed / held and deducted from the customer's account balance on a monthly basis. The respective revenue is recognised over time as the services are provided. Fees from wealth management services, including safekeeping of assets and asset management services amount to €1.511 thousand (2022: €1.509 thousand).

The net fee and commission income presented above includes income of €43.239 thousand (2022: €42.988 thousand) and expense of €6.602 thousand (2022: €6.888 thousand) related to financial assets and financial liabilities not measured at FVTPL.

7 Net trading income

	2023 €'000	2022 €'000
Net gain from the ineffective portion of derivatives in qualifying hedging relationships	**928**	337
Net (loss)/gain on derivative financial instruments (no hedge accounting)	**(234)**	107
	694	444

8 Net gains from other financial instruments

	2023 €'000	2022 €'000
Net gains/(losses) on disposal of investment securities at FVOCI:		
– Debt securities, credit institutions	**-**	(18)
– Debt securities, Cyprus government bonds	**-**	88
– Debt securities, other financial corporations	**-**	34
Net gains/(losses) on revaluation of investment securities mandatorily at FVTPL:		
– UCIT funds	**117**	(94)
Gain on fair value hedging discontinuance of investment securities measured at FVOCI	**-**	300
Net gains from investment securities	**117**	310

During the years ended 31 December 2023 and 2022 the Bank did not sell any financial assets measured at amortised cost.

9 Staff costs

	2023 €'000	2022 €'000
Salaries and other related costs	**21.974**	19.236
Social insurance and other costs	**4.429**	3.870
Directors' fees and remuneration (note 32)	**1.672**	1.286
Retirement benefit costs – defined contributions plan	**1.740**	1.625
	29.815	26.017

The average number of employees of the Bank during the year 2023 was 466 (2022: 447).

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

The Bank contributes up to 10% of the gross monthly salary of the members of staff and up to 30% on an ad-hoc basis.

10 Other operating expenses

	2023 €'000	2022 €'000
Loss on disposal/write down of property and equipment and intangible assets	**23**	10
Expenses relating to short term leases and other related maintenance expenses	**139**	111
Repairs and maintenance	**6.469**	4.405
Auditors' remuneration for statutory audit	**208**	155
Auditors' remuneration for other assurance engagements	**111**	125
Auditors' remuneration for non-assurance engagements	**50**	1
Professional fees	**1.362**	1.373
Advertising and promotion	**1.290**	1.257
Other administrative expenses	**9.670**	9.113
	19.322	16.550

11 Other impairment allowances and provisions

	2023 €'000	2022 €'000
Provisions on operational risk events	**40**	140
Reversal of impairment allowance on investment securities at FVOCI	**(205)**	(66)
Impairment allowance on investment securities at AC	**283**	173
Reversal of impairment allowance on due from credit institutions	**(1)**	(27)
Reversal of impairment allowance on balances with central banks	**-**	(13)
Impairment allowance on investments in subsidiaries (note 18)	**2.618**	-
	2.735	207

The impairment of investment in subsidiaries for 2023 amounts to €2.618 thousand (2022: €nil) and represents the difference between the carrying value of the investment in the subsidiary compared to its recoverable amount.

12 Income tax expense

	2023 €'000	2022 €'000
Current tax:		
- Corporation tax	**29.952**	12.592
- Withholding tax	**1.027**	525
Total current tax	**30.979**	13.117
Deferred tax charge	**1.031**	1.292
Total income tax expense	**32.010**	14.409

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

	2023 €'000	2022 €'000
Profit before income tax and government levies	**239.230**	115.737
Tax calculated at the applicable corporation tax rate of 12,5%	**29.904**	14.467
Tax effect of expenses not deductible for tax purposes	**2.091**	994
Tax effect of allowances and income not subject to tax	**(2.043)**	(2.868)
Withholding tax	**1.027**	525
Deferred tax charge	**1.031**	1.291
Income tax expense	**32.010**	14.409

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

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

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

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

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

There is no income tax effect relating to components of other comprehensive income (2022: €nil).

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

12 Income tax expense (continued)

Other taxation related matters

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

Deferred tax

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

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

	31 December 2023		
	Balance at 1 January €'000	**Recognised in profit or loss €'000**	**Balance at 31 December €'000**
Allowance for expected credit losses	2.171	(275)	1.896
Other temporary differences	(2.046)	(756)	(2.802)
Net tax assets/(liabilities)	**125**	**(1.031)**	**(906)**

	31 December 2022		
	Balance at 1 January €'000	Recognised in profit or loss €'000	Balance at 31 December €'000
Allowance for expected credit losses	1.779	392	2.171
Other temporary differences	(363)	(1.683)	(2.046)
Net tax assets/(liabilities)	1.416	(1.291)	125

12 Income tax expense (continued)

Pillar II income taxes

On 20 December 2021, the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) released the Model Global Anti-Base Erosion (GloBE) rules (Model Rules) under Pillar Two aiming to ensure that income is taxed at an appropriate rate. These Model Rules set forth the "common approach" for a Global Minimum Tax at 15% for multinational enterprises with consolidated revenues of more than €750 million. The Eurobank Group has identified potential exposure to Pillar Two income taxes in respect of profits earned in Cyprus as the Pillar Two effective tax rate is lower than 15% in Cyprus mainly due to its nominal corporate tax rate (CIT) applying on profits (the current CIT in Cyprus is 12.5%).

13 Cash and balances with central banks

	2023	2022
	€'000	€'000
Cash in hand	**9.515**	7.784
Balances with central banks	**2.718.768**	3.258.922
Total	**2.728.283**	3.266.706
of which:		
Mandatory deposits with central banks	**70.912**	73.031

Cash and balances with central banks are classified as current.

As at 31 December 2023 and 2022, the impairment allowance on balances with central banks within the scope of IFRS 9 impairment requirements amounted to €nil.

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

14 Due from credit institutions

	2023	2022
	€'000	€'000
Due from credit institutions at amortised cost:		
Reverse repurchase agreements receivables[1]	**1.098.322**	1.490.836
Placements with credit institutions[2]	**40.317**	7.048
Settlement balances with credit institutions	**45.967**	29.036
Total	**1.184.606**	1.526.920
Maturity analysis:		
Current:		
- on demand up to 7 days	**114.271**	34.538
- between 7 days and 3 months	**1.070.335**	1.492.382
	1.184.606	1.526.920

14 Due from credit institutions (continued)

[1]The majority of the reverse repurchase agreements receivables as at 31 December 2023, approximately €1.072.906 thousand (2022: €1.245.373 thousand), have underlying securities which are rated as Investment grade.

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

As at 31 December 2023, the impairment allowance on amounts due from credit institutions at amortised cost within the scope of IFRS 9 impairment requirements amounted to €1 thousand (2022: €2 thousand).

15 Derivative financial instruments

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

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

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

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

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

15 Derivative financial instruments (continued)

The fair values of derivative instruments held by product type and hedge relationship along with their notional amounts are set out in the following tables:

	31 December 2023			
	Assets		Liabilities	
	Contract/ notional amount € '000	Fair values € '000	Contract/ notional amount € '000	Fair values € '000
Derivatives for which hedge accounting is not applied/held for trading				
- Currency options	2.201	10	2.215	10
- Currency forward and spot deals	24.452	196	22.889	26
- Interest rate and currency interest rate swaps	61.346	728	61.346	1.238
- Currency swaps	665.034	2.870	665.034	8.199
- Cap and floor swaps	27.446	140	27.446	130
		3.944		**9.603**
Derivatives designated as fair value hedges				
- Interest rate swaps	292.661	7.994	292.661	505
		7.994		**505**
Total derivatives assets/liabilities		**11.938**		**10.108**

	31 December 2022			
	Assets		Liabilities	
	Contract/ notional amount € '000	Fair values € '000	Contract/ notional amount € '000	Fair values € '000
Derivatives for which hedge accounting is not applied/held for trading				
- Currency options	497	1	500	1
- Currency forward and spot deals	22.467	51	21.888	30
- Interest rate and currency interest rate swaps	66.896	1.219	68.302	1.634
- Currency swaps	751.789	779	751.789	24.746
- Cap and floor swaps	29.678	434	29.678	383
		2.484		26.794
Derivatives designated as fair value hedges				
- Interest rate swaps	261.364	21.454	261.364	93
		21.454		93
Total derivatives assets/liabilities		23.938		26.887

15 Derivative financial instruments (continued)

	Fair Values			
	2023		2022	
	Assets	**Liabilities**	Assets	Liabilities
	€'000	**€'000**	€'000	€'000
Maturity analysis:				
Current	**3.192**	**8.850**	840	24.803
Non-current	**8.746**	**1.258**	23.098	2.084
	11.938	**10.108**	23.938	26.887

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

In particular:

Fair value hedges

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities, non-maturing deposits, and loans and advances at amortised cost held, using interest rate swaps. In 2023, the Bank recognised a gain of €12.149 thousand (2022: €27.132 thousand loss) from changes in the carrying amount of the hedged item attributable to the hedged risk, used as the basis of recognising hedge ineffectiveness and a loss of €12.932 thousand (2022: €27.468 thousand gain) from changes in the carrying amount (i.e. fair value) of the hedged instrument. The amount of hedge ineffectiveness recognised for 2023 in the income statement (under net trading income) was €783 thousand loss (2022: €337 thousand gain).

The Bank establishes a hedge ratio by the comparison of the change in fair value of the hedged instrument with the change in the fair value of the hedged item (fixed rate note) attributed to the hedged risk. Under the Bank policy, the hedging relationship would be considered effective if dollar-offset ration is within the desired range 80%-125%.

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

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

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

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

Notes to the financial statements

15 Derivative financial instruments (continued)

Fair value hedges (continued)

At 31 December 2023 and 2022, the amounts relating to items designated as fair value hedged items were as follows:

	31 December 2023		
	Carrying amount €'000	**Accumulated amount of FV hedge adjustments on the hedged item €'000**	**Change in value as the basis for recognising hedge ineffectiveness €'000**
Loans and advances to customers	34.498	160	777
Investment securities - Debt securities at AC	26.095	(4.063)	10.310
Investment securities - Debt securities at FVOCI	-	-	6.117
Due to customers	228.458	(5.055)	(5.055)
Total	**289.051**	**(8.958)**	**12.149**

	31 December 2022		
	Carrying amount €'000	Accumulated amount of FV hedge adjustments on the hedged item €'000	Change in value as the basis for recognising hedge ineffectiveness €'000
Loans and advances to customers	11.834	(617)	(617)
Investment securities - Debt securities at AC	95.966	(14.373)	(20.398)
Investment securities - Debt securities at FVOCI	128.659	(6.117)	(6.117)
Total	236.459	(21.107)	(27.132)

15 Derivative financial instruments (continued)

Fair value hedges (continued)

At 31 December 2023 and 2022, the maturity profile of the nominal amount of the financial instruments designated by the Bank in fair value hedge relationships and hedged items is presented in the tables below:

	31 December 2023		
	Maturity 1 to 5 years €'000	**Maturity over 5 years €'000**	**Total €'000**
Interest rate swap - Loans and advances to customers	22.985	11.206	34.191
Interest rate swap - Investment securities at AC	-	30.000	30.000
Due to customers	-	228.471	228.471
Total	**22.985**	**269.677**	**292.662**

	31 December 2022		
	Maturity 1 to 5 years €'000	Maturity over 5 years €'000	Total €'000
Interest rate swap - Loans and advances to customers	-	11.871	11.871
Interest rate swap - Investment securities at AC	-	110.000	110.000
Interest rate swap - Investment securities at FVOCI	118.882	20.000	138.882
Total	118.882	141.871	260.753

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

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

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

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

16 Loans and advances to customers

	31 December 2023 €'000	31 December 2022 €'000
Loans and advances to customers at amortised cost:		
- Gross carrying amount	**2.895.559**	2.775.548
- Impairment allowance	**(51.214)**	(45.630)
Carrying amount	**2.844.345**	2.729.918
Maturity analysis:		
Current	**648.840**	415.269
Non-current	**2.195.505**	2.314.649
	2.844.345	2.729.918

The table on the next page presents the carrying amount of loans and advances to customers per business unit and per stage as at 31 December 2023 and 2022:

16 Loans and advances to customers (continued)

	31 December 2023				31 December 2022			
	12-month ECL €000	**Lifetime ECL not credit-impaired €000**	**Lifetime ECL credit-impaired €000**	**Total amount €000**	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total amount €000
Retail Lending:								
- Mortgage								
Gross carrying amount	14.026	-	98	14.124	13.881	82	97	14.060
Impairment allowance	(9)	-	(98)	(107)	(1)	-	-	(1)
Carrying amount	14.017	-	-	14.017	13.880	82	97	14.059
- Consumer								
Gross carrying amount	3.939	7	429	4.375	20.582	1	42	20.625
Impairment allowance	(6)	-	(429)	(435)	(200)	-	(42)	(242)
Carrying amount	3.933	7	-	3.940	20.382	1	-	20.383
- Affluent banking								
Gross carrying amount	107.581	1.334	21	108.936	84.983	995	30	86.008
Impairment allowance	(203)	(41)	(17)	(261)	(142)	(12)	(12)	(166)
Carrying amount	107.378	1.293	4	108.675	84.841	983	18	85.842
- Credit cards								
Gross carrying amount	927	21	41	989	823	25	47	895
Impairment allowance	(6)	-	(28)	(34)	(6)	(1)	(41)	(48)
Carrying amount	921	21	13	955	817	24	6	847
Wholesale Lending:								
- Large corporate loans								
Gross carrying amount	1.352.954	216.210	44.939	1.614.103	1.284.316	212.005	52.898	1.549.219
Impairment allowance	(5.033)	(4.746)	(28.429)	(38.208)	(3.171)	(3.197)	(26.810)	(33.178)
Carrying amount	1.347.921	211.464	16.510	1.575.895	1.281.145	208.808	26.088	1.516.041
- Wealth management loans								
Gross carrying amount	401.842	19.446	23.004	444.292	373.405	16.270	15.009	404.684
Impairment allowance	(635)	(480)	(11.011)	(12.126)	(615)	(249)	(9.186)	(10.050)
Carrying amount	401.207	18.966	11.993	432.166	372.790	16.021	5.823	394.634
- International business banking loans								
Gross carrying amount	488.945	28	48	489.021	471.742	59	43	471.844
Impairment allowance	-	-	(26)	(26)	-	-	(6)	(6)
Carrying amount	488.945	28	22	488.995	471.742	59	37	471.838
- Shipping loans								
Gross carrying amount	219.719	-	-	219.719	226.380	-	1.833	228.213
Impairment allowance	(17)	-	-	(17)	(106)	-	(1.833)	(1.939)
Carrying amount	219.702	-	-	219.702	226.274	-	-	226.274
Total								
Gross carrying amount	2.589.933	237.046	68.580	2.895.559	2.476.112	229.437	69.999	2.775.548
Impairment allowance	(5.909)	(5.267)	(40.038)	(51.214)	(4.241)	(3.459)	(37.930)	(45.630)
Carrying amount	**2.584.024**	**231.779**	**28.542**	**2.844.345**	**2.471.871**	**225.978**	**32.069**	**2.729.918**

In 2023 loans of €2.432 thousand that were written off in prior years were recovered (2022: €799 thousand).

Interest income on impaired loans and advances to customers accrued during the year amounted to €2.792 thousand (2022: €1.005 thousand).

17 Investment securities

	31 December 2023 €'000	31 December 2022 €'000
Investment securities at FVOCI	**458.252**	494.490
Investment securities at amortised cost	**963.959**	828.234
Investment securities mandatorily at FVTPL	**2.042**	1.959
	1.424.253	1.324.683
Maturity analysis:		
Current	**276.791**	151.511
Non-current	**1.147.462**	1.173.172
	1.424.253	1.324.683

The tables below disclose the gross carrying amount, impairment allowance and carrying amount per stage of investment securities as at 31 December 2023 and 2022:

	31 December 2023			31 December 2022		
	12-month ECL €'000	**Lifetime ECL not credit-impaired €'000**	**Total €'000**	12-month ECL €'000	Lifetime ECL not credit-impaired	Total €'000
Debt securities at FVOCI:						
Carrying amount	**458.252**	**-**	**458.252**	490.870	3.620	494.490
Debt securities at amortised cost:						
-Gross carrying amount	**964.583**	**-**	**964.583**	828.578	-	828.578
-Impairment allowance	**(624)**	**-**	**(624)**	(344)	-	(344)
Carrying amount	**963.959**	**-**	**963.959**	828.234	-	828.234
Total of debt securities	**1.422.211**	**-**	**1.422.211**	1.319.104	3.620	1.322.724
Other investment securities mandatorily at FVTPL:						
UCIT funds			**2.042**			1.959
Carrying amount			**2.042**			1.959
Total of investment securities			**1.424.253**			1.324.683

17 Investment securities (continued)

The investment securities per category are analysed as follows:

	31 December 2023			
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Investment securities mandatorily at FVTPL €'000**	**Total €'000**
Debt securities:				
- Cyprus government bonds	47.305	303.032	-	**350.337**
- Other government bonds	295.269	342.062	-	**637.331**
- Multilateral development banks	-	24.514	-	**24.514**
- Banks and financial institutions	77.646	107.921	-	**185.567**
- Other issuers	38.032	186.430	-	**224.462**
Total debt securities	**458.252**	**963.959**	-	**1.422.211**
Other investment securities:				
UCIT funds	-	-	2.042	**2.042**
Total other investment securities	**-**	**-**	**2.042**	**2.042**
Total of investment securities	**458.252**	**963.959**	**2.042**	**1.424.253**

	31 December 2022			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities mandatorily at FVTPL €'000	Total €'000
Debt securities:				
- Cyprus government bonds	64.526	298.042	-	362.568
- Other government bonds	296.143	316.263	-	612.406
- Multilateral development banks	4.625	25.076	-	29.701
- Banks and financial institutions	85.507	16.426	-	101.933
- Other issuers	43.689	172.427	-	216.116
Total debt securities	494.490	828.234	-	1.322.724
Other investment securities:				
UCIT funds	-	-	1.959	1.959
Total other investment securities	-	-	1.959	1.959
Total of investment securities	494.490	828.234	1.959	1.324.683

As at 31 December 2023 and 2022, all investment securities, with the exception of UCIT funds, are listed.

17 Investment securities (continued)

The movement of investment securities in 2023 and 2022 is as follows:

	31 December 2023			
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Investment securities mandatorily at FVTPL €'000**	**Total €'000**
Gross carrying amount at 1 January	**494.490**	**828.578**	**1.959**	**1.325.027**
Additions	-	280.760	-	**280.760**
Disposals and redemptions	(44.206)	(118.026)	-	**(162.232)**
Repayments	-	(24.067)	-	**(24.067)**
Amortisation of discounts/premiums and interest	(4.099)	(1.204)	-	**(5.303)**
Net gains from changes in fair values	21.355	-	117	**21.472**
Changes in fair value due to hedging	-	2.095	-	**2.095**
Foreign exchange and other movements	(9.288)	(3.553)	(34)	**(12.875)**
Gross carrying amount at 31 December	**458.252**	**964.583**	**2.042**	**1.424.877**
Impairment allowance	-	(624)	-	**(624)**
Carrying amount at 31 December	**458.252**	**963.959**	**2.042**	**1.424.253**

	31 December 2022			
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities mandatorily at FVTPL €'000	Total €'000
Gross carrying amount at 1 January	555.729	459.385	1.995	1.017.109
Additions	74.411	486.457	-	560.868
Disposals and redemptions	(110.668)	(114.195)	-	(224.863)
Repayments	-	(9.475)	-	(9.475)
Amortisation of discounts/premiums and interest	(4.599)	392	-	(4.207)
Net losses from changes in fair values	(40.162)	-	(94)	(40.256)
Net losses transferred to the Income Statement due to disposal	(104)	-	-	(104)
Changes in fair value due to hedging	-	(20.398)	-	(20.398)
Changes in fair value due to hedging discontinuance	(237)	-	-	(237)
Foreign exchange and other movements	20.120	26.412	58	46.590
Gross carrying amount at 31 December	494.490	828.578	1.959	1.325.027
Impairment allowance	-	(344)	-	(344)
Carrying amount at 31 December	494.490	828.234	1.959	1.324.683

17 Investment securities (continued)

Fair value reserve: Revaluation of investment securities

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

The movement of the reserve is as follows:

	2023	2022
	€'000	€'000
Balance at 1 January	**(29.619)**	(126)
Net gains/(losses) from changes in fair value	**21.355**	(40.162)
Net gains from fair value hedging discontinuance	**3.429**	4.712
Net (losses)/gains from changes in fair value of IRS	**(6.117)**	6.117
Net gains from investment securities transferred to Income Statement due to disposal	**-**	(104)
Reversal of impairment allowance of investment securities at FVOCI	**(210)**	(37)
Reversal of impairment allowance on disposal of investment securities at FVOCI	**-**	(19)
Balance at 31 December	**(11.162)**	(29.619)

18 Investments in subsidiaries

The following is a listing of the Bank's subsidiaries as at 31 December 2023:

Company name
Foramonio Ltd
Lenevino Holdings Ltd
Neviko Ventures Ltd
Rano Investments Ltd
Amvanero Ltd
Revasono Holdings Ltd
Volki Investments Ltd
Zivar Investments Ltd
Elerovio Holdings Limited
Adariano Investments Limited
Afinopio Investments Limited
Ovedrio Holdings Limited
Primoxia Holdings Limited

All companies are registered and operate in Cyprus, are 100% owned by the Bank and have been set up to acquire properties from customers in settlement of their obligations with the Bank.

18 Investments in subsidiaries (continued)

Acquisitions of subsidiaries

During the year ended 31 December 2023, Afinopio Investments Limited, Ovedrio Holdings Limited and Primoxia Holdings Limited were were set up with a share capital of €1 thousand each. During the year ended 31 December 2022 there were no acquisitions of subsidiaries.

Dissolution and disposal of subsidiaries

During the years ended 31 December 2023 and 2022 there were no dissolutions or disposals of subsidiaries.

Carrying value of investments in subsidiaries

The movement in the carrying value of investments in subsidiaries is as follows:

	2023 **€'000**	2022 €'000
Balance at 1 January	**10**	10
Acquisitions of subsidiaries	**3**	-
Contributions to additional share capital in subsidiaries	**17.616**	-
Impairment allowance on investments in subsidiaries (note 11)	**(2.618)**	-
Balance at 31 December	**15.011**	10

19 Property and equipment

The movement of property and equipment is as follows:

	31 December 2023				
	Leasehold improvements **€'000**	**Motor vehicles and motorcycles** **€'000**	**Equipment** **€'000**	**Right-of-use assets** **€'000**	**Total** **€'000**
Cost					
Balance at 1 January	14.876	71	8.225	26.769	**49.941**
Additions	75	-	703	-	**778**
Write offs	-	-	(171)	-	**(171)**
Changes due to remeasurements	-	-	-	174	**174**
Effect of changes in foreign exchange rates	-	-	-	(13)	**(13)**
Balance at 31 December	**14.951**	**71**	**8.757**	**26.930**	**50.709**
Accumulated depreciation					
Balance at 1 January	8.416	60	5.756	8.680	**22.912**
Charge for the year	905	6	686	2.475	**4.072**
Write offs	-	-	(162)	-	**(162)**
Effect of changes in foreign exchange rates	-	-	-	(12)	**(12)**
Balance at 31 December	**9.321**	**66**	**6.280**	**11.143**	**26.810**
Net book value at 31 December	**5.630**	**5**	**2.477**	**15.787**	**23.899**

19 Property and equipment (continued)

	31 December 2022				
	Leasehold improvements €'000	Motor vehicles and motorcycles €'000	Equipment €'000	Right-of-use assets €'000	Total €'000
Cost					
Balance at 1 January	14.335	71	7.929	24.428	46.763
Additions	595	-	415	48	1.058
Write offs	(54)	-	(119)	-	(173)
Changes due to remeasurements	-	-	-	2.271	2.271
Effect of changes in foreign exchange rates	-	-	-	22	22
Balance at 31 December	14.876	71	8.225	26.769	49.941
Accumulated depreciation					
Balance at 1 January	7.532	54	5.229	6.220	19.035
Charge for the year	929	6	645	2.446	4.026
Write offs	(45)	-	(118)	-	(163)
Effect of changes in foreign exchange rates	-	-	-	14	14
Balance at 31 December	8.416	60	5.756	8.680	22.912
Net book value at 31 December	6.460	11	2.469	18.089	27.029

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

As at 31 December 2023, the right-of-use assets amounting to €15.787 thousand (2022: €18.089 thousand) refer to leased office and banking centre premises of €15.701 thousand (2022: €17.914 thousand) and motor vehicles of €86 thousand (2022: €175 thousand).

Notes to the financial statements

20 Intangible assets

Intangible assets comprise of computer software.

The movement of computer software is as follows:

	2023	2022
	€'000	€'000
Cost		
Balance at 1 January	**37.255**	27.797
Additions	**8.368**	9.458
Write offs	**(90)**	-
Balance at 31 December	**45.533**	37.255
Accumulated depreciation		
Balance at 1 January	**9.660**	8.946
Charge for the year	**2.485**	714
Write offs	**(76)**	-
Balance at 31 December	**12.069**	9.660
Net book value at 31 December	**33.464**	27.595

Additions mainly relate to the new core accounting system the implementation of which was finalised in 2023.

21 Other assets

	2023	2022
	€'000	€'000
Prepaid expenses	**1.302**	1.293
Other assets	**2.890**	652
	4.192	1.945

	2023	2022
Maturity analysis:	**€'000**	€'000
Current	**3.567**	1.656
Non-current	**625**	289
	4.192	1.945

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

Notes to the financial statements

22 Due to central banks

	2023 €'000	2022 €'000
Secured borrowing from credit institutions	**-**	605.322

During the year ended 31 December 2023, the Bank repaid €615 million of its borrowing from the TLTRO III- refinancing program and recognised a benefit of €2.173 thousand.

23 Due to credit institutions

	2023 €'000	2022 €'000
Deposits due to credit institutions	**138.341**	220.981
Settlement balances with credit institutions	**45.881**	140.662
	184.222	361.643
Maturity analysis:		
Current:		
- on demand up to 7 days	**142.087**	168.959
- between 7 days and 3 months	**11.432**	147.533
- between 3 months and 1 year	**600**	890
	154.119	317.382
Non-current:		
- 1 to 5 years	**30.103**	30.853
- after 5 years	**-**	13.408
	30.103	44.261
	184.222	361.643

On 31 May 2022, Eurobank S.A. extended to the Bank a €30 million 3-year non-callable in 2, senior non-preferred loan to cover MREL requirement. The interest rate is fixed for 3 years at 3,86%. The balance of the loan as at 31 December 2023 and 2022 amounted to €30.103 thousand and is included in "Deposits due to credit institutions".

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

24 Due to customers

	2023 €'000	2022 €'000
Current accounts	**4.110.119**	5.139.998
Notice accounts	**4.041**	4.778
Term deposits	**2.984.785**	2.058.046
	7.098.945	7.202.822
Maturity analysis:		
- up to 1 month	**5.722.378**	6.182.924
- between 1 month and 3 months	**530.043**	509.019
- between 3 months and 1 year	**784.354**	510.878
- between 1 year and 5 years	**62.170**	1
	7.098.945	7.202.822

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2023 amounted to €681.489 thousand (2022: €670.815 thousand).

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

Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus. The special levy is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2023 amounted to €7.782 thousand (2022: €6.992 thousand). Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2023 government levy is net of €2.986 thousand (2022: €3.347 thousand) relating to the contribution to the Single Resolution Fund.

25 Other liabilities

	2023 €'000	2022 €'000
Impairment allowance on financial guarantees and credit related commitments (note 4.2.1.3)	**3.885**	8.254
Lease liabilities (note 28)	**16.773**	18.884
Balances under settlement[1]	**48.970**	23.505
Duties and other taxes	**3.020**	2.288
Suppliers and creditors	**1.520**	4.003
Other liabilities and accruals	**40.347**	37.720
	114.515	94.654

[1] Includes settlement balances relating to bank cheques and remittances, credit card transactions, other banking and brokerage activities

25 Other liabilities (continued)

	2023 €'000	2022 €'000
Maturity analysis:		
Current	**99.978**	78.041
Non-current	**14.537**	16.613
	114.515	94.654

As at 31 December 2023 and 2022, other liabilities and accruals mainly consist of staff related and trading balances. As at 31 December 2023, they also include provisions for operational risk events of €638 thousand (2022: €619 thousand).

26 Share capital

The par value of the Bank's shares is €10 thousand per share. All shares are fully paid.

The movement of share capital and share premium is as follows:

	No. of shares	Ordinary shares €'000	Share premium €'000	Total €'000
Authorised				
At 31 December 2023 & 2022	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 31 December 2023 & 2022	**1.201**	**12.010**	**245.384**	**257.394**

There were no changes in the Bank's share capital during the years ended 31 December 2023 and 2022.

All the shares have the same rights.

There are no restrictions on the transfer of ordinary shares and no restrictions on the exercise of voting rights other than the restrictions imposed by the Business of Credit Institutions Law of Cyprus which provides that the approval of the Central Bank of Cyprus is required before the acquisition of shares in the Company, exceeding certain thresholds.

There are no restrictions on the payment of dividends other than those imposed by the Business of Credit Institutions Law of Cyprus under certain circumstances.

Dividends

Net profit for the year ended 31 December 2023 is retained. The Board of Directors will consider during 2024 the payment of a dividend.

27 Transfers of financial assets

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

(a) The Bank enters into reverse repos transactions with the Group. As at 31 December 2023, the Bank had obtained through reverse repos securities of face value of €1.265 million providing cash to the Group of €1.098 million (31 December 2022: €1.740 million and €1.491 million, respectively). The Bank may sell or pledge any securities obtained through reverse repos and has an obligation to return the securities. The counterparty, the Group, retains substantially all the risks and rewards of ownership and therefore the securities are not recognised by the Bank.

(b) The Bank enters into security lending transactions, i.e., fee based, non-collateralised securities lending transactions. The Bank (the Lender) is lending a series of sovereign securities and the Borrowers are paying to the Lender on a monthly basis a fee in the range of 0,36%-0,51% (2022: 0,24%-0,51%). The bonds that are used for security lending are either from the Bank's own portfolio or gained through reverse repos with the Group and are High Quality Liquid Assets (HQLA). Because of the above transactions, the Bank is unable to use, sell or pledge the transferred assets for the duration of the transaction. As at 31 December 2023, the securities used for security lending transactions amounted in face value to €271 million (31 December 2022: €373 million).

28 Leases – where the Bank is the lessee

The Bank leases a number of branch and office premises as well as motor vehicles.

The majority of the Bank's property leases are under agreements with average term 3 years, with options to extend or terminate the lease according to the terms of each contract, while motor vehicles generally have lease terms of up to 5 years. Extension options held by the Bank are included in the lease term when it is reasonably certain that they will be exercised based on its assessment. Depending on the terms of each lease contract, lease payments are adjusted in line with the Consumer Price Index, as published by the Cyprus Statistical Service, plus an agreed fixed percentage.

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

	2023 **€'000**	2022 €'000
Buildings	**15.701**	17.914
Motor vehicles	**86**	175
	15.787	18.089

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

Right-of-use assets

	31 December 2023		
	Property	Motor Vehicles	Total
	€'000	€'000	€'000
Balance at 1 January 2023	17.914	175	**18.089**
Changes due to reassessments	174	-	**174**
Depreciation charge for the year	(2.386)	(89)	**(2.475)**
Effect of changes in foreign exchange rates	(1)	-	**(1)**
Balance at 31 December 2023	15.701	86	**15.787**

	31 December 2022		
	Property	Motor Vehicles	Total
	€'000	€'000	€'000
Balance at 1 January 2022	17.967	241	18.208
Additions	-	48	48
Changes due to reassessments	2.290	(19)	2.271
Depreciation charge for the year	(2.351)	(95)	(2.446)
Effect of changes in foreign exchange rates	8	-	8
Balance at 31 December 2022	17.914	175	18.089

Lease liabilities

See note 4.2.3 for maturity analysis of lease liabilities as at 31 December 2023 and 2022.

Amounts recognised in profit or loss

	2023	2022
	€'000	€'000
Leases under IFRS 16		
Interest on lease liabilities	**287**	261

Amounts recognised in the cash flow statement

	2023	2022
	€'000	€'000
Total cash outflow for leases	**2.513**	2.456

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

Extension options

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

29 Contingencies and commitments

The Bank presents the credit related commitments it has undertaken within the context of its lending related activities into the following three categories: a) financial guarantee contracts, which refer to guarantees and standby letters of credit that carry the same credit risk as loans (credit substitutes), b) commitments to extend credit, which comprise firm commitments that are irrevocable over the life of the facility or revocable only in response to a material adverse effect and c) other credit related commitments, which refer to documentary and commercial letters and other guarantees.

	2023	2022
	€'000	€'000
Contingent liabilities:		
Financial guarantee contracts	**211.133**	201.082
Credit related commitments	**3.767**	5.892
	214.900	206.974
Commitments:		
Loan commitments	**609.362**	445.897

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

Capital commitments

As at 31 December 2023 commitments for contracted capital expenditures amounted to €827 thousand of which €94 thousand were for leasehold improvements and €733 thousand for the acquisition of computer software. As at 31 December 2022 commitments for contracted capital expenditures for the Bank amounted to €2.878 thousand which were for the acquisition of computer software.

Legal proceedings

As at 31 December 2023 and 2022 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

30 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts with fair value amounting to approximately €3.926.000 thousand (2022: €2.825.067 thousand).

31 Cash and cash equivalents and other information on cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	2023	2022
	€'000	€'000
Cash in hand (note 13)	**9.515**	7.784
Balances with central banks, excluding mandatory deposits (note 13)	**2.647.856**	3.185.891
Balances with credit institutions (note 14)	**1.184.606**	1.526.920
	3.841.977	4.720.595

Other income on investment securities presented in operating activities is analysed as follows:

	2023	2022
	€'000	€'000
Reversal of impairment allowance (note 17)	**78**	117
Amortisation of premiums/discounts and accrued interest (note 5)	**(35.383)**	(21.003)
Foreign exchange differences and other movements (note 17)	**12.867**	(46.590)
Changes in fair value due to hedging discontinuance (note 17)	**3.429**	4.712
Net changes in fair value of investment securities at FVOCI (note 17)	**(6.117)**	6.117
Net (gains)/lossses on revaluation of investment securities at FVTPL (note 17)	**(117)**	94
Net gains on disposal of investment securities at FVOCI (note 8)	**-**	(104)
	(25.243)	(56.657)

Changes in liabilities arising from financing activities

During the year ended 31 December 2023, changes in the Bank's liabilities arising from financing activities of €2.513 thousand are attributable to payments of lease liabilities (2022: €2.456 thousand).

32 Related party transactions and balances

The immediate controlling party of the Bank is Eurobank S.A. registered in Greece. Eurobank Ergasias Services and Holdings S.A. is the parent company of Eurobank S.A. and produces consolidated financial statements available for public use.

The Board of Directors of Eurobank Ergasias Services and Holdings S.A. is the same as the Board of Directors of Eurobank S.A. and part of the key management personnel of Eurobank S.A. provides services to Eurobank Ergasias Services and Holdings S.A. according to the terms of the relevant agreement between the two entities.

Fairfax Group, which holds 32,93% of Eurobank Ergasias Services and Holdings S.A.'s share capital as of 31 December 2023 (31 December 2022: 32,99%), is considered to have significant influence over the company. In addition, following the completion of the acquisition of all Eurobank Ergasias Services and Holdings S.A. shares held by the HFSF, on 9 October 2023, the HFSF is no longer considered to have significant influence over the Eurobank Ergasias Services and Holdings S.A.

(i) Related party transactions and outstanding balances

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These mainly include loans, deposits derivatives, repurchase agreements, lien agreements and guarantees. In addition, as part of its normal course of business in investment banking activities, the Bank at times may hold positions in debt and equity instruments of related parties.

The outstanding balances with related parties are as follows:

	With Eurobank Ergasias Services and Holdings S.A. and Eurobank S.A.		**Other related entities**		**With key management personnel**	
	2023	2022	**2023**	2022	**2023**	2022
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Balances:						
Due from credit institutions[1]	**1.118.166**	1.496.518	**68**	480	**-**	-
Loans and advances to customers[2]	**-**	-	**6.562**	29.829	**452**	562
Derivative financial instruments – Assets	**11.703**	23.801	**-**	-	**-**	-
Due to credit institutions	**134.752**	289.096	**-**	-	**-**	-
Derivative financial instruments – Liabilities	**9.252**	25.200	**-**	-	**-**	-
Due to customers[3]	**-**	-	**4.138**	17.050	**4.562**	6.792
Other liabilities	**404**	1.625	**296**	367	**-**	-

32 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances (continued)

The transactions during the year with related parties were as follows:

	With Eurobank Ergasias Services and Holdings S.A. and Eurobank S.A.		Other related entities		With key management personnel	
	2023	2022	**2023**	2022	**2023**	2022
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Transactions:						
Interest income[4]	**92.956**	29.585	**1.356**	741	**22**	12
Interest expense[5]	**41.664**	10.874	**-**	(35)	**33**	4
Banking fee and commission income	**-**	6.799	**74**	64	**-**	-
Banking fee and commission expense						
– fees on lien agreement	**1.809**	2.521	**-**	-	**-**	-
– other	**544**	558	**521**	895	**-**	-
Net trading income	**3.812**	27.948	**-**	-	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	-	-	**2.461**	2.319
Defined contribution plan	**-**	-	-	-	**224**	208
Directors' remuneration	**-**	-	-	-	**1.586**	1.204
Other operating expenses	**994**	668	**236**	-	**-**	-

Key management personnel include directors and key management personnel of the Bank, their close family members and entities controlled or jointly controlled by them.

[1]Amounts due from credit institutions include reverse repurchase agreements with Eurobank S.A. of €1.098.322 thousand (2022: €1.490.836 thousand) (note 14).

[2]Loans and advances to customers with other related entities include loans and advances to the Bank's direct subsidiaries of €21 thousand (2022: €16.385 thousand).

[3]Due to customers with other related entities include balances with the Bank's direct subsidiaries of €339 thousand (2022: €25 thousand). They also include balances with the Bank's Defined Contribution Plan of €468 thousand (2022: €368 thousand).

[4]Interest income from other related entities includes income from the Bank's direct subsidiaries of €897 thousand (2022: €464 thousand) and income from the Bank's Defined Contribution Plan of €nil thousand (2022: €2 thousand).

[5]In 2022 interest expense to other related entities includes negative interest income on the deposits of the Bank's Defined Contribution Plan of €2 thousand.

Total collaterals in relation to loans and advances to key management personnel amounted to €326 thousand (2022: €441 thousand).

Notes to the financial statements

32 Related party transactions and balances (continued)

(ii) Lien agreements

As of 31 December 2023 and 2022, the Bank has in place lien agreements from Eurobank S.A. of €73.854 thousand (2022: €154.928), which act as guarantees for the purposes of securing loans and advances to customers and financial guarantees.

Based on the lien agreements, in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank S.A.

33 Events after the balance sheet date

There were no material events after the balance sheet date, which have a bearing on the understanding of the financial statements.

Appendix

Definition of financial ratios included in the Management Report for 2023

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

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

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

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

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

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

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

- **MREL ratio:** Total regulatory capital (as above) plus MREL Eligible liabilities Under Directive 2014/59 ("BRRD" or "Bank Recovery and Resolution Directive"), as amended by Directive 2019/879 ("BRRD2") divided by total RWAs.

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