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IBL BANK S.A.L. (Cyprus Branch)

Report and Financial Statements

31 December 2020

REPORT AND FINANCIAL STATEMENTS 2020

CONTENTS

GENERAL INFORMATION

Head Office Directors	Mr. Salim Y. Habib, Chairman, General Manager
	Dr. Mohammad Abdel Hamid Baydoun, Member
	Mr. Kamal A. Abi Ghosn, Member, Deputy General Manager
	Prince Sager Sultan Al Sudairy, Member
	Me. Rizkallah J. Makhlouf, Member
	MM. Bicom SAL. Holding, represented by Mr. Mazen El Bizri, Member
	Me. Mounir Kh. Fathallah, Member
	Mr. Tony N. El Choueiri, Member
	Dr. Elie A. Assaf, Member (resigned on April 2021)
	Mr. Karim Habib (appointed on 5 July 2019)
	Me. Ziad Ch. Fakhoury, Secretary of the Board
Cyprus Branch Manager	Mrs. Ghada Shami Christofides
Cyprus Branch address	IDEAL Building, 1st floor, 214, Arch. Makarios III, Avenue 3030 Limassol, Cyprus
Cyprus Branch Auditors	Deloitte Limited Maximos Plaza, Tower 1, 3rd Floor 213, Arch. Makariou III Avenue CY-3030 Limassol Cyprus

MANAGEMENT REPORT

For the year ended 31 December 2020

The Board of Directors of IBL Bank S.A.L. (the "Bank") presents its Management Report and audited financial statements of IBL Bank S.A.L. (Cyprus Branch) ("the Branch") for the year ended 31 December 2020.

Principal activities and nature of operations of the Cyprus Branch
The principal activities of the Cyprus Branch, which are unchanged from last year, are to carry out banking and financial services.

Review of current position, and performance of the Cyprus Branch's business
The Bank aims to maintain its banking activities in Cyprus through the operations of the Branch. During the year 2020 the Cyprus Branch maintains the deposits level at €25,1 million (2019: €83,4 million). At the same time the Branch has increased its placement of cash held with Central Bank of Cyprus to €29,4 million (2019: €3,2 million). The Branch produced net interest income amounting to €604 thousands (2019: €1,4 million).

Principal risks and uncertainties
The principal risks assumed by the Branch are banking risks. Banking risks refer to credit, liquidity, market and operational risk. Credit risk is significant for the Branch and is monitored by management. Market risk (including foreign exchange risk, price risk, and interest rate risk) is also significant, due to the uncertainty concerning changes in foreign exchange rates and interest rates. The Branch also monitors liquidity risk, defined as the inability of the Branch to fulfil its obligations as they fall due and operational risk arising from failure of internal controls. Refer to Note 26 of the financial statements for the further details.

The Branch's operational ability (including, but not limited to, business activities, information technology systems and risk governance), is fully integrated with and dependent on the operational ability of the Bank. Consequently, the Branch has significant exposure to the risks and uncertainties inherent in the Lebanese economy and its banking system, through the Bank itself. There is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese's economy as a whole, details of which are provided to Note 1.

Future developments of the Cyprus Branch
The Management is closely monitoring the current economic developments of Lebanon and these of the banking system and the associated risks and uncertainties in order to take appropriate measures to enable the Branch to continue its operations on a going concern basis. Details are provided in Notes 1 to 4 to the financial statements.

Results
The Cyprus Branch's results for the year are set out on page 7.

Events after the reporting period
Any significant events that occurred after the end of the reporting period are described in Note 28 in the financial statements.

By order of the Management of the Cyprus Branch,

....	....
Salim Y. Habib	Ghada Shami Christofides
Chairman	Branch Manager

Limassol, 26 August 2021

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Independent Auditor's Report

To the Members of IBL BANK S.A.L.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Cyprus Branch (the "Branch") of IBL BANK S.A.L. (the "Bank", the "Head Office") in Lebanon, which are presented in pages 7 to 47 and comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Branch. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. The Branch's ability to continue as a going concern is described in Notes 1 and 4 to the accompanying financial statements.
2. The Branch's operational ability (including, but not limited to, business activities, information technology systems and risk governance), is fully integrated with and dependent on the operational ability of the Bank. The Branch operates a current account with the Head Office through which a significant number of the Branch's transactions are executed. Consequently, the Branch has, through the Bank, significant exposure to the risks and uncertainties inherent in the Lebanese economy and its banking system.
3. As disclosed in Note 4 to these financial statements, the Directors of the Bank highlight that the current market circumstances and uncertainties disclosed in Note 1 to these financial statements, which have been worsened by the Covid 19 pandemic and Beirut seaport explosion, represent material uncertainties that may cast significant doubt on the Bank's and as a consequence the Branch's ability to continue as a going concern.

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Independent Auditor's Report

To the Members of IBL BANK S.A.L.

Report on the audit of the financial statements (continued)

Basis for Disclaimer of Opinion (continued)

Note 1 to the financial statements indicates that there is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole, triggered by the severe financial crisis and unprecedented economic downturn, the effects of the Covid-19 pandemic and the explosion at Beirut Seaport in August 2020. As the situation is rapidly evolving, the magnitude of the possible adverse effects on the Lebanese economy and the banking sector, remains unknown. The audit evidence available to us to confirm the appropriateness of preparing the financial statements on a going concern basis was limited due to the severity of the uncertainties noted above and disclosed in Note 1 as applicable to the Branch and the Bank and within the banking sector as a whole in Lebanon resulting from the overwhelming systemic risk which could impact the assessment of solvency risk; liquidity and funding risk; currency risk; credit risk and profitability, and the related future actions and mitigation plans and factors.

This situation indicates that a material uncertainty exists that may cast significant doubt on the Bank's and consequently the Branch's ability to continue as a going concern and in the absence of any alternative evidence available to us, we have been unable to form a view as to the applicability of the going concern basis, the circumstances of which, together with the effect on the financial statements should this basis be inappropriate, could result in the Branch being unable to realise assets and discharge liabilities in the normal course of business. Our opinion on the Branch's financial statements for the year ended December 31, 2019 was also modified in respect of this matter.

Responsibilities of the Board of Directors of the Bank and Those Charged with Governance for the Financial Statements

The Board of Directors of the Bank is responsible for the preparation of financial statements of the Cyprus Branch that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors of the Bank 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 of the Bank is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Bank either intends to liquidate the Cyprus branch of the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Cyprus branch of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Branch's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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Independent Auditor's Report

To the Members of IBL BANK S.A.L.

Report on the audit of the financial statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We are independent of the Branch in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Cyprus Branch on 21 November 2008 by the Board of Directors. Our appointment has been renewed annually by the Board of Directors representing a total period of uninterrupted engagement appointment of 12 years.

Consistency of the Additional Report to the Audit Committee of the Bank

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 23 August 2021 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

During the year 2020 we have provided Non-audit services exceeding the 70% (threshold level) of the average audit fees received during the last three years (2017 – 2019). The said Non-audit services were requested by the Central Bank of Cyprus from the Branch, representing assurance work with respect to AML/CTF Returns of the Branch as well as the conditions imposed by the Central Bank of Cyprus to the Branch on 22 November 2019 by its decision No 24/2019. In addition, other permissible non audit services were also provided during 2020.

With respect to the provision of these Non-Audit Services relating to the request by the Central Bank of Cyprus as explained above, we have obtained the approval of the audit committee of the Bank, and in addition in line with Article 71 of the Auditors Law of 2017, we have obtained the approval of the Cyprus Public Audit Oversight Board. In addition, we applied adequate safeguards to ensure that our independence is not impaired.

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Independent Auditor's Report

To the Members of IBL BANK S.A.L.

Report on the audit of the financial statements (continued)

Other Legal Requirements

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

Because of the significance of the matters discussed in the basis for disclaimer of opinion section of our report, we do not express an opinion as to whether the management report as well as additional information in page 48 have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113, as to whether the information given is consistent with the financial statements and as to whether in the light of the knowledge and understanding of the Branch and its environment obtained in the course of the audit, we have identified any 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 the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Nicos Charalambous.

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Nicos Charalambous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Limassol, 26 August 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 EUR	2019 EUR
Interest income	5	2.814.454	4.636.964
Interest expense	6	(2.210.769)	(3.231.006)
Net interest income		603.685	1.405.958
Fee and commission income		36.305	23.454
Fee and commission expense		(1.622)	(1.130)
Net fee and commission income		34.683	22.324
Net financial revenues		638.368	1.428.282
Staff costs	7	(260.226)	(286.900)
Interest on lease liability		(3.149)	(6.052)
Administrative expenses		(308.048)	(251.273)
Depreciation and amortisation	15,16,17	(64.337)	(58.970)
Loss on disposal of financial assets	10	(144.103)	(146.056)
Expected credit losses		(50.161)	(41.284)
Other income		32.383	16.796
Special taxation for credit institutions	9	(80.304)	(103.706)
(Loss)/Profit for the year before taxation	8	(239.577)	550.837
Taxation	9	(6.000)	(107.360)
(Loss)/Profit for the year		(245.577)	443.477
Other comprehensive income for the year		-	-
Total comprehensive (expense)/income for the year		(245.577)	443.477

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 EUR	2019 EUR
ASSETS			
Cash and deposits at Central Banks	11	29.361.012	3.179.329
Deposits with banks and financial institutions	12	25.586	3.323
Amounts due from Head office	14	13.416.148	81.993.897
Other assets	13	46.598	20.705
Property and equipment	15	50.496	57.118
Intangible assets	16	29.230	23.949
Right of use asset	17	36.133	72.266
Total Assets		42.965.203	85.350.587
EQUITY AND LIABILITIES			
Reserves			
Retained earnings		1.317.577	1.563.154
Total Equity		1.317.577	1.563.154
LIABILITIES			
Customers' accounts	18	25.081.479	83.419.577
Amounts due to Head Office	21	16.323.932	-
Tax liability		10.711	112.795
Lease Liability	20	40.200	77.251
Other liabilities	19	191.304	177.810
Total Liabilities		41.647.626	83.787.433
Total Liabilities and Equity		42.965.203	85.350.587

The Financial Statements were approved and signed on 26 August 2021 by:

....
Salim Y. Habib
Chairman

....
Dolly Merhy
Group Financial Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Retained earnings	Total
	EUR	EUR
At 1 January 2019	1.119.677	1.119.677
Profit for the year	443.477	443.477
At 31 December 2019/ 1 January 2020	1.563.154	1.563.154
Loss for the year	(245.577)	(245.577)
At 31 December 2020	1.317.577	1.317.577

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 EUR	2019 EUR
Cash flows from operating activities			
(Loss)/Profit for the year before taxation		(239.577)	550.837
Adjustments for:			
Depreciation and amortisation		64.337	58.970
Interest on lease liability		3.149	6.052
Exchange difference		-	(2.572)
Loss on disposal of financial assets		144.103	-
Expected credit loss		50.161	-
Special taxation for credit institutions		80.304	103.706
Operating cash flows before movements in working capital		102.477	716.993
Increase in balances at Central Banks		(26.223.394)	(2.543.234)
(Increase)/Decrease in other assets		(25.893)	5.920
(Decrease)/Increase in customers' accounts		(58.338.098)	32.208.251
Increase in amounts due to Head Office		16.323.932	-
Decrease in other liabilities		(131.688)	(176.384)
Cash (used in)/generated from operating activities		(68.292.664)	30.211.546
Taxation paid		(187.664)	(103.706)
Net cash (used in)/generated from operating activities		(68.480.328)	30.107.840
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(32.301)	(8.310)
Proceeds on disposal of property and equipment		5.754	-
Net cash used in investing activities		(26.547)	(8.310)
Cash flows from financing activities			
Repayment of lease liability		(37.051)	(31.148)
Interest on lease liability		(3.149)	(6.052)
Net cash used in financing activities		(40.200)	(37.200)
Net (decrease)/increase in cash and cash equivalents		(68.547.075)	30.062.330
Cash and cash equivalents at the beginning of the year		82.065.328	52.002.998
Cash and cash equivalents at end of year	22	13.518.253	82.065.328

The notes on pages 11 to 47 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

The branch of IBL Bank S.A.L. (the "Branch) is registered in Cyprus since 2008, under Section 347 of the Cyprus Companies Law, as a Branch of IBL Bank S.A.L. a company registered in Lebanon. The Branch obtained a banking licence from the Central Bank of Cyprus on 30 November 2007, but did not commence operations until 5 February 2009.

The registered office of the Branch is located at IDEAL Building, 1st floor, 214 Arch. Makarios III Avenue, CY-3030 Limassol.

The principal activity of the Branch is the provision of banking and financial services.

The macro Economic Environment in Lebanon:

Since the last quarter of 2019, Lebanon has been witnessing severe events which had and continue to have a significant impact on the fiscal, monetary and economic outlook along with their related adverse impact on the business community as a whole and the banking system in particular, mainly: social unrest and business disruption across the country, series of downgrades to the level of default ranking for private and sovereign credit risk by all major rating agencies, restrictions on cash withdrawals and movement of funds in foreign currencies, non-ability to transfer funds from local bank accounts in foreign currency to foreign accounts with correspondent banks, and the Lebanese Republic default on its Eurobonds due on March 9, 2020 and then the decision to discontinue payments on all of its outstanding USD-denominated Eurobonds. The Eurobonds default precludes access to international markets for foreign financing, while the domestic banking system is severely impaired.

The dry up of the dollar inflow to the country, precipitated systemic failures across banking, debt and the exchange rate. A significant portion of the Lebanese banks holdings consist of sovereign lending, including deposits with Central Bank of Lebanon, which made banks unable to meet their dollar obligations to customers. A de facto restriction on outbound transfers and foreign currency cash withdrawals, were imposed to preserve the foreign currency left in the country. The difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD. This has resulted in an uncontrolled rise in prices driving high inflation and rise in the consumer price index, loss of confidence in the economy and deterioration in the economic fundamentals.

The financial crisis has been intensified by the devastating explosion occurred on August 4, 2020 at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, and the COVID-19 pandemic which particularly hit the tourism sector.

The Central Bank of Lebanon efforts to control foreign exchange and slow the loss of foreign currency reserves, led to multiple exchange rates, however unsustainable.

i. Official exchange rate (1507.5 LBP/USD): currently maintained in banking transactions and providing foreign currency for the import of fuel oil, wheat, medicine and medical equipment.
ii. Platform rate - Sayrafa (currently at 3,900 LBP/USD): currently maintained to provide foreign currency for the import of essential food items and raw materials used in food industries. Also, this rate is currently used for LBP cash withdrawals in small amounts, from foreign currency deposits accounts, based on limits set by banks separately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION (Cont'd)

The macro Economic Environment in Lebanon (cont'd):

On April 30, 2020, the Lebanese Council of Ministers approved the Lebanese Government's Financial Recovery Plan (the Plan) which includes among other items, reviewing the peg policy, restructuring of the government debt, restructuring of the financial system and the banking sector, and international financial assistance. On May 1, 2020, a formal request for support from the International Monetary Fund (IMF) was addressed to the IMF and discussion is still ongoing as of today.

In this respect the Association of Banks in Lebanon (ABL) has challenged the Government's Plan for many uncertainties associated with the Plan and the assumptions made in it. The ABL submitted an alternative approach to tackling the Lebanese economic crisis in general and the banking crisis in particular.

The downgrade of sovereign credit rating, the increase in credit, liquidity, market and operational risks across all business sectors, the de-facto capital controls and restrictions on transfers of foreign currency overseas exposing the banking sector to litigation, the current and future possible changes to fiscal, economic and political conditions as well as changes to the legal and regulatory landscape in the Republic of Lebanon and the uncertainties in securing external financing (from IMF and other international donors) have led to significant uncertainties and the full range of effects on the banking sector in general and on the Bank's financial standing is unknown as of and beyond December 31, 2020.

Management has significant concerns about the effects that the above matters will have on the equity of the Bank and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

The Branch's operational ability (including, but not limited to, business activities, information technology systems and risk governance), is fully integrated with and dependent on the operational ability of the Bank. Consequently, the Branch has significant exposure to the risks and uncertainties inherent in the Lebanese economy and its banking system as disclosed above, through the Bank itself.

The above represent material uncertainties which may cast significant doubt on the Branch ability to continue as going concern. The Branch's ongoing activities, realisation of assets and discharge of liabilities are subject to risks and uncertainties of the economic environment in Lebanon, its banking system and those of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION (Cont'd)

The Branch's financial particulars:

The Central Bank of Cyprus by its letter dated 8 November 2019 to the Branch, has stated some information including the economic situation in Lebanon, the reliance of Lebanese Banks on Lebanon, the concentration risk of the Branch to the Head Office and the increase in deposits payable by the Cyprus Deposit Guarantee Scheme. Consequently, the Central Bank of Cyprus with its decision dated 22 November 2019 (decision No 24/2019), imposed the following conditions (a) and (b) to the Branch (Note 11):

a) The Branch is not allowed to increase the amount of covered deposits (by the Cyprus Deposit Guarantee Scheme), considering the amount reported as at 8 November 2019 including accrued interest as at that date.

b) The Branch shall not grant new credit facilities or amend existing ones, in a way that will result in the creation or increase of an exposure (i.e. asset or off balance sheet item) of the Branch, as compared with the exposure of the Branch as at close of business on 8 November 2019, to third countries, except of third countries that have, at least, an investment grade credit rating from at least two External Credit Assessment Institutions.

The Central Bank of Cyprus by its letter dated 17 December 2020 to the Branch, has informed the Branch for the requirement to place and maintain, at all times, with the Central Bank of Cyprus an amount equal to the total customers' deposits held by the Cyprus Branch including accrued interest, in Euro or the equivalent amount plus 5% if the deposit will be placed in US dollars. The reserve maintained by the Branch with the Central Bank of Cyprus exceeded the total customer deposits of the Cyprus Branch in all currencies including accrued interest as at 31 December 2020.

Subsequent to the year end, the Central Bank of Cyprus issued additional requirements (see note 28 Events after the end of the financial year).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs and amendments to IFRSs and Interpretations issued by the International Accounting Standards Board (IASB), which became mandatorily effective for annual periods beginning on or after January 1, 2020, have been adopted in these financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(i) Amendments to IFRS 3 Business Combinations

The amendments provide guidance to help entities determine whether an acquisition made meets the definition of a business. The amendments:

- clarify, that to be considered a business, an acquired set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Cont'd)

2.1 New and amended IFRS Standards that are effective for the current year (Cont'd)

(i) Amendments to IFRS 3 Business Combinations (Cont'd)

- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for acquisitions that occur on or after 1 January 2020.

(ii) Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform (Phase I)

In September 2019, the Board issued Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7. The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform. The amendments are to be applied retrospectively. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

(iii) Amendments to IAS 1 and IAS 8, regarding definition of "Material"

The amendments clarify the definition of material and how it should be applied. In addition, the explanations accompanying the definition have been improved. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. Finally, the amendments ensure that the definition of material is consistent across all Standards. Earlier adoption is permitted.

(iv) Amendments to References to the Conceptual Framework in the Standards

The amendments include changes to specific Standards so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the Board in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in certain Standards have not been updated with the new definitions developed in the revised Conceptual Framework.

(v) Amendments to IFRS 16 Leases Covid 19 – Related Rent Concessions (Effective for annual reporting periods beginning on or after 1 June 2020)

In May 2020, the Board published "Covid-19-Related Rent Concessions (Amendments to IFRS 16)" amending the standard to provide lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification. The changes amend IFRS 16, as follows:

As a practical expedient, a lessee may elect not to assess whether a rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying the Standard as if the change was not a lease modification.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.1 New and amended IFRS Standards that are effective for the current year (Cont'd)

(v) Amendments to IFRS 16 Leases Covid 19 – Related Rent Concessions (Effective for annual reporting periods beginning on or after 1 June 2020) (Cont'd)

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) there is no substantive change to other terms and conditions of the lease.

A lessee shall apply Covid-19-Related Rent Concessions retrospectively, recognizing the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment.

Earlier application is permitted.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2020.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Branch has not applied the following new and revised IFRS Standards that have been issued by the International Accounting Standards Board (IASB) but were not yet effective for the year ended 31 December 2020:

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 regarding Interest Rate Benchmark Reform –Phase 2	January 1, 2021
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	January 1, 2021
Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (Not yet endorsed by the EU)	April 1, 2021
Amendments to IFRS 3 Business Combinations, reference to the Conceptual Framework	January 1, 2022
Amendments to IAS 16 Property, Plant and Equipment regarding proceeds before intended use	January 1, 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets regarding Onerous Contracts	January 1, 2022

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted (Cont'd)

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Annual Improvements to IFRS Standards 2018-2020 Cycle	January 1, 2022
Amendments to IAS 12 Income Taxes (Not yet endorsed by the EU)	January 1, 2023
IFRS 17 Insurance Contracts including Amendments to IFRS 17 (Not yet endorsed by the EU)	January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Not yet endorsed by the EU)	January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and Classification of Liabilities as Current or Non-current – Deferral of Effective date (Not yet endorsed by the EU)	January 1, 2023
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Not yet endorsed by the EU)	January 1, 2023

The Directors anticipate that these new standards, interpretations, and amendments will be adopted in the Branch's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Branch in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies were adopted by the Branch and applied consistently and are those that are considered significant or material for the results and the presentation of the financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Branch's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates (refer to Note 4 for a description of significant judgments and estimates).

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation (cont'd)

Foreign currencies

The financial statements are presented in Euro (€) which is the Bank's reporting currency. However, the primary currency of the economic environment in which the Bank operates (functional currency) is the U.S. Dollar. In preparing the financial statements, transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Branch may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:
- The Branch may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Branch may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt instruments at amortised cost or at FVTOCI

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Branch determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Branch's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

The Branch reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. In the current and prior reporting period the Branch has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described below.

Reclassifications

If the business model under which the Branch holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Branch's financial assets.

Impairment

The Branch recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Deposits at banks;
- loans and advances to banks;
- loans and advances to customers;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (cont'd)

- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

Impairment of Financial Assets

With the exception of Purchased or Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Branch under the contract and the cash flows that the Branch expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the contractual cash flows that are due to the Branch if the holder of the commitment draws down the loan and the cash flows that the Branch expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Branch expects to receive from the holder, the debtor or any other party.

The Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Financial Assets (cont'd)

Credit-impaired financial assets (cont'd)

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Branch assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Branch considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Branch recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Branch considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Branch; or
- the borrower is unlikely to pay its credit obligations to the Branch in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Branch takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Branch uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Branch monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Branch will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Branch compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Branch considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Branch's historical experience and expert credit assessment including forward-looking information.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modification and Derecognition of Financial Assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Branch assesses whether this modification results in derecognition. In accordance with the Branch's policy a modification results in derecognition when it gives rise to substantially different terms.

The Branch derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branch recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the Branch continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Branch retains an option to repurchase part of a transferred asset), the Branch allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss

Write-off

Loans and debt securities are written off when the Branch has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Branch may apply enforcement activities to financial assets written off. Recoveries resulting from the Branch's enforcement activities will result in impairment gains.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modification and Derecognition of Financial Assets (cont'd)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve; and
- for loan commitments and financial guarantee contracts: as a provision liability.

Financial Liabilities and Equity Instruments

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Branch or a contract that will or may be settled in the Branch's own equity instruments and is a non-derivative contract for which the Branch is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Branch's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Branch are recognised at the proceeds received, net of direct issue costs.
Repurchase of the Branch's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Branch's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Branch manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Liabilities and Equity Instruments (cont'd)

Financial liabilities (cont'd)

Financial liabilities at FVTPL (cont'd)

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branch's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Branch assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Liabilities and Equity Instruments (Continued)

Financial liabilities (continued)

Derecognition of financial liabilities

The Branch derecognises financial liabilities when, and only when, the Branch's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Branch exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Branch accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are 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 rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Offsetting

Financial assets and liabilities are set off and the net amount is presented in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts or there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Fair Value Measurement

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 at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 - Inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Liabilities and Equity Instruments (Continued)

Fair Value Measurement (cont'd)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Branch 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.

Financial guarantee contracts are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Branch's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Branch has not designated any financial guarantee contracts as at FVTPL.

Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortised cost net of provision for credit losses.

Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets using the following annual rates:

Buildings	2%
Office improvements and installations	20%
Furniture, equipment and machines	8%
Computer equipment	20%
Vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Intangible Assets

Intangible assets consisting of computer software are amortised over a period of five years and are subject to impairment testing. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets (cont'd)

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Branch reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash - generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The Branch has applied IFRS 16 using the cumulative catch up approach therefore comparative information has not been restated. The details of accounting policies under IFRS 16 applicable from 1 January 2019 are presented below.

The Branch has elected not to recognise right-of-use assets and lease liabilities where the total lease term is less than 12 months, or for leases of low-value assets. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception, the Branch assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specified asset, whether the Branch obtains substantially all the economic benefits from the use of that asset and whether the Branch has the right to direct the use of the asset. For contracts which include both lease and non-lease components, the Branch has elected to apply the practical expedient to ignore the requirement to separate non-lease components from the lease components.

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (cont'd)

Right-of-use assets are presented as a separate category in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Branch's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.
- The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, or if the Branch 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 right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Provisions

Provision is recognised if, as a result of a past event, the Branch has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

Net Interest Income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net (loss)/income from financial assets at fair value through profit or loss'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Interest Income (cont'd)

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of on-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement cash flows consist of cash in hand and deposits with banks and Head Office with less than three months original maturity.

Taxation

The tax computation based on the legislation requires various estimations during the preparation of the financial statements, since the final tax assessment of the Company is confirmed by the tax authorities at a later stage. Any possible differences between the final tax assessment and the provision in the financial statements will affect the taxation charge of subsequent periods.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(A) Critical accounting judgments in applying the Branch's accounting policies:

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Going Concern:

The Branch's operational ability (including but not limited to business activities, information technology systems and risk governance), is fully integrated with and dependent on the operational ability of the Bank. As a result, the Branch has significant exposure to risks and uncertainties of the Lebanese economy and its banking system through the Bank as disclosed in Note 1. The above represent material uncertainties which may cast significant doubt on the Branch ability to continue as going concern. The Branch's ongoing activities, realisation of assets and discharge of liabilities are subject to risks and uncertainties of the economic environment in Lebanon, its banking system and those of the Bank.

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these financial statements have been prepared based on the going concern assumption which assumes that the Branch will have adequate resources to continue in operational existence for the foreseeable future. However, the Directors highlight that the current market circumstances and uncertainties disclosed in Note 1, which have been worsened by the COVID-19 pandemic and the Beirut seaport explosion, which are outside their control, represent material uncertainties that may cast significant doubt on the Bank's and as a consequence the Branch's ability to continue as a going concern.

The Board of Directors and those charged with governance believe that they are monitoring the current situation and taking all possible attainable remediation actions under the circumstances to ensure the sustainability of the business and viability of the Bank and the Branch. The reserve maintained by the Branch with the Central Bank of Cyprus exceeded the total customer deposits of the Cyprus Branch in all currencies including accrued interest as at 31 December 2020.

Business model assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of note 3). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Branch monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Branch's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(B) Key Sources of Estimation Uncertainty:

Determining the number and relative weight of scenarios, the outlook for each type of product / market, and the identification of future information relevant to each scenario:
When measuring the expected credit loss, the Branch uses reasonable and supported future information based on the assumptions of the future movement of the various economic drivers and the manner in which they affect each other.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd):

Significant accounting judgments and estimates (cont'd)

(B) Key Sources of Estimation Uncertainty: (cont'd)

Probability of default:
PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:
LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 25. For financial instruments that are traded 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.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

5. INTEREST INCOME

	2020 EUR	2019 EUR
Interest earned from:		
Placements with Head Office	129.287	498.153
Interest from bonds (note 10)	2.685.167	4.138.811
	2.814.454	4.636.964

6. INTEREST EXPENSE

	2020 EUR	2019 EUR
Interest expense arising from:		
Deposits from Head Office	-	-
Customer deposits	2.210.769	3.231.006
	2.210.769	3.231.006

7. STAFF COSTS

This caption consists of the following:

	2020 EUR	2019 EUR
Staff costs:		
Salaries and other benefits	245.982	268.637
Social security costs	14.244	18.263
	260.226	286.900

The average number of employees during the year was 4 (2019: 5).

The remuneration of the branch manager is €88.985 (2019: €88.985).

8. (LOSS) / PROFIT FOR THE YEAR BEFORE TAXATION

(Loss)/Profit for the period before taxation is stated after charging:

	2020 EUR	2019 EUR
Depreciation and amortisation	64.337	58.970
Auditors' remuneration		
- Audit-related services	25.000	10.800
- Non - audit-related services	15.783	7.200

9. TAXATION

A reconciliation of income tax expense applicable to the profit for the period before taxation at the statutory tax rate, to the tax expense reflected in the Branch's financial statements is as follows:

	2020 EUR	2019 EUR
(Loss)/Profit before taxation per the statement of profit or loss and other comprehensive income	(239.577)	550.837
Tax calculated at the applicable rates	(29.947)	68.855
Tax effect on:		
Expenses not deductible for tax purposes	42.924	39.400
Allowances and income not subject to tax	(8.747)	(3.121)
Effect of over/(under) provision of tax estimate for the year	1.347	61.261
10% additional tax	423	9.760
Tax expense	6.000	107.360

During 2011, a Bank Levy was introduced on financial institutions operating in Cyprus for the years 2011 and 2012, amounting to 0,095% of their total deposits (domestic and foreign), excluding interbank deposits. During December 2012, the special levy rate was increased from 0,095% to 0,11% and the provisions of this law were extended indefinitely. With effect from 1 January 2013 after amending the law, the special levy rate increases from 0,11% to 0,15%.

Management has decided to present Special taxation for credit institutions above the (Loss) / profit before taxation line, since the levy is not in scope of IAS 12 Income tax. The charge on the results of the Branch relating to the Special Levy on Credit Institutions in Cyprus for the year ended 31 December 2020 amounts to €80.304 (2019: €103.706).

10. LOSS ON DISPOSAL OF FINANCIAL ASSETS

	2020 EUR	2019 EUR
Balance, 1 January	-	-
Purchases	501.763.285	839.768.849
Loss on disposal (Note 24)	(144.103)	(146.056)
Disposals	(501.619.182)	(839.622.793)
Balance, 31 December	-	-

During the year, the branch acquired investments in Lebanese bonds from the Head Office for an amount of US$ 561.700.000 (2019: US$939.600.000) which were subsequently sold back to the Head Office at a loss of EUR 144.103 (2019: EUR146.056).

For every purchase, the Branch holds a put option to sell back to the Head Office all bonds held at prices which are slightly lower than their purchase price. These sale prices are lower than the purchase prices in the range of 0,93% (2019: 0,92%).

11. CASH AND DEPOSITS AT CENTRAL BANKS

	2020 EUR	2019 EUR
Cash in hand	76.437	67.994
Balance with Central Bank of Cyprus	29.375.899	3.152.505
Less: expect credit loss	(91.324)	(41.170)
	29.361.012	3.179.329

The Central Bank of Cyprus by its letter dated 25 February 2020 to the Branch, has informed the Branch for the requirement to place and maintain, at all times, with the Central Bank of Cyprus an amount of €29m or the equivalent amount plus 5% if the deposit will be placed in US dollars. The Bank has confirmed compliance with the decision of the Central Bank of Cyprus. Execution of the aforementioned amount was performed on 6 March 2020.

The Central Bank of Cyprus by its letter dated 17 December 2020 to the Branch, has informed the Branch for the requirement to place and maintain, at all times, with the Central Bank of Cyprus an amount equal to the total customers' deposits held by the Cyprus Branch including accrued interest, in Euro or the equivalent amount plus 5% if the deposit will be placed in US dollars. The reserve maintained by the Branch with the Central Bank of Cyprus exceeded the total customer deposits of the Cyprus Branch in all currencies including accrued interest as at 31 December 2020.

12. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	2020 EUR	2019 EUR
Current accounts with banks and financial institutions	25.668	3.437
Less: expect credit loss	(82)	(114)
	25.586	3.323

The deposits with banks and financial institutions have maturity within three months.

13. OTHER ASSETS

	2020 EUR	2019 EUR
Prepaid expenses	46.598	20.705

14. AMOUNTS DUE FROM HEAD OFFICE

	2020 EUR	2019 EUR
Head Office account	13.416.148	81.993.897

The current accounts due from Head Office bear an annual interest rate of 4% (2019: 4%). The current accounts have no maturity date.

15. PROPERTY AND EQUIPMENT

	Office improvements and installations EUR	Furniture, equipment and machines EUR	Computer equipment EUR	Vehicles EUR	Total EUR
Cost					
Balance, January 1, 2019	112.117	79.978	97.304	43.500	332.899
Additions	9.963	750	1.111	-	11.824
Exchange differences	-	(744)	-	-	(744)
Balance, December 31, 2019	122.080	79.984	98.415	43.500	343.979
Additions	-	708	18.242	-	18.950
Disposal	(5.315)	(439)	-	-	(5.754)
Exchange differences	-	-	(103)	-	(103)
Balance, December 31, 2020	116.765	80.253	116.554	43.500	357.072
Depreciation					
Balance, January 1, 2019	107.812	70.809	49.056	43.500	271.177
Charge for the year	486	4.014	11.926	-	16.426
Exchange differences	-	(742)	-	-	(742)
Balance, December 31, 2019	108.298	74.081	60.982	43.500	286.861
Charge for the year	1.367	4.125	14.642	-	20.134
Exchange differences	-	(419)	-	-	(419)
Balance, December 31, 2020	109.665	77.787	75.624	43.500	306.576
Net Book Value					
Balance, December 31, 2020	7.100	2.466	40.930	-	50.496
Balance, December 31, 2019	13.782	5.903	37.433	-	57.118

16. INTANGIBLE ASSETS

	Purchased software EUR
Cost	
Balance, January 1, 2019	191.403
Additions	1.643
Balance, December 31, 2019	193.046
Additions	13.351
Balance, December 31, 2020	206.397
Amortisation	
Balance, January 1, 2019	162.686
Charge for the year	6.411
Balance, December 31, 2019	169.097
Charge for the year	8.070
Balance, December 31, 2020	177.167
Net Book Value	
Balance, December 31, 2020	29.230
Balance, December 31, 2019	23.949

17. RIGHT OF USE ASSET

	EUR
Cost	
Balance, January 1, 2019	-
Adoption of IFRS 16	108.399
Balance, December 31, 2019	108.399
Additions	-
Balance, December 31, 2020	108.399
Depreciation	
Balance, January 1, 2019	-
Charge for the year	36.133
Balance, December 31, 2019	36.133
Charge for the year	36.133
Balance, December 31, 2020	72.266
Net Book Value	
Balance, December 31, 2020	36.133
Balance, December 31, 2019	72.266

The right-of-use asset relates to the leasing of office space.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

18. CUSTOMERS' ACCOUNTS

	2020		
	Interest bearing EUR	Non-interest bearing EUR	Total EUR
Deposits from customers:			
Current accounts	-	4.185.187	4.185.187
Term deposits	20.653.948	99.169	20.753.117
			24.938.304
Accrued interest payable	143.175	-	143.175
Total	20.797.123	4.284.356	25.081.479

	2019		
	Interest bearing EUR	Non-interest bearing EUR	Total EUR
Deposits from customers:			
Current accounts	-	8.023.092	8.023.092
Term deposits	74.862.470	-	74.862.470
			82.885.562
Accrued interest payable	534.015	-	534.015
Total	75.396.485	8.023.092	83.419.577

The current accounts bear no interest.

The term deposits of individuals and companies in local and foreign currency bear annual interest rates ranging from 0,1% to 10,39% (2019: 1% to 10,39%).

The above accounts are mainly from individuals residing in Cyprus and organizations which are registered and operating in Cyprus.

The fair value of the above balances approximates their carrying value.

The distribution of the above mentioned balances maturity is presented below:

	2020 EUR	2019 EUR
Due within three months	10.725.589	46.780.787
Due within more than three months	14.355.890	36.638.790
	25.081.479	83.419.577

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020

19. OTHER LIABILITIES

	2020 EUR	2019 EUR
Social insurance and tax on salaries	15.541	13.828
Accruals	155.785	153.000
Taxes on deposits	3.240	4.848
Deferred income on Letters of Guarantee	107	147
Other liabilities	16.631	5.987
	191.304	177.810

20. LEASE LIABILITY

	2020 EUR	2019 EUR
Balance at 1 January	77.251	-
Adoption of IFRS 16	-	108.399
Interest on lease liability	3.149	6.052
Lease payments	(40.200)	(37.200)
	40.200	77.251

21. AMOUNTS DUE TO HEAD OFFICE

	2020 EUR	2019 EUR
Head Office account	16.323.932	-

The current account due to Head Office bears no interest and have no maturity date.

22. CASH AND CASH EQUIVALENTS

	2020 EUR	2019 EUR
Cash in hand (note 11)	76.437	67.994
Deposits with banks and financial institutions (note 12)	25.668	3.437
Amounts due from Head Office (note 14)	13.416.148	81.993.897
	13.518.253	82.065.328

23. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	2020 EUR	2019 EUR
Assets		
Euro	29.530.985	21.452.388
US Dollars	12.995.474	62.991.636
Pound Sterling	438.744	947.847
	42.965.203	85.391.871
Liabilities		
Euro	29.530.985	21.752.388
US Dollars	12.995.474	62.991.636
Pound sterling	438.744	947.847
	42.965.203	85.391.871

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. TRANSACTIONS WITH RELATED PARTIES

IBL Bank SAL is the registered name of the Head Office which presents consolidated financial statements.

The Branch's transactions with related parties fall within the ordinary course of its activities.

The following tables include the amounts resulting from transactions with related entities for the year 2020.

Statement of Financial Position outstanding balances:	**Head Office**	**Key Management Personnel**	**31/12/2020**
	EUR	**EUR**	**EUR**
Assets			
Deposits	13.416.148	-	13.416.148
Liabilities			
Deposits	16.323.932	473.645	16.797.577
Statement of Comprehensive Income transactions:			
Interest income	121.943	-	121.943
Interest expense	-	16.346	16.346
Loss on disposal of financial assets (Note 10) (i)	144.103	-	144.103
Key management personnel compensation	-	160.615	160.615

The following tables include the amounts resulting from transactions with related entities for the year 2019.

Statement of Financial Position outstanding balances:	**Head Office**	**Key Management Personnel**	**31/12/2019**
	EUR	**EUR**	**EUR**
Assets			
Deposits	81.993.897	-	81.993.897
Liabilities			
Deposits	-	779.661	779.661

24. TRANSACTIONS WITH RELATED PARTIES (Cont'd)

The following tables include the amounts resulting from transactions with related entities for the year 2019 (cont'd)

Statement of Comprehensive Income transactions:	Head Office	Key Management Personnel	31/12/2019
	EUR	EUR	EUR
Interest income	-	-	-
Loss on disposal of financial assets (Note10) (i)	146.056	-	146.056
Key management personnel compensation	-	172.970	172.970

(i) During the year, the branch acquired investments in Lebanese bonds from the Head Office for an amount of US$ 561.700.000 (2019: US$939.600.000) which were subsequently sold back to the Head Office at a loss of EUR 144.103 (2019: EUR146.056).

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont'd)

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

As a result of the unpresented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector in Lebanon, is experiencing, as described in Note 1, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads that are not reflective of economic reality and market conditions.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The risk management of the financial instruments is mainly monitored by the Head Office of the Bank (the "Bank"). However as the Branch holds financial instruments, the following summary disclosure are considered relevant for the reporting purposes of the Branch.

The Branch has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's and Branch's risk management framework. The Board has established a credit and market risk management department, an operational risk management department and various Committees to develop and monitor the Bank's and Branch's risk management policies and their implementation.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance affecting a particular industry or geographical location.

Credit risk management

The Bank's credit committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit Risk (cont'd)

Credit risk management (cont'd)

- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

In order to minimise credit risk, the Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categories exposures according to their degree of risk of default.

The Bank's credit risk grading framework comprises ten categories.

The S&P module is used by the Bank to compute the probability of Default (PD) and the Loss Given Default (LGD) of corporate portfolio.

In order to calculate the PD, the S&P module will estimate the likelihood that a borrower will be unable to meet his debt obligations based on the following criteria:

- Country risk: the country in which the client operates along with the percentage of EBIDTA or sales turnover generated from each country (if the client operates in multiple regions).
- Industry: the industry nature and the percentage of EBITDA or sales turnover generated from each industry the client operates in (if the client operates in multiple sectors).
- Competitive advantage
- Diversification
- Operating efficiency
- Financial risk based on 1 year financials or on 3 or 5 year average financial figures. The main financial ratios to be considered are: FFO to Debt, Debt to EBITDA, EBITDA Interest coverage, Total Debt to Total Liabilities (Debt + Equity), FFO, Debt, EBIDTA, Total Equity, Revenues.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Significant increase in credit risk (cont'd)

The resulting PD will be subject to a list of modifiers which are a list of questions to which the credit officer will answer and will grant the client a grade. These questions are related to the client's portfolio diversification, to his capital structure, to his financial and liquidity policy, to his risk management and financial management, to his organizational effectiveness and finally to his governance policy.

To get the final rating, the module adds the effect of sovereign currency rating as well as the sensitivity of the client to the country risk in addition to the impact of the any support whether coming from a guarantor, a government related entity or a holding company.

As for the LGD, the module allows to estimate a percentage representing the share of the Bank's loss on a defaulting loan prior to its default based on the following measures:

- The economic sector to which the client belongs in addition to the percentage of revenues generated from each economic sector in which the client operates.
- The country in which the client operates in addition to the percentage of revenues generated from each country region.
- The earning measure estimates the current economic value of the obligor based on his total adjusted assets. The Bank defines this as simply total reported assets less intangibles and goodwill.

Adjusted Total Assets = Total Assets – (Intangibles + Goodwill)

LGD estimates under three distinct scenarios, reflecting expectations of general economic conditions:

Positive: The organization has positive economic expectations over the short-term (1 to 3 years) for the country/region to which the corporate is exposed.

Neutral: This selection is appropriate in cases where the expectations are of little or no GDP growth. Stagnating growth in other relevant factors are also expected. This phase is typically between a trough and peak of a credit cycle.

Negative: This selection signals the expectation of an impending economic downturn. After determining the client's economic value, the calculation will follow a waterfall approach deducting from this economic value the debt and other liabilities (i.e. debt granted at other banks, recovery cost) and adding the collaterals and recovery enhancements.

All these criteria combined will allow the module to generate the percentage of loss on a facility.

Then based on the stage, and on the LGD obtained for each facility, the Bank will be able to generate the ECL which is : ECL = PD x LGD x EAD for stage 1 clients, the PD will be point in time and for stage 2 and 3 clients, the PD will be converted to a lifetime PD.

For retail exposures: the simplified approach is used by the Bank by which internally generated data of customer behavior, affordability metrics etc. has been used, adjusted by Forward-looking information.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Significant increase in credit risk (cont'd)

Risk mitigation policies

Collateral:
The Bank mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

• Pledged deposits

• Mortgages over real estate properties (land, commercial and residential properties)

• Bank guarantees

• Financial instruments (equities and debt securities)

• Business other assets (such as inventories and accounts receivable)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 3 years and when a loan is individually assessed as impaired.

Generally, Collateral is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Write-off policy
The Bank writes-off a loan or security (and any related allowances for impairment losses) when the Bank's management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer›s financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Liquidity Risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Liquidity risk management

The Bank risk management and monitoring is based on the aggregate structure of the balance sheet through mitigating risks that are directly associated to the mismatch between maturities in the balance sheet and contingent liabilities. The Bank's financial position structure is run in a way aimed at maintaining diversification and lowering concentration among different sources of funds. All liquidity policies and procedures are subject to review and approval by ALCO.

The liquidity risk relates to the losses that the Branch may suffer from the possible weakness to fulfil its obligations mainly as regards to the repayment of deposits and the granting of advances.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk management (cont'd)

To deal with the liquidity risk, the Bank and the Branch are closely monitoring the origin of deposits and their expiry date and complies with the liquidity regulations of the Central Bank of Cyprus and Central Bank of Lebanon. Residual contractual maturities of financial assets and liabilities.

	31 December 2020							
	Accounts with No maturity	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total
ASSETS	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**
Cash, and deposits with Central Banks	29.361.012	-	-	-	-	-	-	29.361.012
Deposits with banks and financial institutions	-	25.586	-	-	-	-	-	25.586
Other assets	46.598	-	-	-	-	-	-	46.598
Total Assets	29.407.610	25.586	-	-	-	-	-	29.433.196
LIABILITIES								
Customers' accounts	-	10.725.589	9.766.548	3.901.826	687.516	-	-	25.081.479
Tax liability	10.711	-	-	-	-	-	-	10.711
Lease liability	-	-	40.200	-	-	-	-	40.200
Other liabilities	191.304	-	-	-	-	-	-	191.304
Total Liabilities	202.015	10.725.589	9.806.748	3.901.826	687.516	-	-	25.323.694
Maturity Gap	29.205.595	(10.700.003)	(9.806.748)	(3.901.826)	(687.516)	-	-	4.109.502

	31 December 2019							
	Accounts with No maturity	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total
ASSETS	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**	**EURO**
Cash, and deposits with Central Banks	3.179.329	-	-	-	-	-	-	3.179.329
Deposits with banks and financial institutions	-	3.323	-	-	-	-	-	3.323
Other assets	20.705	-	-	-	-	-	-	20.705
Total Assets	3.200.034	3.323	-	-	-	-	-	3.203.357
LIABILITIES								
Customers' accounts	-	46.780.787	33.211.373	3.183.921	243.496	-	-	83.419.577
Tax liability	112.795	-	-	-	-	-	-	112.795
Lease liability	-	-	-	77.251	-	-	-	77.251
Other liabilities	177.810	-	-	-	-	-	-	177.810
Total Liabilities	290.605	46.780.787	33.211.373	3.261.172	243.496	-	-	83.787.433
Maturity Gap	2.909.429	(46.777.464)	(33.211.373)	(3.261.172)	(243.496)	-	-	(80.584.076)

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and loan diversification. The Bank manages market risks through a framework that defines the global activity and individual limits and sensitivity analysis.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or expected cash flows from income generating financial assets and liabilities. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities.

Large amounts of the Bank's financial assets, primarily investments in certificates of deposit and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers' accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk.

Income sensitivity is the effect of the assumed changes in the interest rate on the net interest revenues for a specific year on the non-trading assets and liabilities. Analysis of various banking currency positions is made through concentrations by currencies and, resulting sensitivity is disclosed in thousands of Lebanese pounds and segregated between financial assets and liabilities subject to variable and fixed interest rates.

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Bank's net interest income, while a long term impact is on Bank's net worth since the economic value of Bank's assets, liabilities and off-balance sheet exposures are affected.

Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning and bearing.

Foreign Exchange risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Operational risk

Operational risk is the risk that might cause losses to the Bank resulting from deficiency in computer processing, from deficiencies and lack of procedures, and inappropriate behaviour of employees.

The operational Risk Management unit is a separate risk management function that builds an operational risk focus approach, implements a dynamic Operational Risk Management program; and ensures a strong operational risk-aware culture at all levels, an effective escalation of overall exposure to the Board and Senior Management and sponsoring of the Business Continuity Management.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Operational risk (cont'd)

An operational Risk Management Committee has been instituted to approve ORM policies and procedures; review operational risk exposures, type of losses and their impact; and ensure that proper tools and systems are available to manage operational risk efficiently.

The Bank's principles are set in line with regulators' and Basel II principles for a sound operational risk management environment.

27. OPERATING ENVIRONMENT OF THE BRANCH

Following 5 consecutive years of reported growth, Cyprus' economy declined by 5.1% in 2020 according to the Cyprus Statistical Service. The decline was primarily driven by trade and tourism, construction, manufacturing and entertainment services sectors, to a great extent due to the long-term suspension of many business operations as a result of efforts made at limiting the spread of Covid-19. A large shrinkage of GDP occurred in the second quarter of 2020, time at which the pandemic first appeared, dropping by 13.9%, while the third and fourth quarters showed some recovery, limiting GDP losses to approximately 6.4% according to the International Monetary Fund.

Despite the estimate of an increase in unemployment, the index remained relatively stable. Measures taken by the Cyprus Government to support businesses and workers by providing a wide range of allowances were successful in keeping the index low. As a result, the unemployment rate increased modestly to 7.6% in 2020 according to Eurostat, from 7.1% in 2019, while the European Union's corresponding index was at 8.9%.

Consumer prices declined by 0.6% on average in 2020, partly due to the hit sustained by domestic demand caused by the Covid-19 pandemic and the cut to the VAT rate for the tourism and hospitality sector. The current fiscal and monetary stimulus have not led to higher prices and inflation is likely to rise only modestly in the second half of 2021 as economic activity accelerates and the temporary reduction in the VAT income is reversed. Specifically, inflation for 2020 was expected to be in the order of -0.6% and is estimated to reach 1% by 2021.

The Cyprus Government's fiscal package in 2020 in response to the Covid-19 pandemic was at approximately 4.5% of GDP and included income support for households, wage subsidies for businesses and grants to small businesses and self-employed individuals. Additionally, a loan moratorium for interest and principal repayments on loans to individuals and businesses was introduced until the end of 2020. In January 2021, a second moratorium for the period until 30 June 2021 was launched for borrowers impacted by the second lockdown. Furthermore, an interest rate subsidisation scheme for new housing and business loans was put in place in 2020 for loans granted as of 1 March 2020 until 31 December 2020 subject to conditions, which was later extended to 31 December 2021 with eligible amounts increased considerably, especially for businesses and self-employed individuals.

As a result, public finances deteriorated noticeably in 2020. According to the Cyprus Statistical Service, it is estimated that the budget deficit deteriorated from a surplus of 1.5% of GDP in 2019 to a deficit of 5% of GDP in 2020. Given the additional support to the economy that the Cyprus Government has committed to provide as a response to the second wave of the pandemic, the trend of lower revenues and higher spending is expected to continue through the first half of 2021 at least. The budget position is expected to improve and the deficit to gradually shrink in the medium term as the economy recovers and spending is increased.

Public debt currently amounts to €24.8 billion, or 119.5% of GDP. However, this is seen as temporary driven by fiscal measures to mitigate the effects of Covid-19. The underlying fundamentals remain strong and the downward trajectory is expected to resume as growth returns.

27. OPERATING ENVIRONMENT OF THE BRANCH (cont'd)

According to the European Commission's forecast, the real GDP of Cyprus' economy will grow by 3.2% in 2021, despite the losses it sustained in 2020 due to the pandemic. This is mainly because the restrictive measures in the economy concern a smaller proportion of economic activity and are now more targeted. Tourism, which has contracted by 85% in 2020, is expected to be one of the main factors in the recovery of the economy in 2021. The initiation of vaccinations both at local level and in the main countries of tourism origin such as the United Kingdom, Israel and Russia are expected to cover much of the losses incurred in 2020. At the same time, the vaccination plan at local level is expected to allow for an increase in business activity with private consumption as the main driver. In 2022 it is estimated that real GDP will be in the order of 3.1%, reaching pre-pandemic levels 2022.

In order to deal with the consequences of the pandemic, the Cyprus Government is expected to receive significant monetary backing from the European Union through a number of schemes in the form of grants, lending and financial support through the SURE programme aimed to support job retaining. Specifically, Cyprus is expected to benefit from the European Union's €750 billion Next Generation funds. On a net basis, Cyprus expects to obtain grants of up to €1.1 billion or about 5% of GDP, in the budget period 2021-2027, which are, however, subject to the implementation of long-delayed structural reforms in the judiciary and public administration sectors.

The Cyprus sovereign is rated by international rating agency Standard & Poor's as BBB- with a stable outlook since September 2018. The rating and outlook were affirmed in March and September 2020 and March 2021. Similarly, Fitch maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020 and March 2021. Finally, Moody's maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. More recently in January 2021, Moody's issued a revised credit opinion on the Cyprus sovereign, maintaining the positive rating outlook.

The risks that Cyprus' economy is expected to face in 2021 are directly related to the progress of the pandemic's containment. The vaccination programme at both local and global level is a key factor to enable uninterrupted business activity. Cyprus is expected to receive the first tourist surge by the end of the second quarter of 2021, leading to the restart of tourism industry's operations.

The abolishment of the Cyprus Investment Programme ('CIP') at the end of 2020, which was one of the pillars of construction development over the years post the 2013 crisis, may impact negatively on GDP projections. Similarly, the United Kingdom's full withdrawal from the European Union at the end of 2020 may affect the economic activities between the two countries, especially in relation to trading and tourism.

Actions at European level to overhaul the tax system in Europe may also adversely impact the favourable tax regime of Cyprus, while developments at the political level may affect the economic climate accordingly.

Banking environment

During the year, the banking system quickly adapted to the new circumstances as a result of the Covid-19 outbreak, actively participating in addressing the needs of their customers by offering solutions such as loan restructurings, suspension of loan instalments and collateral divestments and participation in the state interest rate subsidy scheme for new housing and business loans.

Despite rarely employing any remote working arrangements for staff in the past, banks were frontrunners in implementing a successful combination of staff working remotely and on premises. At the same time, the majority of the banking system was able to offer digital solutions to their customers, enabling them to process their banking transactions though digital means without the need to visit a branch. It has now become apparent that the digital transformation of the banking system is a necessity and will be a crucial factor to the successful restart post Covid-19.

27. OPERATING ENVIRONMENT OF THE BRANCH (cont'd)

The response of the European Central Bank ('ECB') to the Covid-19 pandemic has been supportive towards banks across the European Union. In addition to negative interest rates and a renewed quantitative easing, the ECB introduced the Pandemic Emergency Purchase Programme ('PEPP') and increased its refinancing operations for commercial banks, while easing the rules around its collateral framework. In December 2020, the ECB provided further incentives including a €500 billion increase in the size of the PEPP to reach €1.85 trillion and extending its duration until March 2022.

Despite the Covid-19 pandemic and the low to zero interest rates offered, in some cases even negative rates imposed, the banking system still maintains significant excess liquidity indicative of its credibility and level of confidence by depositors.

Banks are continuing their deleveraging efforts, resulting in a reduction of lending volumes in the banking system. The main reasons for the decrease are:

- the sales of loans to non-performing loan management companies
- the management of non-performing loans by specialised companies in this area
- the intensive efforts of banks to settle non-performing loans primarily through debt-asset swaps

As a result of these actions, the non-performing exposures index fell to 19% compared to 45% 3 years ago. Despite the decline in non-performing loans, the challenges of the banking system remain as high levels of non-performing loans and private debt persist. Additionally, excess liquidity in a negative interest rate environment continues to have an adverse impact on banks' profitability.

Furthermore, the gradual implementation by 2025 of the new European requirements to meet the Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') is expected to have an impact on banks' future strategic plans.

The Branch's management recognizes the difficulties involved in predicting all developments which could have an impact on the Cyprus economy and consequently the effect, if any, that they could have on the future financial performance, cash flows and financial position of the Branch. The Branch's management will closely monitor all future developments in the economic and political environment in which it operates and take appropriate measures.

28. EVENTS AFTER THE END OF THE FINANCIAL YEAR

<u>Impact related to the economic situation in Lebanon</u>

Subsequent events of the economic situation in Lebanon are described in Note 1.

<u>Post financial position date developments</u>

The Central Bank of Cyprus by its letter dated 18 March 2021 to the Branch, has informed the Branch for the requirement to place and maintain, at all times, with the Central Bank of Cyprus an amount at least equal to 100% of the Cyprus Branch's covered deposits i.e. deposits guaranteed by the Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS), plus 50% of its remaining customers' deposits which are not covered by the DGS, including accrued interest, in Euro or the equivalent amount plus 5% if the deposit will be placed in US dollars.

The Branch's customers' accounts have been reduced from €25.081.479 at year end to €21.156.787 as at 31 July 2021.

The restrictions imposed by the CBC on 22 November 2019, mentioned in Note 1 are still in place.

ADDITIONAL INFORMATION
ADMINISTRATION EXPENSES

For the year ended 31 December 2020

	2020 EUR	2019 EUR
Municipal taxes	2.312	2.308
Central Bank fees	157.977	111.862
Legal fees	6.469	7.537
Audit and other professional fees	47.268	26.033
Telephone charges	6.889	8.893
Swift expenses	5.956	12.145
Mail charges	2.646	1.795
Repairs and maintenance	17.554	19.009
Electricity	7.639	7.443
Water	149	94
Travelling overseas	-	6.629
Travelling inland	964	935
Insurance	14.427	2.754
Office expenses	5.345	4.191
Cleaning	6.630	5.459
Miscellaneous	2.193	1.699
Donations and grants	300	150
Subscriptions	20.743	19.975
Promotion costs	2.051	5.937
Advertising expenses	536	6.425
	308.048	251.273