Deloitte

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

Report and Financial Statements

31 December 2020

## REPORT AND FINANCIAL STATEMENTS 2020

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## 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<br>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,<br>214, Arch. Makarios III, Avenue<br>3030 Limassol, Cyprus |
| **Cyprus Branch Auditors** | Deloitte Limited<br>Maximos Plaza, Tower 1, 3rd Floor<br>213, Arch. Makariou III Avenue<br>CY-3030 Limassol<br>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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**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.

**Deloitte.**

**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<br>EUR | 2019<br>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 |

**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.

## 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.

## 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).