GROUP FINANCIAL STATEMENTS OF ALPHA BANK CYPRUS LIMITED

ANNUAL REPORT
For the period from 1 January to 31 December 2019

Nicosia,
8 April 2020

ANNUAL REPORT FOR THE YEAR 2019

TABLE OF CONTENTS

BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	A. M. Michaelides
	Dr. A. K. Kritiotis (Resigned on 31 January 2019)
	Ch. C. Giampanas (Resigned on 29 January 2020)
	C. N. Papadopoulos
	L. Georgiadou
	M.A.Iacovidou (Appointed on 1 February 2019)
	M.H.Drakou (Appointed on 29 January 2020)
	Aik. Marmara (Appointed on 29 January 2020)
	K. D. Koutentakis Managing Director
	N. Mavrogenis
Secretary	N.Alkiviades
Legal Advisers	Chryssafinis & Polyviou LLC
Independent Auditors	Deloitte Limited
Registered Office	Corner of Chilonos & Gladstonos Street Stylianou Lena Square, Nicosia
Head Office	Alpha Bank Building 3, Limassol Avenue Nicosia
Reg. No.	HE 923

MANAGEMENT REPORT

The Board of Directors of Alpha Bank Cyprus Limited (the "Bank") presents to the members, its annual report and the audited consolidated financial statements of the Alpha Bank Cyprus Group (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

During 2019, the Group continued to conduct full banking operations by providing a wide range of banking and financial services.

The Bank is a subsidiary of Alpha Bank A.E, which is registered in Greece.

REVIEW OF THE DEVELOPMENTS, POSITION AND PERFORMANCE OF ACTIVITIES

Key financial data		**From 1 January to**	
	Change	**31.12.2019**	**31.12.2018**
In Euro mil.			
Net interest income	18,3%	59,4	50,2
Total income	22,3%	77,8	63,6
Total expenses	10,8%	(61,7)	(55,7)
Profit before impairment	103,8%	16,1	7,9
Impairment losses and provisions to cover credit risk	-77,2%	(5,3)	(23,2)
Profit / (loss) after income tax	-155,6%	10,5	(18,9)
Profit / (loss) per share	150,0%	4,96 cent	(9,91) cent
In Euro mil.		**31.12.2019**	**31.12.2018**
Loans and advances to customers	-2,9%	1.496,1	1.540,8
Due to customers	-2,0%	2.169,5	2.212,8
Transitional common equity tier I ratio (CET I)	-10 basis points	16,5%	16,6%

Net Interest income in 2019 amounted to Euro 59,4 million, presenting an increase of 18,3% compared to Euro 50,2 million in 2018. The increase is mainly attributed to the decrease of the deposits interest rates.

Total income of the Group amounted to Euro 77,8 million in 2019, compared to Euro 63,6 million in 2018. The total increase of income during 2019 of 22,3% is mainly attributed to the decrease of cost of deposits and the increase of commissions and other income.

Total expenses of the Group for 2019, amounted to Euro 61,7 million, compared to Euro 55,7 million for the previous year. The increase of total expenses is mainly due to the increase of staff costs driven from the collective agreements with the Union and the increased contribution to the National Health Scheme (GESY) from 1.3.2019. The expenses were also impacted from a non-recurrent expense of Eur4,4 mil. related to the cooperation with an international firm for the administration of the Non Performing Exposure portfolio. The expenses were also decreased by Eur1,5 mil. from the reversal of a penalty, that was previously imposed to the Bank from the Commissioner for the Protection of Competition, on the basis of a Court decision to cancel the said penalty. Cost to income ratio, is 79,3% for 2019 compared to 87,5% in 2018.

MANAGEMENT REPORT (cont.)

REVIEW OF THE DEVELOPMENTS, POSITION AND PERFORMANCE OF ACTIVITIES (cont.)

Impairment loss and provisions to cover credit risk were decreased in 2019 by 77,2%, to Euro 5,3 million compared to Eur23,2 million in 2018. The decrease is the result of the efforts to improve the Balance Sheet structure.

Accumulated impairments to cover credit risk for on balance sheet balances amounted to Euro 610,6 million on 31 December 2019, covering 28,9% of gross loans, representing a decrease of 14,4% compared to 31 December 2018. Accumulated impairments include the fair value adjustment of the loan portfolio acquired at fair value, as well as exposures that were initially designated as Purchased or Originated Credit Impaired (POCI). The total fair value adjustment amounted on 31.12.2019 to Eur 93,2 mil. (2018: Eur 115,6 mil.)

Net loans and advances to customers on 31 December 2019 amounted to Euro 1.496,1 million, decreased by 2,9% compared to Euro 1.540,8 million at December 31, 2018. The main reason relates to the deleveraging efforts.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood at Euro 1.140,4 million and accounted for 54,1% of gross loans, compared to 57,0% in 2018. On 31 December 2019, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 53,5% compared to 55,5% on 31 December 2018.

Loans over 90 days past due stood on 31 December 2019 at Euro 1.014,5 million representing 48,1% of gross loans. On 31 December 2018, they stood at Euro 1.118,3 million representing 49,6% of gross loans.

Amounts due to customers on 31 December 2019 amounted to Euro 2.169,5 million, compared to Euro 2.212,8 million on 31 December 2018, presenting a decrease of 2,0%. The net loans to deposits ratio was slightly improved from 69,6% on 31 December 2018, to 69,0% on 31 December 2019.

On 31 December 2019, Common Equity Tier I ratio (CET I) stood at 16,5%, (2018 : 16,6%) Tier I ratio at 20,2% (2018 : 16,6%) and Total Capital Adequacy ratio at 20,2% (2018 : 20,6%). The capital adequacy ratios are in accordance with transitional provisions for the year. Despite the positive results for the year 2019, the ratio was slightly decreased due to the recognition of losses related to the application of IFRS9 up to 2022, the repayment of tier II capital and the increase of risk weighted assets

FINANCIAL REULTS

The results of the Group are presented in the Consolidated Statement of Comprehensive Income on page 46 of the financial statements.

The profit for the year attributable to the owners amounted to €10.541thous. (2018: losses €18.965 thous.)

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year 2019 (2018: €nil).

RISK MANAGEMENT

The Group has established a framework of thorough and prudent management of risks, based on best practice and supervisory requirements. This framework, based on the common European legislation and the current system of common banking rules, principles and standards, is improving continuously over time in order to be applied in a coherent and effective way in the daily conduct of the Bank's activities, and making the corporate governance of the Bank effective.

The main objective of the Group during 2019 was to maintain the high quality internal corporate governance and compliance, within the regulatory and supervisory provisions on risk management, in order to ensure confidence in the conduct of its business activities through sound provision of financial services.

A detailed description of risk management is presented in note 38 of the financial statements.

MANAGEMENT REPORT (cont.)

CAPITAL ADEQUACY

Capital adequacy – Ratios

On December 31, 2019 Common Equity Tier I (CETI) ratio of the Group was 16,5% ,Tier I ratio was 20,2% and total Capital Adequacy ratio was 20,2%. The capital adequacy of the Group on December 31, 2019, exceeds the minimum capital requirements for Pillar I and Pillar II, allowing the Group to have a capital buffer.

Alpha Bank Cyprus Ltd is a major subsidiary of the Group Alpha Bank AE, which, after its successful recapitalization at the end of 2015, continues to maintain high capital adequacy ratios with a significant margin to cover the current and future risks on the basis of its business plan and in accordance with its approved risk appetite framework.

In 2018 the Group increased its capital with Eur44.5 mil to further enhance the Group against risks. The total capital ratio on 31.12.2019 stood with transitional provisions at 20,2%. According to the CRR and the CRD IV the minimum Overall Capital Requirement (OCR) is 13,625% for 2019. However, the said requirement increases in 2020 to 13,75%. The Group's capital adequacy on 31 December 2019 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Group with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

In relation to the impact from the application of IFRS 9, the Group will make use of the transitional provisions, according to which the impact will be absorbed applying within five years the provisions of the new standard. The Group is sufficiently capitalized to meet the needs arising from the application of the new standard as the CET1 ratio stands at 16,5% as at 31.12.2019 under the transitional provisions, while the impact from full implementation is estimated at around 2,3% thus forming a ratio of 14,2% on 31.12.2019.

As per the recently announced regulatory measures by EBA and ECB, in view of the COVID-19 outbreak, capital regulatory thresholds for European banking institutions have been relaxed. Specifically, on 12 March, the European Central Bank (ECB) and the European Banking Authority (EBA) announced the following relaxation measures for the minimum capital and liquidity requirements for Banks in the Eurozone:

• Banks are temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance, the Capital Conservation Buffer and the Countercyclical Buffer,

• Furthermore, the upcoming change under CRD5 regarding the P2R buffer was brought forward allowing the Pillar 2 Requirement (P2R) to be covered by Additional Tier 1 (AT1) capital and Tier 2 (T2) capital and not only by CET 1.

EU-wide stress test is primarily focused on the assessment of the impact of risk drivers on the solvency of banks. Banks are required to stress a common set of risks (credit risk – including securitisations – market risk and counterparty credit risk, operational risk – including conduct risk). The EU – Stress Test is a biannual exercise. However due to the outbreak of COVID – 19 (Coronavirus) and its global spread, EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks’ exposures and asset quality to market participants.

CAPITAL ADEQUACY (cont.)

Capital adequacy – Ratios (cont.)

Taking into consideration the recent announcements that allow the Group to operate temporarily at levels below the abovementioned ones, the minimum limit for the Overall Capital Requirement (OCR) is set at 11,25%. It is noted that the Countercyclical Buffer is 0% for Cyprus Banks. The above measures increase the Bank's capital base available to absorb potential losses.

SIGNIFICANT EVENTS

The Group is stepping up its efforts to contain Non Performing Exposures by offering restructuring products under the provisions of the Regulations and Directives of the Central Bank of Cyprus and also to contain its operating expenses.

In this context, the Bank offers Debt to Assets swap (DFAS) solutions. As a result, the Group in 2019 repossessed properties worth Euro29,5 million (2018: Euro 10,0 million). Under the same framework, the Bank has introduced the process in 2018, to set up subsidiaries that take over the properties through the debt recovery process. The results of the subsidiaries have been consolidated in the current Financial Statements.

The Group has reached an agreement with the international company doValue in October 2019 for the management of the non-performing portfolio as well as the repossessed properties. The agreement includes the transfer of certain tangible and intangible assets as well as the employees of the recoveries units involved in the specific operations. The agreement is expected to enter into force in 2020. Therefore, according to IFRS 5 only real estate and equipment amounting to Euro 88 thousand were classified as "Non current assets held for sale" without being classified as discontinued operations as they are not a significant part of the Groups' activities. The Group decreased the above assets to the lowest between the book value and the fair value minus the cost to sell with no need of impairment. In 2020 the Board of Directors decided to cooperate with the same company, to buy consulting services regarding the management of non-performing exposures.

The Group has expressed interest in participating in the "ESTIA" project that is to be introduced by the Republic of Cyprus, which aims to protect the primary residence of borrowers whose value does not exceed Euro 250 thousand. For those loans that qualify for the ESTIA project, the state will contribute the 1/3 (one third) of the loan installment.

Due to the existence of the Covid-19 virus (coronavirus), which has been classified by the World Health Organization as a pandemic, the smooth operation of the world economy and consequently of the Cypriot economy has been affected. For this reason, the European Central Bank (ECB) has decided on a number of measures to address the consequences. Among others, ECB has agreed with the decision of the European Banking Authority to postpone the submission of the stress tests of 2020 as well as to give relaxation to the supervisory indicators of capital and liquidity. The Group evaluates the possible effects that may occur on businesses and households. At the same time, incentives are being considered in cooperation with the Central Bank of Cyprus and the European Central Bank (ECB).

MANAGEMENT REPORT (cont.)

SIGNIFICANT EVENTS (cont.)

The European Securities and Markets Authority (ESMA) in cooperation with European Banking Authority (EBA) issued statements on 25.3.2020. Both authorities consider that the implementation of public or private decisions aimed at addressing the adverse systemic effects of the COVID-19, should not be regarded as an automatic indication that a significant increase has occurred of credit risk.

Alpha Bank Cyprus and the Group monitors recent developments about the rapid transmission of Coronavirus Disease (COVID-19) and considers any potential impact on its asset quality, the sensitivity of risk models to macro-parameters, and the implementation of the commercial plan. Given the uncertainties and recent developments, the Group cannot accurately and reliably estimate the qualitative and quantitative impact on business activities, financial situation and economic results.

We also reassessed the business continuity plan as well as the ability to retain our business operations, in order to support our customers in these harsh times. The group activated early on its Business Continuity Plan, adapted for the case of a Pandemic, to ensure a coordinated response to events that could potentially disrupt our business. In order to address an extraordinary situation as the current COVID-19 outbreak, a series of predefined actions were activated but standard BCP procedures had to be exceeded. In order to mitigate risk, staff for critical functions were immediately split between physical location and BCP sites. Moreover, to ensure continuity of business and to prevent staff with the same skillset from being fully impacted, the majority of our employees in the central units are working from home, while this will be increased gradually to the maximum ratio possible without endangering critical functions or lowering appreciably the service standards of the Group. Branch staff were divided into teams, with one team working while the other stays at home, alternating at set periods of time.

Existing remote access capability has been significantly upgraded and additional hardware was provided to Group's staff, allowing the successful and timely implementation of remote work, and ensuring that all operations can be performed from alternate locations without interruption. At the same time, the Group confirmed that BCP capabilities of a similar nature are in place with our suppliers / vendors covering people, process and technology, to ensure the continued flow of services and goods to the Group.

The above efforts are being carried out in parallel with the actions of the Republic of Cyprus to address the economic consequences of the coronavirus (COVID-19) and to support the economy and entrepreneurship.

Indicatively, the measures taken by the Republic of Cyprus to deal with the consequences of Covid-19 disease are, among other things :
i) the lending by banks to the entrepreneurs of loans with a total value of 2 billion which will carry a state guarantee on the condition that they will secure the jobs,
ii) the temporary suspension of two months of the obligation to pay tax obligations,
iii) financial support to affected companies,
iv) the provision of special compensation for employees of the above companies.
In this context, and in order to assist households and businesses, the Republic of Cyprus, introduced legislation by which a mandatory suspension of installments and interest on all loans that until 28.2.2020 had no past due installments of more than thirty days.

MANAGEMENT REPORT (cont.)

SIGNIFICANT EVENTS (cont.)

The suspension will cover the period April - December 2020 for those individuals and companies who wish to apply for participation. By decision of the Cyprus Banking Association, Cypriot Banks have agreed, as during the period of suspension of loans which fall within the provisions of the Decree and for which a suspension will be made upon expression of interest on the part of the client, compound interest will not be applied.

It is estimated that this decision will not have a significant impact on the capital adequacy or profitability of the Group. Finally, the Cypriot financial institutions will be able to draw liquidity from the Eurosystem on significantly favorable terms. Detailed reference regarding the measures taken to tackle the disease are given in note 45.

DEVELOPMENTS AND PROSPECTS

DEVELOPMENTS

Cyprus economy

Achievements

The Cypriot economy, as in 2018, recorded positive performance. GDP growth for 2019 is estimated at 3,2% compared to 3,9% in 2018. Unemployment fell further to 7% compared to 8,7% in 2018. Inflation remained low at 0,5%. According to the forecasts of the Ministry of Finance, the debt will rise to 97% in 2019 with the prospect of a reduction to 81% by 2022. The Republic of Cyprus has made an early repayment of the loan it had received from Russia and plans to make an early repayment of the loan it had received from the International Monetary Fund by 2020.

Strong economic performance is driven by private consumption, tourism and services. Private consumption has benefited from the rapid expansion of employment in all sectors, which has led to a significant reduction in unemployment. Tourism, services and shipping are the main contributors of the growth.

The introduction of the General Health Scheme (GESY) has created surpluses in the General Government due to the contributions to the health system from 1.3.2019 in contrast to the provision of services that started on 1.6.2019.

The Cyprus economy has been remained by the international rating agencies Standard & Poor's and Fitch to a BBB- investment grade with a stable horizon, making it easier to manage public debt.

The Republic of Cyprus has successfully issued five-year, fifteen-year and thirty-year bonds totaling Euro 2,75 billion.

The recent discovery of hydrocarbons in the Exclusive Economic Zone of the Republic of Cyprus is expected to boost investments in the field of energy resources exploitation.

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Cyprus economy (cont.)

Forecasts

According to the Ministry of Finance's macroeconomic and fiscal forecasts, the fiscal balance in 2020 was projected to present surplus and reach 2,7%, as a percentage of GDP, while the surplus of the primary balance was projected to be around 5,1% of GDP. However, the spread of the COVID-19 epidemic and the government's announced measures are expected to negatively affect both GDP growth and the surplus of the primary balance. It cannot be assessed with accuracy, the impact that the spread of COVID-19 virus will have on the Cypriot economy and GDP, as well as the announced government recovery measures.

Based on the initial forecasts, in 2020 the public debt would had reduced to € 20,4 billion and as a percentage of GDP to be reduced to 91,1%. The decline in public debt as a percentage of GDP was expected to continue in the coming years and fall to 85,9% and 81,1% by the end of 2021 and 2022, respectively.

According to the European Commission's winter forecasts, the Cypriot economy would had continue to be robust and was expected to grow at a slower pace in 2020. The lower expectations for 2020 were affected by the reduced growth of the eurozone as well as the uncertainties of important countries trading with Cyprus. The construction sector may be affected by the passport restriction program for third-country nationals.

Inflation was expected to reach 0,5% in 2019, while for 2020 it was estimated that there will be an increase of up to 0,8% mainly due to the increase in disposable income.

The existence of the Covid-19 virus (coronavirus), which has forced the World Health Organization to announce it is a pandemic, is certain that it will affect the economies of the world due to the drastic measures taken to limit its consequences.

In addition to the COVID-19 (coronavirus) virus epidemic, the risks facing the Cypriot economy are related to the international economic environment, which is still volatile due to continuing trade tensions and geopolitical developments in the surrounding Eastern Mediterranean region including the immigration problem.

The slowdown in global growth, especially in the EU economies and eurozone and other important trading partners of Cyprus, which began to become apparent, if it continues longer than expected, it will have a negative impact on key growth forecasts. In addition, uncertainty remains over how the European Union will work with the UK after his departure.

The international environment of prolonged low interest rates has an impact on the profitability of the banking sector as it reduces the net income of banks

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Greek economy - Operating environment of the parent company

An environment of high confidence regarding the country's potential, was formed in 2019, which is reflected, on the one hand, in the remarkable improvement of the domestic business and consumer expectations' indices and on the other hand, in the substantial reduction of the risk premium, imposed on the debt securities issued by the Hellenic Republic. In parallel, the country's growth dynamics have been strengthened further, amid the slowdown of the European economy and the maintenance of fiscal discipline.

The recovery of the domestic economic activity maintained its pace in 2019, with real GDP growing by 1,9%, the same as in 2018. The primary surplus under the enhanced surveillance definition stood at 4,16% of GDP in 2018, significantly above the target of 3,5%, mainly due to the under-execution of public expenditure for intermediate consumption and the Public Investment Budget. The 2019 EC Autumn Forecast, published in November 2019, indicated that the primary surplus is expected to reach 3,8% of GDP in 2019, whereas the fiscal targets are likely to be met for both 2020 and 2021.

Inflation, based on the Harmonised Index of Consumer Prices (HICP), reached 1,1% in December 2019. According to the 2019 EC Autumn Economic Forecasts, HICP inflation is expected to increase to 0,6% in 2020 and further to 0,9% in 2021.
The unemployment rate continued to decline in the first ten months of 2019, standing at 16,6% in October 2019 (according to seasonally adjusted data), lower by 1,9 percentage points compared to October 2018.

The liquidity conditions in the banking system continued to improve, due to the positive deposit flows from the private sector of the economy, as well as the funding received from the Eurosystem and the interbank market. The dependency of the Greek Banks on the Emergency Liquidity Assistance (ELA) mechanism has been eliminated since March 2019.

Greece's sovereign credit rating was upgraded in March 2019 (Moody's: B1), October 2019 (S&P: BB-) and January 2020 (Fitch: BB), but still remains below the investment grade threshold.

The management of non-performing loans (NPLs) further progressed in the first nine months of 2019. NPLs were reduced to Euro 71,2 billion at the end of September 2019, decreasing by Euro 10,6 billion compared to December 2018 and by Euro 36 billion compared to March 2016, when the highest level of NPLs was recorded. The ratio of NPLs to total loans remains high not only overall (42,1% in September 2019), but also per loan category (43% for mortgages, 49,7% for consumer loans and 40,4% for the business loans portfolio). The decrease of NPLs stock in the first nine months of 2019, was mostly due to write-offs and loans sales (Euro 3,1 billion and Euro 7,1 billion, respectively). It should be noted that, according to the NPL targets submitted to the Single Supervisory Mechanism (SSM) at the end of March 2019, Greek credit institutions aim to reduce the total NPLs ratio, to below 20% by the end of 2021.

MANAGEMENT REPORT (cont.)

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Challenges and uncertainties

In addition to the challenges caused by Covid 19, non-performing loans and private debt continue to be major challenges for the banking sector and the economy in general. The high public debt also remains a challenge.

Actions at European level to revise the tax system in Europe may generate imbalances that Cyprus will need to tackle.

The exit of the United Kingdom (EU) from the European Union (EU) on 31.1.2020 is a serious risk due to the fact that the terms of future cooperation between the UK and the EU have not yet been agreed. This is expected to be completed during transitional period until 31.12.2020. The impact of this event cannot be accurately predicted.

Any developments on a political level, will accordingly affect the economic environment.

PROSPECTS

The Cypriot economy, before the spread of coronavirus (Covid-19) disease, was expected to continue to grow in the coming years, according to the European Commission and international rating agencies. The Group, under the current circumstances and perspectives, is following its business plan, with the aim of continuously consolidating its balance sheet and strengthening its profitability. At the same time, the Group recognizes the risks and challenges of the Cypriot economy, as well as the specificities related to the geopolitical stability of the region and the interconnection with the economic stability of Greece and the Eurozone.

The Group monitors recent developments about the rapid transmission of Coronavirus Disease (COVID-19) and considers any potential impact on its asset quality, the sensitivity of risk models to macro-parameters, and the implementation of the business plan.

Developments resulting from the spread of the Covid-19 virus may lead the Group to reconsider its business plan.

PROSPECTS (cont.)

Group priorities

The primary objective of the Group is to maintain an adequate protection of capital adequacy ratios and liquidity adequacy to effectively address any new challenges. To this end, it cooperates closely with the competent supervisory authorities to take any precautionary measures.

The Group's business plan, among other things, focuses on the following main priorities:

- targeted launch of new services and new credit facilities to boost commission income and interest income.
- enhance the effectiveness of non-performing loans management
- streamline the cost of financing from deposits,
- containment of operating costs and increase productivity,
- upgrade IT infrastructure to improve productivity, efficiency and customer service
- take initiatives that will lead the Group to a digital transformation with the aim of maximizing operational efficiency
- to address the consequences of Covid-19 disease

CORPORATE RESPONSIBILITY - NON FINANCIAL REPORT

Alpha Bank Cyprus Ltd, as a subsidiary of Alpha Bank A.E. does not prepare a separate Non Financial Report since it is included in the said report of Alpha Bank A.E. and Alpha Bank AE Group.

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July, 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15 July 2016 the Group publishes additional information. The Group believes that certain Alternative Performance Measures (APMs) provide additional information that is useful both for assessing performance and for taking strategic decisions.

Alternative Performance Measures

Ratio	**Definition**	**Formula**	**31.12.2019**	**31.12.2018**
			€'000	**€'000**
Cost to Income	Cost to Income ratio gives the relation between total expenses and generated income.	Total expenses minus non recurring expenses / Total income minus non recurring income	61.749 77.849 Ratio 79,3%	55.652 63.578 Ratio 87,5%
			31.12.2019	**31.12.2018**
Net customer loans to customer deposits	The ratio gives the relation between net loans and advances to customers and customer deposits.	Gross loans and advances to customers minus provisions minus fair value of loans acquired / Customer deposits.	2.106.690 – 517.444 – 93.120 2.169.486 Ratio 69,0%	2.254.472–598.035–115.658 2.212.793 Ratio 69,6%
Loans over 90 days past due	The ratio gives the loans which are more than 90 days past due to the gross loans and advances to customers	Loans with more than 90 days past due / Gross loans and advances to customers	1.014.459 2.106.690 Ratio 48,1%	1.118.388 2.254.472 Ratio 49,6%
Non performing exposures (NPE – **E**uropean **B**anking **A**uthority definition)	The ratio gives the relation of non-performing exposures according to EBA definition to the Gross loans and advances to customers.	Non performing exposures according to EBA definition / Gross loans and advances to customers	1.140.417 2.106.690 Ratio 54,1%	1.285.934 2.254.472 Ratio 57,0%
Gross loans coverage	The ratio gives the coverage of Gross loans and advances to customers with provisions.	Provisions plus fair value of loans acquired / Gross loans and advances to customers	610.564 2.106.690 Ratio 29,0%	713.693 2.254.472 Ratio 31,7%
NPEs coverage in accordance with the European Banking Authority (EBA) definition	The ration states how much of non performing exposures are covered with provisions.	Provisions plus fair value of loans acquired / Non Performing exposures according to EBA definition	517.444 + 93.120 1.140.417 Ratio 53,5%	598.035 + 115.658 1.285.934 Ratio 55,5%

SHARE CAPITAL

The share capital of the Bank numbers 212,581,357 common shares with a nominal value of Euro 0,85 each, with a total amount of Euro 180.694.153. All shares are held by Alpha Bank SA Group companies. Alpha Bank AE indirectly holds 100% of the share capital of Alpha Bank Cyprus Ltd.

BRANCHES

The Bank is currently comprised of a modern network of 22 branches (2018:22) and other specialized units which are effectively supported by ATMs, internet banking and mobile banking.

BOARD OF DIRECTORS

The members of the Board of Directors at the date of this report are presented below:

A. M. Michaelides, Chairman
C. N. Papadopoulos
L. Georgiadou
M.A. Iacovidou (appointed 1 February 2019)
M.Ch. Drakou (appointed 29 January 2020)
Aik. Marmara (appointed 29 January 2020)
K. D. Koutentakis, Managing Director
N. Mavrogenis

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT - 2019

Introduction

Alpha Bank Cyprus Limited (hereinafter the "Bank") is a subsidiary of Alpha Bank A.E, which is listed on the Athens Stock Exchange. The shareholding of Alpha Bank A.E. in Alpha Bank Cyprus Ltd is as below:

Direct stake	98,95%
Indirect stake through other companies of the Group	1,05%
Total	100,00%

The Board of Directors, is obliged to apply the corporate governance framework that is followed by the Group, in order to ensure that the Bank is operating correctly and efficiently.

Primary purpose for the implementation of the Corporate Governance Framework is the Bank's compliance with the legal and regulatory requirements that requires the Bank to follow the provisions of the Governance and Management Arrangements in Credit Institutions Directive of 2014, issued by the Central Bank of Cyprus ("CBC") ("CBC's Corporate Governance Directive").

Additionally, the Bank as a member of Alpha Bank Group should comply with the provisions of the Group's Code of Conduct and consequently its operations are also closely supervised by the parent company. The Board of Directors ensures the continued development and formulation of the Corporate Governance Framework's principles, based on international and local standards.

1. Code of Conduct

The Bank has applied best practices which promote effective Corporate Governance and appropriate individual behavior within a framework of the highest level of ethics. The Code of Ethics is addressed to:

- The Members of the Board of Directors of the Bank and of the Group Companies.
- The General Managers, Senior Executives and Employees of the Group.
- Third Parties transacting with the Alpha Bank Group.
- Bank and Group Companies' Advisors.

1.1Commitments

The Bank and its Group (Alpha Bank Group), base their business on the following fundamental commitments :

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

Towards the Customers, the Group grants priority to the satisfaction of their individual and business needs by providing quality services i.e.:

- The protection of customer information confidentiality.
- The protection of personal data through secure and appropriate management thereof.
- The provision of explicit information regarding offered services and products, regardless of the distribution channels.
- The transparency in promoting its services throughout the relationship.
- The diligent resolution of complaints and measuring of customer satisfaction.
- The protection of the Customers' legitimate interests.
- The establishment of the appropriate organisational structure, policies and procedures for the avoidance of conflict of interest situations.
- The implementation of appropriate policies and procedures, to ensure adequate controls against corruption, antitrust violations, abusive contractual terms, insider dealing, conflicts of interest, money laundering, bribery and generation of misleading financial information.

By honouring these commitments, the Group maintains long-term relationships with its Customers, based on trust, expertise and respect for their rightful interests.

Towards the Shareholders, the Group is permanently committed to:

- Creating return for their investment.
- Providing explicit information regarding their rights and obligations.
- Providing transparency regarding the Group's financial performance, General Meetings, Share Capital Increases, stock market value and disclosure of information according to the law.
- Providing prompt and continuous information regarding the Group Corporate Governance policies through constant communication and dialogue.
- Applying best practices of Corporate Governance.
- Implementing policies that generate high standards of ethical conduct.
- Promoting the long-term interests of the Group.

Towards its Personnel, the Group undertakes to:

- Ensure quality working conditions, advancement opportunities and fair remuneration, based on merit and equal treatment, free of any discrimination.
- Respect and promote diversity (with regard to age, gender, ethnic origin, religion, disability/special capabilities, sexual orientation etc.).
- Provide continuous education and training.
- Provide a healthy and safe working environment and help them achieve a balance between professional and personal life, recognizing its importance for well-being and productivity.
- Respect human rights and ban any form of social exclusion.
- Have a zero-tolerance approach to any form of harassment or bullying.

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

Towards the Community, the Group undertakes the commitment to contribute actively to progress and growth. It supports society and its citizens by giving priority to the promotion of human rights, diversity, health, education, culture and the protection of the environment.

1.2 Principles

All the activities of the Bank and its Group (Alpha Bank Group) ultimately aim to the growth and prosperity of the Group and are governed by principles enforced by ethics and laws such as:

- Integrity and honesty.
- Objectivity and independence.
- Discretion and confidentiality.
- Disciplined and reasonable risk taking.
- Transparency.

1.3 Obligations

The above obligations and principles give rise to further obligations for management and employees which are recorded in the staff manual, Directives issued by General Management and in Circulars.

The staff manual and the Bank's policies contain the provisions which cover the general duties of employees, the diligence whilst performing their duties, the required confidentiality, the expected behavior outside the Bank, the prohibition of discussion and publication of topics of political nature, the creation of debt, the prohibition of gambling, unauthorized duties, the prohibition of accepting gifts whilst providing a service as a director or employee of the bank or for obtaining advantages or other benefits and the avoidance of conflicts of interest whilst performing transactions.

Circulars are used to regulate matters which involve the adoption of regulatory and legislative framework such as the enforcement of relevant legislation regarding health and safety in the work environment of the Bank and the prohibition of smoking in all areas of the Bank without exception.

Finally, the Bank enforces the Code of Banking Conduct of the Cyprus Banking Association, of which is a member.

2. External Auditors

During 2019, Deloitte audit firm was appointed as the Bank's independent external auditor, for the third consecutive year. At the Audit Committee's meeting with the external auditors on the 1st of November 2019, Deloitte assured its objectivity and independence, required by the regulatory framework, when it comes to expressing their opinion regarding the financial statements of 2019. The external auditors noted that the members of the audit's team are fully independent from the Bank and assured the Board of Directors that there is no possibility of a conflict of interest when Deloitte's Partners are appointed to the position of Manager Receiver in cases where the Bank is an interested party.

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3. Board of Directors

3.1 Overall purpose/objectives

The Board of Directors is the management body of the Bank and at all times has the primary responsibility for the internal corporate governance in accordance with the Regulatory Framework and for the risk management to be maintained. Defines, oversees and is accountable for the implementation of the governance arrangements that ensure the effective and prudent management of the Bank, including the separation of duties and prevention of the conflict of interests.

The principal obligation and duty of the Board of Directors is to continuously promote the long-term economic value of the Bank and to defend the Bank's best interests whilst taking into consideration the interests of other stakeholders of the Bank.

The Board needs to ensure that the Directors carry the appropriate skills, sufficient knowledge, diversity and experience to perform their duties effectively. The Board of Directors is responsible for setting, periodically reviewing and overseeing the implementation of the institution's business objectives and strategies for achieving those objectives including its risk strategy and internal capital plans, taking into account the institution's long-term financial interests and solvency as well as the interests of depositors, shareholders and other relevant stakeholders.

The Board of Directors exercises the management of the Bank and the administration of its assets and all of its affairs.

Given that the Bank is a member of a Group and constitutes a subsidiary company, its Board of Directors implements the arrangements of its administration, procedures and mechanisms that have been developed at Group level, unless it is determined otherwise by legal and regulatory requirements in the Republic of Cyprus or proportionality issues. In this context, the Board of Directors assesses any administrative decisions at the Group level or practices to ensure that:

(i) There is no violation of the provisions of the Regulation (EU) No 575/2013, the Law and the Directives issued pursuant to the Law and where applicable, other legislative acts or standards.

(ii) There are not detrimental to the proper and prudent management of the Bank for its financial strength/welfare and the legitimate interests of the Bank stakeholders.

3.1.1 Chairperson of the Board of Directors

The Chairperson of the Board of Directors ensures the effective functioning of the Board of Directors, ensures that the size and composition of the Board of Directors remain appropriate in light of growth and increased complexity of the institution or the group and comply the regulatory framework and other applicable governance requirements and ensures an effective communication with supervisory authorities and stakeholders.

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.1.2 Executive Members of the Board of Directors

The executive members of the Board of Directors are Managers who have an employment contract with the Bank. The Executive Members of the Board of Directors are responsible for proposing strategies to the Board of Directors and for executing the agreed strategies to the highest possible standards.

3.1.3 Non-Executive Members of the Board of Directors

The Non- Executive Directors are responsible for monitoring executive activity and contributing to the development of strategies. They need to carry combined sufficient skills, knowledge and experience in order to maintain, under all circumstances, their independence of thought and opinion.

3.2 Main duties of the Board of Directors

The Board of Directors is the decision-making body for all of the Bank's material issues. The main duties of the Board of Directors in accordance with the provisions of the Board of Directors and its Committees' Charters are the following:

- setting and overseeing strategy,
- setting and overseeing the bank's structure, monitoring and supervising the allocation of responsibilities and authority,
- setting and overseeing selection and succession of key functions,
- overseeing senior management,
- setting and overseeing code of business conduct and alert procedures,
- approving and reviewing the supervision of internal control systems, risk management, regulatory compliance and information security,
- setting and overseeing remuneration policy and practices,
- approval of procurement procedures and outsourcing,
- ensuring reliable and transparent financial reporting,
- ensuring effective and transparent communication,
- ongoing monitoring and evaluation of the governance framework.

3.3. Approval and review of the Bank's Policies, Plans and Strategies

During 2019 and until the date of the current Report, the Board of Directors in order to comply with the relevant regulatory framework has reviewed and/or examined and/or amended and/or issued and/or approved, a number of Policies

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.4. Composition of the Board of Directors

The following provisions apply regarding the structure of the Board:

- The Board consists of not less than seven (7) members and not more than thirteen (13).
- The Board is comprised by the Chairman, the Vice Chairman and the Members, who are distinguished between Executive and Non-Executive.
- At least fifty percent (50%) of the Members are independent. The Non-Executive Independent Members of the Board of Directors need to fulfill independence criteria which are set by the provisions of the CBC's Corporate Governance Directive in relation to the fitness and probity of the Members of the Board.
- The Executive Members must be at least two (2) and not more than twenty five percent (25%), one (1) of which must be the Managing Director.
- The Board is sufficiently diverse as regards age, gender and educational and professional background to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge.
- The Board possesses adequate collective knowledge, skills and experience to be able to understand the institution's activities, including the main risks.
- For the appointment of new Board Members, the approval of bank
- Bank of Cyprus and the European Central Bank is obtained.

From 1 January 2019 to 31 December 2019, the composition of the Board of Directors was as follows:

	Full name	Category	Profession
Chairman	Andreas Michaelides	Independent Non-Executive	Accountant/Business Consultant
Vice Chairman	Christos Giampanas	Non-Executive	Business Consultant
Members	Konstantinos Koutentakis	Executive- Managing Director	Bank Employee – Alpha Bank Cyprus Ltd
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee – Alpha Bank Cyprus Ltd
	Constantinos Papadopoulos	Senior - Independent Non-Executive	Accountant/Business Consultant
	Maria Agrotou Iacovidou	Independent Non-Executive	Business Consultant
	Lenia Georgiadou	Independent Non-Executive	Economist

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.4.1 Changes in the composition of the Board of Directors and it's Committees

In January 2019, Mrs. Maria Agrotou Iacovidou's appointment, for the replacement of Mr. Andreas Kritiotis, was completed. Mr. Kritiotis retired from the Bank's Board of Directors on 31st of January 2019.

After the completion of the procedure of Mrs. Maria Agrotou Iacovidou's appointment, in the position of the Non-Executive Independent Member, the Board of Directors accepted the Nominations Committee's proposal, for the new composition of the Board of Directors and it's Committees, as of the 1st of February 2019.

	Full name	Category	Profession
Chairperson	Andreas Michaelides	Independent Non-Executive	Accountant/Business Consultant
Vice Chairman	Christos Giampanas	Non-Executive	Business Consultant
Members	Konstantinos Koutentakis	Executive-Managing Director	Bank Employee – Alpha Bank Cyprus Ltd
	Constantinos Papadopoulos	Senior - Independent Non-Executive	Accountant/Business Consultant
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee – Alpha Bank Cyprus Ltd
	Lenia Georgiadou	Independent Non-Executive	Economist
	Maria Agrotou Iacovidou	Independent Non-Executive	Business Consultant

AUDIT COMMITTEE

Member's Full Name	**Member's Category**
Constantinos Papadopoulos (Chairpeson)	Independent Non- Executive
Lenia Georgiadou	Independent Non- Executive
Christos Giampanas	Non- Executive

RISK COMMITTEE

Member's Full Name	**Member's Category**
Christos Giampanas (Chairperson)	Non- Executive
Andreas Michaelides	Independent Non- Executive
Maria Agrotou Iacovidou	Independent Non- Executive

NOMINATIONS COMMITTEE

Member's Full Name	**Member's Category**
Andreas Michaelides (Chairperson)	Independent Non- Executive
Lenia Georgiadou	Independent Non- Executive
Constantinos Papadopoulos	Independent Non- Executive

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

On the 17th of July 2019, Mr. Giampana's maximum service as a Non-Executive Member of the Bank's Board of Directors, was completed according to the CBC's Corporate Governance Directive.

The Board of Directors authorised the Nominations Committee to carry out the actions required and the decision-making for the selection of the new Non-Executive Independent Member of the Board of Directors, that will replace Mr. Giampanas.

The Bank's General Management contacted the parent company, Alpha Bank S.A., in order to identify potential candidates from the Alpha Bank Group banking environment. This resulted in the pre-approval of Mrs. Ekaterini Marmara, Senior Manager of the Trading Division in Alpha Bank S.A. (Alpha Bank Treasurer), as the most suitable candidate for the position of Non-Executive Director.

The Board of Directors, taking into consideration the positive recommendation of the Nominations Committee, unanimously approved Mrs. Ekaterini Marmara's candidacy for the position of the Bank's Non-Executive Member of the Board of Directors. The Bank has forwarded to the CBC all the relevant and essential information/documents, requesting its consent, for the finalisation of the replacement of Mr. Giampanas by Mrs. Ekaterini Marmara.

The European Central Bank, in a relevant decision, agreed with the Bank's recommendation for the appointment of Mrs. Aikaterini Marmara as a Non-Executive Member and the Board of Directors ratified her appointment on January 29, 2020.

In the Report results for the evaluation of the composition, efficiency and effectiveness of the Board of Directors and its Committees, which was prepared in March 2018 by the independent external Consultant, Ernst & Young, it has been recorded as a finding that the Board of Directors consists of seven (7) Members which is the minimum number of Members as provided by the CBC's Corporate Governance Directive. The Consultant stated that this number is likely to cause problems for the smooth operation of the Board in the event of an unforeseen departure of one of the existing Directors or until the completion of the process of finding a suitable candidate for replacement, taking into consideration the time required to obtain approval from the Central Banks. This would also result in failure to ensure a quorum for the operation of the Committees, in accordance with the Rules of Procedure of the Board's Committees.

The said report was submitted to the CBC and the finding has been recorded in the – Supervisory Review and Evaluation Process Report of the European Central Bank -SREP Letter for 2018.

Following the Board of Director's recommendation, the Bank Shareholders' General Meeting, which took place on the 26th of July 2019, approved the increase of the number of the members of the Board of Directors, from seven (7) to nine (9).

Following that, the Nominations Committee took all the necessary actions for the increase of the Board members from 7 to 9 and the Board of Directors unanimously approved the candidacies of Mrs. Militsa Drakou and Mr. Georgios Mergos, for the position of the Independent Non-Executive Member and requested the CBC's consent for the proposed appointments, by sending all the relevant and essential information/documents.

The European Central Bank did not object to the Bank's proposal for the appointment of Mrs. Militsa Drakou as an Independent Non-Executive Director and the Board of Directors ratified her appointment on the 29th of January 2020.

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

As per the date of the current Report, the composition of the Board of Directors is as follows:

	Full name	Category	Profession
Chairperson	Andreas Michaelides	Independent Non-Executive	Accountant/Business Consultant
Members	Konstantinos Koutentakis	Executive-Managing Director	Bank Employee – Alpha Bank Cyprus Ltd
	Constantinos Papadopoulos	Senior - Independent Non-Executive	Accountant/Business Consultant
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee – Alpha Bank Cyprus Ltd
	Lenia Georgiadou	Independent Non-Executive	Economist
	Maria Agrotou Iacovidou	Independent Non-Executive	Business Consultant
	Ekaterini Marmara	Non- Executive	Bank Employee – Alpha Bank S.A.
	Militsa Christodoulou Drakou	Independent Non-Executive	Business Consultant

After the completion of the procedure of Mrs. Ekaterini Marmara's appointment, for the position of the Non-Executive Member and that of Mrs. Militsa Drakou's appointment, for the position of the Independent Non-Executive Member, the Board of Directors accepted the Nominations Committee's proposal, for the new composition of the Board of Directors and it's Committees, as of the 30th of January 2020.

AUDIT COMMITTEE

Member's Full Name	**Member's Category**
Constantinos Papadopoulos (Chairpeson)	Independent Non- Executive
Lenia Georgiadou	Independent Non- Executive
Maria Agrotou Iacovidou	Independent Non- Executive

RISK COMMITTEE

Member's Full Name	**Member's Category**
Andreas Michaelides (Chairpeson)	Independent Non- Executive
Constantinos Papadopoulos	Independent Non- Executive
Militsa Christodoulou Drakou	Independent Non- Executive

The Board of Directors acknowledges paragraph 53 of the EBA Guidelines on Internal Governance which states that, *"In all institutions, the chair of the risk committee should be neither the chair of the management body nor the chair of any other committee."*. Nevertheless, the Board of Directors unanimously decided on this temporary arrangement, for which the CBC has been informed, due to the Chairman's departure in July 2020 and due to the CBC's pending decision for the appointment of two new Independent Members.

NOMINATIONS COMMITTEE

Member's Full Name	Member's Category
Lenia Georgiadou (Chairperson)	Independent Non- Executive
Andreas Michaelides	Independent Non- Executive
Ekaterini Marmara	Non- Executive

In the context of finding potential candidates for the replacement of vacant board members' positions in the future, the Board taking into consideration the positive recommendation of the Nominations Committee, unanimously approved Mrs. Evgenia Christodoulou's candidacy for the position of the Independent Non-Executive Member. Following that, the Bank requested the CBC's consent for the proposed appointment, by sending all the relevant and essential information/documents.

3.4.2 Curricula vitae of all the Members of the Board of Directors

Andreas Michaelides (Chairman of the Board of Directors- Independent Non-Executive Member)

In 1970 he became a Member of the Institute of Chartered Accounts in England and Wales and upon his return to Cyprus he joined Coopers and Lybrand. From 1972 to 1979 he was employed by the Bank of Cyprus as Manager of the Financial Control Division and also as Secretary of the Board of Directors. In 1979 he joined Chrysanthou and Christophorou Audit Company and later he became partner in Peat Marwick Mitchell and Co (KPMG today). He served as the Managing Director of the Emergo Group in Cyprus between 1992 and 2010, where he remains on the Boards of several group companies as Non- Executive Director. He has also served as President of the Council of the Institute of Certified Public Accountants of Cyprus. He has served on the Bank's Board of Directors since July 2011 as a Member and since 26 April 2016 as Chairman.

Date of Appointment:	20/07/2011
Participation in the Board's Committees:	Risk Committee and Nominations Committee

Konstantinos Koutentakis (Executive Member- Managing Director)

He graduated from Stanford University (BSc in Electrical Engineering and MSc in Engineering Economic Systems), and also holds an MBA from INSEAD Business School. He joined Alpha Bank Group in 2002. Initially, he worked at Alpha Mutual Funds, a Group Company of Alpha Bank S.A.. In 2007, he joined Alpha Bank S.A., where he has held various managerial positions, among others, the positions of Head of Retail Distribution Strategy, Head of Asset Gathering, Personal Banking Segment, Mass Segment & CRM, and the position of Executive General Manager – Asset Gathering Management. In April 2017, he was appointed as the Bank's Managing Director and as an Executive Board of Director's member.

Date of Appointment:	28/04/2017
Participation in the Board's Committees:	Non-applicable

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

Nicholas Mavrogenis (Executive Member- General Manager of Operations)

He graduated from Imperial College of Science and Technology, University of London with a BEng in Electrical and Electronics Engineering (1991), an MSc in Engineering and Physical Science in Medicine (1993) and an MBA (1994). He started his career in Alpha Bank Cyprus Ltd in 1994, where he has held, amongst others, the positions of Head of Brokerage Services, Head of Consumer Lending Department and Manager of the Organisation Division. Since April 2013, he has held the positions of General Manager of Operations and Member of the Board of Directors of the Bank.

Date of Appointment:	26/04/2013
Participation in the Board's Committees:	Non-applicable

Constantinos Papadopoulos (Independent Non-Executive Member)

He has a BSc (Econ) in Accounting and Finance from the London School of Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales. From 1978 to 2012 he worked at Coopers & Lybrand (later renamed PriceWaterhouseCoopers), where he became a partner in 1982. He served as a Member of the Executive Board of the firm and as Deputy Managing Partner. He has also served as President of the Council of the Institute of Certified Public Accountants of Cyprus between 1993 and 1995, Chairman of the Board of the Cyprus Stock Exchange between 1993 and 2000 and President of the Cyprus-Greece Business Association between 2004 and 2008. He has served on the Bank's Board of Directors Bank since October 2015 and in January 2019, he was appointed as the Senior Non-Executive Independent Member of the Board.

Date of Appointment:	23/10/2015
Participation in the Board's Committees:	Audit Committee and Risk Committee

Lenia Georgiadou (Independent Non-Executive Member)

She studied Economics at the London School of Economics and gained practical experience both on Financial Analysis and Policy and on Management and Investment Appraisal, having attended relevant courses at the International Monetary Fund (IMF) and the Pittsburgh University, respectively. Mrs. Georgiadou started her career in the Central Bank of Cyprus in 1970, where she held various positions until her retirement in 2010 from the position of the Director of Domestic Banking Services. She served as Chairwoman on the Board of Directors of SPE Tamassos-Orinis & Pitsilias, a Cooperative Credit Institution, between 2014 and 2016 and as Chairwoman on the Board of Directors of the General Insurance Co Ltd from April 2013 to September 2013. She also served as Member of Bank of Cyprus' Board of Directors and Eurolife Ltd's Board of Directors from April 2013 to September 2013. She has been a Member of the Bank's Board of Directors since, January 2017.

Date of Appointment:	31/12/2017
Participation in the Board's Committees:	Nominations Committee and Audit Committee

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

Maria Agrotou Iacovidou (Independent Non-Executive Member)

She graduated from the University of Essex with a B.A (Hons.) in Economics and holds an M.Sc. in Accounting and Finance from the London School of Economics. She started her career in 1983 in The Cyprus Investment & Securities Corporation Limited (CISCO), member of the Bank of Cyprus Group, where she gained wide experience in both Investment Banking and Capital Markets, serving as Head of the Department. In 2004 she joined Societe Generale Bank Cyprus Ltd as Head of the Corporate and Project Finance Department. In 2010 she moved to Barclays Bank Plc-Cyprus branch as Head of Business Development. In 2016 she assumed the position of Country Manager (Cyprus). In addition, Mrs. Agrotou Iacovidou has been a Member on the Board of Directors of Universal Life Insurance Public Company Ltd, since April 2017. She was appointed on the Bank's Board of Directors, in February 2019.

Date of Appointment: 01/02/2019

Participation in the Board's Committees: Audit Committee

Ekaterini Marmara (Non-Executive Member)

She graduated from the Economic University of Athens with a BSc in International and European Economic Studies and holds an M.Sc. in International Banking and Financial Studies from the University of Southampton. She started her career in 1997 at Alpha Bank S.A., where she gained wide banking experience in the area of treasury. She currently holds the position of the Senior Manager of the Trading Division in Alpha Bank S.A. (Alpha Bank Treasurer). She has been a Member of the Bank's Board of Directors since, January 2020.

Date of Appointment: 29/01/2020

Participation in the Board's Committees: Nominations Committee

Militsa Christodoulou Drakou (Independent Non-Executive Member)

She graduated with a BSc (Hons) in Economics from the London School of Economics and Political Sciences (LSE). She continued with a postgraduate MBA from the Anderson Graduate School of the University of California at Los Angeles (UCLA). She was employed, abroad, by Procter & Gamble Co. (P&G) as a Brand Manager. She then worked for the Cyprus Development Bank Public Company Ltd (CDB Bank) from 2008 to 2013, initially as a Financial Analyst, progressively as a Manager and Senior Manager in the Banking Division and then as Senior Executive Manager of the Bank's Corporate Banking Division. She is a professional consultant in banking and finance. She was a member of the Committee of Institute of Financial Services (IFS) Cyprus, a Chairwoman of the Board of Directors of LCP Holdings and Investments Public Ltd, a Non-Executive member of the Board of Directors of the Cyprus Investment and Securities Corporation Ltd (CISCO) and an Executive member of MFO Asset Management Ltd. She was appointed on the Bank's Board of Directors, in January 2020.

Date of Appointment: 29/01/2020

Participation in the Board's Committees: Risk Committee

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.5 Secretary of the Bank

The Bank's Secretary is responsible to assist the performance of the Board of Directors as follow:

(i) To ensure that the Board and its Committees are constituted and function in compliance with internal rules, the Board Manual, CBC's Directives and other applicable legal and supervisory requirements
(ii) Act as a source of information and advice to members of the Board of Directors.
(iii) Collaborate with the Chairman of the Board in preparing the schedule of all Board and Committees meetings.
(iv) Ensure that non-executive members have access to independent professional advice at the expense of the Bank if required.
(v) Has an active involvement in preparing the agenda of the meetings of the Board and its Committees.
(vi) Ensure that minutes are kept in accordance with the provisions of the CBC's Directives.
(vii) Provide support to the Board of Directors in setting succession planning and overseeing succession and rotation of tasks of non-executive members of the Board.

The Bank's Secretary is responsible to promote the development and appraisal of the Members of the Board. Among other shall:

(i) Arrange induction programmes for new non-executive members of the Board of Directors which are aiming to provide full, formal and tailored introduction to their duties and responsibilities within the Board, and the Bank and its affairs in general
(ii) Assist the Chairman in assessing and satisfying the training needs of the members of the Board of Directors and ensure that there is in place an ongoing suitable programme aiming to keep members well informed of developments occurring in the environment of the Bank and moreover on matters which are relevant to their responsibilities
(iii) Provide assistance and support to the Chairman of the Board in developing and performing performance evaluations of the management Body as a whole, its committees and each individual member.

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.6 Meetings of the Board of Directors

The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively. During 2019, fifteen (15) Board meetings were held.

Invariably it is ensured that all Members of the Board are correctly informed in writing of forthcoming Board meetings and all necessary documentation relating to the meeting is provided in a timely manner to allow them adequate time to review.

A quorum for any meeting of the Board of Directors shall be fifty percent (50%) of the Members, rounded down plus one (1).

Every effort is exercised to hold at least once a year a management body's regular meeting with the physical presence of all Members.

The Non-Executive Members of the Board of Directors hold regular meetings on their own or with the external auditors and/or the heads of the internal control functions as appropriate, without the presence of the executive members, at least on a semi –annual basis.

The Non-Executive Members of the Board of Directors meet without the Chairman present at least annually to appraise the Chairman's performance.

The arrangement of attending scheduled or special meetings via teleconference of videoconference must not be abused but used with caution and the Board of Directors must ensure that at least fifty percent (50%) of the Board Members plus one Member, rounded down, of the Members are physically present at any scheduled meeting.

Members of the Board of Directors may not be absent from Board meetings, whether physically or otherwise, for more than two (2) consecutive meetings or twenty five percent (25%) of the meetings held annually.

Members of the Boards reserve permission to provide proxy to each other at a Board meeting in which will be absent. However, the execution of the proxy is restricted to one (1) vote for each individual member, being present at the Board meeting. Members of the Board who vote via proxy are held accountable for their proxy vote.

No other person is present unless formally invited to attend for a specific matter(s) on the agenda. Any such person is present only during the discussion of the specific item and leaves the meeting room immediately after, without any participation in the decision making process.

Decisions are taken by a majority and in the event of a tie the Chairman has a casting vote.

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

3.7 Board performance evaluation

The Board of Directors is responsible to ensure that the Bank maintains proper framework of procedures to evaluate the performance of the Board, its Committees and individual Members at least on an annual basis.

If at any time a person who holds the position of an Independent Member, does not meet of appear to fulfill any of the independence criteria, the Board of Directors shall immediately investigate the case, by taking the necessary corrective measures, including the removal of the said Member from the Board of Directors or redefine the Member's role in the Board of Directors and/or the appointment of a new Independent Member. The time period for the implementation of all necessary measures for reinstatement shall not exceed one month. The said Member shall be dismissed from its duties as an Independent Member of the Board of Directors since the day it non-compliance with the independence criteria is identified.

The Board of Directors shall maintain that a process through which the Non-Executive Board Members assess themselves, their individual skills, knowledge and experience whether further professional development will help to advance their expertise and fulfill their obligations, is provided.
During the first quarter of 2018, an independent external advisor, Ernst & Young, carried out the assessment regarding the composition, efficiency and productivity of the Board of Directors and its Committees.

The assessment report was submitted to the CBC before the 31st of March 2018, complying with the relative requirements of the CBC's Corporate Governance Directive.

The Secretariat Division monitors the actions for the implementation of the propositions that were included in the Assessment Report.

Regarding the same matter, the Board of Directors approved the document "Methodology of the evaluation of Board of Directors". The document was drafted for the implementation of the proposition/finding, included both in PWC's Assessment Report for the adequacy of the Bank's internal audit system (June 2017) and Ernst & Young's assessment report regarding the composition, efficiency and productivity of the Board of Directors and its Committees (March 2018).

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

4. Internal Audit System

The Board of Directors confirms that during 2019 the Bank was maintaining an adequate and effective internal control system.

The Board, through the Audit and Risk Committee monitors on an annual basis the adequacy and effectiveness of the internal control system. For the monitoring of the framework of the internal controls, the Audit and Risk Committee, receive on a frequent basis information from the control units of the Bank. The relevant information is being assessed and thereafter being forwarded to the Board of Directors.

The Bank maintains an Internal Audit Division headed by the Manager Mr. Vasilios Papademetriou. Currently, eleven employees are working in the Internal Audit Division.

During 2017, a review of the framework of the internal controls was carried out by an external auditor, other than the Bank's statutory external auditor, PricewaterhouseCoopers («PWC»). The review has been carried out according to the provisions of the CBC's Corporate Governance Directive.

Within 2020, the three-year assessment will be carried out, by PWC, assessing the adequacy of the internal control system and its compliance with the regulatory requirements of the CBC's Corporate Governance Directive.

The selection process of the external auditor, to whom the three-year assessment of the internal control system was assigned, was carried out at Group level and will include the parent Alpha Bank S.A. and its subsidiaries.

The Audit Committee on the 11th of December 2019, decided to adopt the scope of the evaluation, for instance the Bank's Divisions that will be assessed in the context of the three-year assessment of the internal control system, that will take place in 2020. Following that, the Board of Directors at its meeting on the 12th of December 2019, approved the Audit Committee's relevant decision.

5. Conflict of Interest

The Board of Directors' internal manual includes the procedure of the identification, prevention and management of conflicts of interests, in order to ensure that the Members of the Board defend the Bank's best interests. The abovementioned internal manual is being reviewed regularly and at least on an annual basis.

6. Remuneration of Board Members

The remuneration and benefits of Executive and Non-Executive Members are shown in note 40 of the financial statements.

7. Board Committees

The Audit Committee, Risk Committee and the Nominations Committee were active throughout the course of 2019. The responsibilities of the Remuneration Committee have been delegated to the Remuneration Committee of the parent company Alpha Bank A.E, as approved by the CBC.

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

7.1 Audit Committee

7.1.1 Main Responsibilities

The main responsibilities of the Audit Committee which are derived from the Internal Manual of the Board of Directors and its Committees are the following:

- The monitoring and assessment of the adequacy and effectiveness of internal control systems, within the Framework of Internal control and Regulatory Compliance.
- Advising the Board regarding the adequacy and effectiveness of the framework for business conduct.
- The monitoring of the financial reporting process and the integrity of the bank's financial statements and any formal announcements relating to the bank's financial performance.
- Evaluation of the findings and recommendations of internal and external audits and monitoring of the implementation of the necessary corrective measures.
- Ensures that it has complied with the independence procedures of internal audit. The conclusion is based on the organizational structure of the Bank and the meetings held with the Internal Auditor, the assessment of the effectiveness of Internal Auditors and the assessment of other audits.

7.1.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2019 the Committee convened fourteen (14) times.

7.1.3 Composition

The Committee consists only of Non-Executive Members and more than fifty percent (50%) are Independent Members.

On the 31st of December 2019, the composition of the Audit Committee was the following:

- Constantinos Papadopoulos, Chairman
- Lenia Georgiadou
- Christos Giampanas

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

7.2 Risk Committee

7.2.1 Main Responsibilities

The main responsibilities of the Risk Committee which are derived from the Internal Manual of the Board of Directors and its Committees are the following:

- The configuration and monitoring of risk taking strategies of all kinds, within the broader framework of strategy and policies of the Bank.
- Development and monitoring of the adequacy and effectiveness of the framework and the functioning of the Risk Management and Information Security.
- The evaluation on an annual basis of, the adequacy and effectiveness of risk management policies and acceptable limits, the adequacy of provisions and in general the capital adequacy in relation to the amount and type of risk exposure.

7.2.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2019 the Committee convened thirteen (13) times.

7.2.3 Composition

The Committee consists only of Non-Executive Members and more than fifty percent (50%) are Independent Members.

On the 31st of December 2019, the composition of the Risk Committee was the following:

- Christos Giampanas, Chairman
- Andreas Michaelides
- Maria Agrotou Iacovidou

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

7.3 Nominations/Internal Governance Committee

7.3.1 Main Responsibilities

The main responsibilities of the Nominations/Internal Governance Committee which are derived from the Internal Manual of the Board of Directors and its Committees are the following:

- Assessing periodically, and at least annually the structure, size, composition and performance of the Board as a whole and also ensure that there is a proper balance of diversity, skills and experience in case of succession.
- Assessing periodically, and at least annually, the knowledge, skills and experience of individual members.
- Review the policy applied by the Board for the selection, development and appointment of senior management and the recruitment, job rotation and promotion of staff.
- Review, in cooperation with the audit and risk committees, their composition, powers and independence of the control departments.
- Define the representation of gender in the Board. The target set is to a have a minimum of one presentation from each gender in a Board with seven members. The mentioned target has been fulfilled during 2019.

7.3.2 Meetings

The Committee convenes at least once a year or more frequently depending on the circumstances. During 2019 the Committee met eight (8) times.

7.3.3 Composition

The Committee consists only of Non-Executive Members and more than fifty percent (50%) are Independent Members.

On the 31st of December 2019, the composition of the Nominations Committee was the following:

- Andreas Michaelides, Chairman
- Lenia Georgiadou
- Constantinos Papadopoulos

CORPORATE GOVERNANCE REPORT – 2019 (cont.)

7.4 Summary table of the meetings of the Board and the Committees during 2019 (physical presence and via videoconference)

Name	Board of Directors	Risk Committee	Audit Committee	Nominations/ Internal Governance Committee
Andreas Michaelides	14/15	13/13		8/8
Christos Giampanas	15/15	12/13	13/14	1/8
Konstantinos Koutentakis	15/15			
Nicholas Mavrogenis	15/15			
Andreas Kritiotis *	1/15		1/14	1/8
Constantinos Papadopoulos	15/15	1/13	14/14	7/8
Lenia Georgiadou	15/15		14/14	7/8
Maria Agrotou Iacovidou **	14/15	12/13		
Total number of meetings	15	13	14	8

* Resigned on the 31st of January 2019
** Appointed on the 1st of February 2019

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

As at 31 December 2019 and 31 December 2018, the percentage of shareholders with direct or indirect stake of more than 5% of the issued share capital of the Bank were as follows:

	31 December 2019	31 December 2018
	%	%
Alpha Bank A.E.	100	100

BOARD OF DIRECTORS' INTERESTS IN THE BANK'S SHARE CAPITAL

The direct or indirect shareholding in the Bank held by members of the Board of Directors is described in note 42 of the financial statements.

RELATED PARTY TRANSACTIONS

Transactions with related parties are described in note 43 of the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the reporting period are described in note 45 of the financial statements.

INDEPENDENT AUDITORS

The independent auditors of the Bank, Deloitte Ltd, have expressed their willingness to continue in office. A resolution authorising the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board of Directors,

Nikitas Alkiviades
Secretary

Nicosia, 8 April 2020

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Alpha Bank Cyprus Limited (the "Bank"), and its subsidiaries (consolidated with the Bank, the "Group"), which are presented in pages 46 to 233 and comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 45 of the consolidated financial statements which describes the material uncertainty related to coronavirus pandemic (COVID-19) and its impact on the global and consequently, Cypriot economy. Given the above, COVID-19 may have a negative impact on global and Cypriot economy that will potentially affect the activities and the financial results of the Group. However, it is not possible to identify and quantify the aforementioned impact with reasonable accuracy at this stage due to the material uncertainty surrounding the exact consequences and the duration of this pandemic. Our opinion is not modified in respect of this matter.

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

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

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	How our audit addressed the Key audit matter
Allowance for loans and advances to customers	
Loans and advances to customers at amortised cost of the Group amounted to €2.014 million at 31 December 2019, compared to €2.138 million at 31 December 2018, and accumulated impairment losses on loans amounted to €517 million for the Group for the year ended 31 December 2019, compared to €598 million for the year ended 31 December 2018. The Group established allowances for impairments on loans and advances to customers at amortised cost for expected credit losses (accumulated impairment losses) on both an individual and on a collective basis. The estimation of expected credit losses (ECL) on loans and advances to customers at amortised cost is considered a key audit matter given the magnitude of the specific account balance and the involvement of critical Management judgments and accounting estimates with high level of subjectivity and complexity. The most significant Management judgements and accounting estimates, relate to: • The criteria used for the staging assessment of loans and advances to customers. • Accounting interpretations, modeling assumptions and input data used in the models that calculate the ECL (the “models”) including the estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters. • Assumptions of expected future cash flows of individually assessed credit impaired exposures, including assessment approach and valuation of collaterals.	Based on our risk assessment and following a risk-based approach, we performed, inter alia, the following audit procedures: • Assessment of the appropriateness of impairment provisioning methodologies and policies adopted by Management in relation to the allowance for impairments on loans and advances to customers at amortized cost under IFRS 9 “Financial Instruments”. • Assessment of the design and implementation of internal controls relevant to ECL, including controls around methodologies applied, judgements and estimates employed by Management, data accuracy and completeness, model calculations, as well as internal controls over the valuation of collaterals processes. Where appropriate, we involved our credit risk and information technology specialists in performing our procedures. • Assessment of the design, implementation and operating effectiveness of internal controls relevant to staging classification of loans and advances to customers at amortised cost. Where appropriate, we involved our credit risk and information technology specialists in performing our procedures. • With the support of our credit risk specialists, we developed an independent estimate of the allowance for impairment on loans and advances to customers at amortised cost which have been collectively assessed for impairment purposes according to Group’s methodology, and we compared our estimate with the results of the collective provision exercise of the Group. Our audit work included the estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD). Relating to the specialised lending portfolios (syndicated and shipping loans), with the support of our specialists, we assessed the methodologies applied on credit risk models and the appropriateness of the assumptions relating to probability of default, loss given default and exposure at default.

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter (Cont'd)	How our audit addressed the Key audit matter (Cont'd)
Allowance for loans and advances to customers (Cont'd)	
• The inputs and assumptions used to estimate the impact of multiple economic scenarios. • Post model adjustments made to reflect model and data limitation. Management has provided further information relating to the above in Notes 1.6.3, 10, 18 and 38 of the consolidated financial statements.	• Assessment of the reasonableness of the base case scenario and alternative macroeconomic scenarios, following the assessment of appropriateness of forecasted macroeconomic variables such as GDP, unemployment rate, Residential Real Estate Price Index and Commercial Real Estate Price Index. • On a sample basis, we assessed the reasonableness of significant assumptions used in the measurement of impairment of individually assessed credit impaired exposure, including valuation of collaterals as well as assumptions used for estimating future discounted cash flows. • On a sample basis, with the support of our real estate specialists, we assessed the appropriateness of the assumptions and data used in the valuation of the collateral properties. • Assessment of the appropriateness of the criteria and significant assumption used by the Management for the staging classification of loans and advances to customers. • Assessment of the appropriateness of post model adjustments with particular focus on the methodology applied and evidence of assumptions-setting process by challenging key assumptions, assessing the calculation methodology, comparing against actual data and other supporting evidence, and considering key developments since last year, market circumstances, our industry knowledge and experience. • Assessment of the completeness and accuracy of the disclosures in the consolidated financial statements in accordance with the relevant accounting standards (IFRSs). The above audit procedures were completed in a satisfactory manner.

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Key audit matter (Cont'd)	**How our audit addressed the Key audit matter (Cont'd)**
General Information Technology System Controls relating to financial reporting	
The Group's financial reporting processed are highly dependent on information Technology ("IT") systems supporting automated accounting and reconciliation procedures, thus leading to a complex IT environment, pervasive in nature in which a significant number of transactions are processed daily, across numerous locations. This is a key audit matter since it is important that controls over access security, system change control and data center and network operations, are designed and operate effectively to ensure complete and accurate financial records/information.	Based on our risk assessment, we have tested the design and operating effectiveness of General Information Technology Controls (GITCs) relevant to the financial reporting. Our assessment included the evaluation of access rights over applications, operating systems and databases, the process followed over changes made to information systems, as well as data center and network operations. Where appropriate, we involved our information technology specialists in performing our procedures. In summary, our key audit procedures included, among others, testing of: • User access provisioning and de-provisioning process, • Privileged access to application, operating systems and databases, • Periodic review of user access right process, • Change management process over applications, operating systems and databases (i.e. user request, user acceptance testing and final approval for promotion to production), • Data center and network operations, including the creation and monitoring of security back-ups. The above audit procedures were completed in a satisfactory manner.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and Corporate Governance Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements (continued)

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

The Board of Directors is responsible for the preparation of consolidated financial statements 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 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 consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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 though to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters.

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 Group for the year 2017 on 26 May 2017 by the Annual General Meeting after the submission of related suggestion by the Board of Directors of the Group. We were reappointed as auditors for the year 2019 in the General Meeting of the shareholders of the Group on 26 July 2019. Ours appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 3 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 8 April 2020 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 Group and which have not been disclosed in the consolidated financial statements or the Management Report.

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Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements (continued)

Other Legal Requirements

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

- In our opinion, based on the work undertaken in the course of our audit, the Management Report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the Corporate Governance Report in accordance with the requirements of subparagraphs (iv) and (v) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of the paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap 113,
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Corporate Governance Report in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

Other Matters

This report, including the opinion, has been prepared for and only for the Group'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 Alexis Agathocleous.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

8 April 2020

Consolidated Statement of Comprehensive Income

	Note	From 1 January to 31.12.2019 €'000	31.12.2018 €'000
Interest and similar income		69.207	78.128
Interest expense and similar charges		(9.787)	(27.977)
Net interest income	2	59.420	50.151
Fees and commission income		10.471	8.118
Commission expense		(1.404)	(1.175)
Net fee and commission income	3	9.067	6.943
Dividend income	4	311	502
Gains less losses on derecognition of financial assets measured at amortised cost	5	265	71
Gains less losses on financial transactions	6	1.634	800
Other income	7	7.152	5.111
Total other income		9.362	6.484
Total income		**77.849**	**63.578**
Staff costs	8	(35.004)	(32.652)
General administrative expenses and other expenses	9	(22.847)	(20.970)
Depreciation and amortization	19 - 21	(3.898)	(2.030)
Total expenses before impairment losses and provisions to cover credit risk		**(61.749)**	**(55.652)**
Impairment losses and provisions to cover credit risk	10	(5.285)	(23.170)
Profit / (loss) before tax		10.815	(15.244)
Tax	12	(274)	(3.721)
Profit / (loss) after tax		**10.541**	**(18.965)**
Other comprehensive income recognised directly to equity:			
Items that will not be reclassified subsequently to the Income Statement			
Gains/(losses) from shares measured at fair value through other comprehensive income		1.589	681
Items that may be reclassified subsequently to the Income Statement			
Net change in securities reserves measured at fair value through other comprehensive income	33	6.176	(859)
Total of other comprehensive income recognized directly in equity		7.765	(178)
Total comprehensive income for the year attributable to:			
- equity owners of the bank		18.306	(19.143)
- third parties		-	-
		18.306	(19.143)
Earnings/(losses) per share :			
Basic and diluted (€ cents)	13	4,96	(9,91)

The notes on pages 50 to 233 form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	31.12.2019 €´000	31.12.2018 €´000
ASSETS			
Cash and balances with central banks	14	230.830	559.913
Due from banks	15	327.966	177.720
Derivative financial assets	17	490	173
Loans and advances to customers	18	1.496.126	1.540.779
Investment securities measured at fair value through other comprehensive income	16	451.057	277.443
Investment property	19	18.505	7.270
Property, plant and equipment	20	29.524	22.411
Intangible assets	21	1.615	1.635
Deferred tax assets	22	8.250	8.524
Stock of property	23	24.966	12.878
Other assets	24	7.495	5.689
		2.596.824	2.614.435
Non current assets held for sale		3.739	-
Total assets		2.600.563	2.614.435
LIABILITIES			
Due to banks	26	54.941	55.113
Derivative financial liabilities	17	1.099	3.394
Due to customers	27	2.169.486	2.212.793
Subordinated bonds	28	10.151	15.748
Other liabilities and provisions	29	48.319	29.158
		2.283.996	2.316.206
Liabilities related to non current assets held for sale		32	-
Total liabilities		2.284.028	2.316.206
EQUITY			
Share capital	30	180.694	180.694
Share premium	32	102.661	102.661
Reserves	33	7.864	1.688
Retained earnings	34	(38.684)	(50.814)
Convertible capital securities	31	64.000	64.000
Total equity		316.535	298.229
Total liabilities and equity		2.600.563	2.614.435

The financial statements were approved and authorized for issue by the Board of Directors on 8 April 2020.

A.M.Michaelides	K. D. Koutentakis	Y.Tofarides
Chairman	Managing Director	Head of Financial Services Division

From 1.1.2019, the Group implemented IFRS 16 retroactively, without reforming the amounts of the comparative period, in accordance with the transitional provisions of the Standard and therefore the funds of the comparative use are not comparable.
The notes on pages 50 to 233 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital (note 30) €´000	Share premium (note 32)[1] €´000	Reserves (note 33) €´000	Retained earnings (note 34) €´000	Convertible capital securities (note 31) €´000	Total equity €´000
Balance 1.1.2019	**180.694**	**102.661**	**1.688**	**(50.814)**	**64.000**	**298.229**
Changes for the period 1.1 – 31.12.2019						
Profit for the year, after tax	-	-	-	10.541	-	10.541
Other comprehensive income recognized directly in equity	-	-	6.176	1.589	-	7.765
Total comprehensive income for the period, after tax	**-**	**-**	**6.176**	**12.130**	**-**	**18.306**
31 December 2019	**180.694**	**102.661**	**7.864**	**(38.684)**	**64.000**	**316.535**
Balance 1.1.2018	**148.303**	**90.467**	**2.547**	**(32.530)**	**64.000**	**272.787**
Changes for the period 1.1 – 31.12.2018						
Profit for the year, after tax	-	-	-	(18.965)	-	(18.965)
Other comprehensive income recognized directly in equity	-	-	(859)	681	-	(178)
Total comprehensive income for the period, after tax	**-**	**-**	**(859)**	**(18.284)**	**-**	**(19.143)**
Transactions with equity holders:						
Share capital increase	32.391	12.194	-	-	-	44.585
31 December 2018	**180.694**	**102.661**	**1.688**	**(50.814)**	**64.000**	**298.229**

1. The share premium is not available for distribution as a dividend.

The notes on pages 50 to 233 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

	Note	From 1 January to 31.12.2019 €´000	31.12.2018 €´000
Cash flow from operating activities			
Profit/(Loss) before tax		10.815	(15.244)
Adjustment for gain/(losses) before tax:			
Depreciation of property, plant and equipment	20	2.875	1.477
Amortization of intangible assets	21	649	553
(Gains) / losses from disposal of property, plant and equipment	7	(17)	(103)
(Gains) / losses from disposal of financial assets	6	(7)	-
Impairment losses on stock of property		799	-
(Gains) / losses from derecognition of financial assets	5	(265)	(71)
Impairment losses on financial assets and other provisions	10	(1.553)	7.072
Dividends received	4	(311)	(502)
Interest payable of subordinated loans	28	1.272	3.038
Reversal of provisions for litigation or arbitration disputes	29	(130)	67
Impairment losses and provisions to cover credit risk	10	10.800	18.306
Provision for off balance sheet assets	10	1.269	1.044
		26.196	**15.637**
Net (increase) / decrease in assets:			
Cash and balances with central banks		656	(1.096)
Loans and advances to customers		35.406	126.734
Investment property		(11.235)	(5.247)
Derivative financial assets		(317)	(6.769)
Other assets		(18.070)	(7.266)
Net increase / (decrease) in liabilities:			
Due to banks		(16)	(2.359)
Derivative financial liabilities		(2.295)	3.376
Due to customers		(43.307)	7.883
Other liabilities		8.566	3.428
Net cash flows from continuing operations before taxes		**(4.416)**	**134.321**
Tax paid		-	-
Net cash flows from continuing operations		**(4.416)**	**134.321**
Net cash flows from investing activities:			
Purchase of investment securities available for sale		(584.218)	(529.011)
Disposal of investment securities available for sale		420.854	389.108
Acquisition of property, plant and equipment	20	(1.938)	(1.394)
Disposal of property, plant and equipment		-	86
Acquisition of intangible assets	21	(629)	(1.648)
Dividends received	4	311	502
Net cash flows from investing activities		**(165.620)**	**(142.357)**
Net cash flows from financing activities :			
Share capital		-	44.585
Leased payments		(1.120)	-
Repayments on subordinated loans	28	(6.869)	(103.552)
Net cash flows from financing activities		**(7.989)**	**(58.967)**
Net increase/(decrease) in cash and cash equivalents		(178.025)	(67.003)
Cash and cash equivalents at the beginning of the year	36	659.991	726.994
Cash and cash equivalents at the end of the year	36	481.966	659.991

The notes on pages 50 to 233 form an integral part of the financial statements.

GENERAL INFORMATION

Incorporation and principal activity

Alpha Bank Cyprus Limited (the "Bank") was registered in Cyprus in 1960 as a limited liability company in accordance with the requirements of the Cyprus Companies Law, Cap.113. On 13 September 2000, the Bank converted its status to a Public Liability Company according to the Companies Law, Cap. 113. On 21 January 2003, the Bank was converted from public to a private company according to the Companies Law, Cap. 113.

On 27 December 2006, the Bank was renamed from Alpha Bank Limited to Alpha Bank Cyprus Limited in accordance with the requirements of the Cyprus Company Law, Cap. 113. The trade name continues to be "Alpha Bank".

Alpha Bank Cyprus Group (the "Group") consists the Bank and its subsidiaries.

The Bank considers Alpha Bank A.E. as its parent, which is registered in Greece and it's the Bank's main shareholder.

The principal activity of the Bank is to provide full banking services through a wide range of banking and financial services.

ACCOUNTING POLICIES APPLIED

1.1 <u>Basis of presentation</u>

These financial statements for the year 1.1 – 31.12.2019 have been prepared :

a) in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, in accordance with Regulation 1606/2002 of the European Parliament and the Council of the European Union on 19 July 2002 and

b) on the historical cost basis except for the following assets and liabilities which were measured at fair value:

- Derivative financial instruments
- Investment securities measured at fair value through other comprehensive income
- Other assets measured at net realisable value

The financial statements are presented in Euro, rounded to the nearest thousand, unless otherwise indicated.

The estimates and judgments applied by the Group in preparing the financial statements are based on historical information and assumptions which at present are considered appropriate.

The estimates and assumptions are reviewed on an ongoing basis to take into account current conditions, and the effect of any revisions is recognized in the period in which the estimate is revised. Given that the spread of Covid -19 coronavirus disease and the measures taken against the epidemic did not exist on 31.12.2019, this is not a fact that will impact the results of 2019.

Furthermore, the financial statements have been prepared in accordance with the requirements of the Companies Law, Chapter 113.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 <u>Basis of presentation (cont.)</u>

The accounting policies for the preparation of the financial statements have been consistently applied by the Group to the years 2018 and 2019 after taking into account the following new standards and amendments to standards as well as IFRIC 23 which were issued by the International Accounting Standards Board (IASB), adopted by the European Union and applied on 1.1.2019:

‣ **Amendment to International Financial Reporting Standard 9** “Financial Instruments”: Prepayment Features with Negative Compensation (Regulation 2018/498/22.3.2018)

On 12.10.2017 the International Accounting Standards Board issued an amendment to IFRS 9 that permits some prepayable financial assets with negative compensation features, that would otherwise been measured at fair value through profit or loss, to be measured at amortised cost or at fair value through other comprehensive income. The amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

‣ **International Financial Reporting Standard 16** “Leases” (Regulation 2017/1986/31.10.2017)

On 13.1.2016 the International Accounting Standards Board issued IFRS 16 “Leases” which supersedes:

- IAS 17 “Leases”
- IFRIC 4 “Determining whether an arrangement contains a lease”
- SIC 15 “Operating Leases – Incentives” and
- SIC 27 “Evaluating the substance of transactions involving the legal form of a lease”.

The new standard significantly differentiates the accounting of leases for lessees while essentially maintaining the existing requirements of IAS 17 for the lessors. In particular, under the new requirements, the classification of leases as either operating or finance is eliminated. A lessee is required to recognize, for all leases with term of more than 12 months, the right-of-use asset as well as the corresponding obligation to pay the lease payments. The above treatment is not required when the asset is of low value.

At initial recognition, the right-of-use asset comprises the amount of the initial measurement of the lease liability, any initial direct costs, any lease payments made before the commencement date as well as an estimate of dismantling costs.

At initial recognition, the lease liability is equal to the present value of the lease payments that are not paid at that date.

Impact from IFRS 16 Implementation

The Group applied the standard to all active, as at 1.1.2019, lease contracts, with the cumulative effect of initially applying the standard recognized directly in equity as at 1.1.2019 in accordance with the transitional requirements of the standard and did not restate comparative information. As a result, the figures of 2018 are not comparable.

The Group applied the practical expedient provided by IFRS 16 and did not reassess on initial application whether a contract is, or contains, a lease and applied the standard only to contracts that were identified as leases in accordance with IAS 17.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 <u>Basis of presentation (cont.)</u>

‣ **International Financial Reporting Standard 16** “Leases” (Regulation 2017/1986/31.10.2017) **(cont.)**

Additionally, the Group on transition has elected to make use of the following practical expedients provided by the standard:

- applied a single discount rate based on the lease term for all types of contracts,
- excluded initial direct costs from the measurement of the right-of-use asset,
- used hindsight to determine the lease term if the contract contained options to extend or terminate the lease and
- for the determination of the cost of the right-of-use asset it considered that right-of-use asset is equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

In addition, the Group elected to make use of the practical expedient and did not apply the requirements of the standard to leases for which the lease term is less than 12 months (short term), as well to leases for which the underlying asset is of low value (less than 5,000 euro when new). It is noted that the Group has made assumptions for extension for leases expiring within 2019 that however were expected to be renewed.

The Group in order to discount remaining lease payments used incremental borrowing rate (IBR) which is determined using as reference rate the secured funding rate of the parent company Alpha Bank, adjusted for different currencies and taking into consideration government yield curves, where applicable.

As a result of the application of IFRS 16, the Group recognized on 1.1.2019 right of use assets amounting to Euro 8,323 thous. and lease liabilities amounting to Euro 8,323 thousand.

The rights of use assets were classified as property, plant and equipment. The impact on the capital adequacy ratio is 8 basis points. The main categories of leases concern leases such as office and shops buildings.

‣ **Amendments to International Accounting Standard 19** “Employee Benefits”: Plan Amendment, Curtailment or Settlement (Regulation 2019/402/13.3.2019)

On 7.2.2018 the International Accounting Standards Board issued an amendment to IAS 19 with which it specified how companies determine pension expenses when changes to a defined benefit pension plan occur. In case that an amendment, curtailment or settlement takes place IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments to IAS 19 require specifically a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In addition, the amendment to IAS 19 clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

‣ **Amendment to International Accounting Standard 28** "Investments in Associates": Long-term Interests in Associates and Joint Ventures (Regulation 2019/237/8.2.2019).

On 12.10.2017 the International Accounting Standards Board issued an amendment to IAS 28 to clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture —to which the equity method is not applied—should be accounted for using IFRS 9, including its impairment requirements. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

The above amendment does not apply to the financial statement of the Group.

‣ **Improvements to International Accounting Standards** – cycle 2015-2017 (Regulation 2019/412/14.3.2019)

As part of the annual improvements project, the International Accounting Standards Board issued, on 12.12.2017, non- urgent but necessary amendments to various standards.

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

‣ **IFRIC Interpretation 23** "Uncertainty over Income Tax Treatments" (Regulation 2018/1595/23.10.2018)

On 7.6.2017 the International Accounting Standards Board issued IFRIC 23. The Interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Interpretation specifically clarifies the following:

- An entity shall determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty.
- The estimations for the examination by taxation authorities shall be based on the fact that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.
- For the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
- An entity shall reassess an estimate if the facts and circumstances change or as a result of new information.

The adoption of IFRIC 23 had no impact on the financial statements of the Group.

Except for the standards mentioned above, the European Union has adopted the following amendments to standards which are effective for annual periods beginning after 1.1.2019 and have not been early adopted by the Group.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

‣ **Amendment to International Financial Reporting Standard 9** “Financial Instruments”, to **International Accounting Standard 39** “Financial Instruments” and to **International Financial Reporting Standard 7** “Financial instruments: Disclosures”: Interest rate benchmark reform (Regulation 2020/34/15.1.2020)

Effective for annual periods beginning on or after 1.1.2020

On 26.9.2019 the International Accounting Standards Board issued amendments to IFRS 9, IAS 39 and IFRS 7, according to which temporary exceptions from the application of specific hedge accounting requirements are provided in the context of interest rate benchmark reform.
In accordance with the exceptions, entities applying those hedge accounting requirements may assume that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. Relief is provided regarding the following requirements:

- the highly probable requirement in cash flow hedge,
- prospective assessments,
- separately identifiable risk components.

The Group is examining the impact from the adoption of the above amendments on its financial statements.

‣ **Amendments to International Accounting Standard 1** “Presentation of Financial Statements” and **to International Accounting Standard 8** “ Accounting Policies, Changes in Accounting Estimates and Errors: “Definition of material” (Regulation 2019/2104/29.11.2019)
Effective for annual periods beginning on or after 1.1.2020

On 31.10.2018 the International Accounting Standards Board, as part of the Disclosure Initiative, issued amendments to IAS 1 and IAS 8 to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition.

The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments include examples of circumstances that may result in material information being obscured. The IASB has also amended the definition of material in the Conceptual Framework to align it with the revised definition of material in IAS 1 and IAS 8.

The Group is examining the impact from the adoption of the above amendment on its financial statements.

In addition, the International Accounting Standards Board has issued the following standards and amendments to standards which have not yet been adopted by the European Union and they have not been early applied by the Group.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

‣ **Amendment to International Financial Reporting Standard 3** “Business Combinations”: Definition of a Business
Effective for annual periods beginning on or after 1.1.2020

On 22.10.2018 the International Accounting Standards Board issued an amendment to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments:
- clarify the minimum requirements required in order a business to have been acquired,
- the assessment for the acquisition of either a business or a group of assets is simplified and it is based on current condition of acquired elements rather than on the market participant’s ability to integrate them into his own processes,
- the definition of outputs is amended so that apart from the revenue arising from ordinary activities falling within the scope of IFRS 15, it also includes other income from main activities such as income from investment services,
- guidance is added to assess whether a production process is substantive both in cases where a product is produced at the date of acquisition and in cases where there is no product produced,
- an optional exercise is introduced based on the fair value of the assets acquired to assess whether a business or group of assets has been acquired.

The Group is examining the impact from the adoption of the above amendment on its financial statements.

‣ **Amendment to International Financial Reporting Standard 10** “Consolidated Financial Statements” and to **International Accounting Standard 28** “Investments in Associates and Joint Ventures”: Sale or contribution of assets between an investor and its associate or joint venture. Effective date: To be determined.

On 11.9.2014 the International Accounting Standards Board issued an amendment to IFRS 10 and IAS 28 in order to clarify the accounting treatment of a transaction of sale or contribution of assets between an investor and its associate or joint venture. In particular, IFRS 10 was amended in order to be clarified that in case that as a result of a transaction with an associate or joint venture, a parent loses control of a subsidiary, which does not contain a business, as defined in IFRS 3, it shall recognise to profit or loss only the part of the gain or loss which is related to the unrelated investor’s interests in that associate or joint venture. The remaining part of the gain from the transaction shall be eliminated against the carrying amount of the investment in that associate or joint venture. In addition, in case the investor retains an investment in the former subsidiary and the former subsidiary is now an associate or joint venture, it recognises the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the unrelated investor’s interests in the new associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment retained in the former subsidiary.

In IAS 28, respectively, it was clarified that the partial recognition of the gains or losses shall be applied only when the involved assets do not constitute a business. Otherwise, the total of the gain or loss shall be recognised.

On 17.12.2015, the International Accounting Standards Board deferred the effective date for the application of the amendment that had been initially determined. The new effective date will be determined by the International Accounting Standards Board at a future date after taking into account the results of its project relating to the equity method.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

‣ **International Financial Reporting Standard 14** “Regulatory deferral accounts”. Effective for annual periods beginning on or after 1.1.2016

On 30.1.2014 the International Accounting Standards Board issued IFRS 14. The new standard, which is limited-scope, addresses the accounting treatment and the disclosures required for regulatory deferral accounts that are maintained in accordance with local legislation when an entity provides rate-regulated goods or services. The scope of this standard is limited to first-time adopters that recognized regulatory deferral accounts in their financial statements in accordance with their previous GAAP. IFRS 14 permits these entities to capitalize expenditure that non-rate-regulated entities would recognize as expense.

It is noted that European Union has decided not to launch the endorsement of this standard and to wait for the final standard.

The above standard does not apply to the financial statements of the Group.

‣ **International Financial Reporting Standard 17** “Insurance Contracts”

Effective for annual periods beginning on or after 1.1.2021

On 18.5.2017 the International Accounting Standards Board issued IFRS 17 which replaces IFRS 4 “Insurance Contracts”. In contrast to IFRS 4, the new standard introduces a consistent methodology for the measurement of insurance contracts. The key principles in IFRS 17 are the following:

An entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognise and measure;
- recognises and measures groups of insurance contracts at:
    i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
    ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately;
- presents separately insurance revenue, insurance service expenses and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

‣ **International Financial Reporting Standard 17** “Insurance Contracts” **(cont.)**

It is also noted that in November 2018 the International Accounting Standards Board proposed to defer the IFRS 17 effective date to 1.1.2022.

The above standard does not apply to the financial statements of the Group.

‣ **Amendment to the International Accounting Standard 1** “Presentation of Financial Statements”: Classification of liabilities as current or non-current

Effective for annual periods beginning on or after 1.1.2022

On 23.1.2020, the International Accounting Standards Board issued amendments to IAS 1 relating to the classification of liabilities as current or non-current. More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if the liability must be classified as current or non-current.
- Management expectations about events after the balance sheet date must not be taken into account.
- The amendments clarify the situations that are considered settlement of a liability.

The Group is examining the impact from the adoption of the above amendment on its financial statements.

1.2 Basis of consolidation

The consolidated financial statements include the parent company Alpha Bank Cyprus Ltd and its subsidiaries. The financial statements used to prepare the consolidated financial statements have been prepared as at 31.12.2019 and the accounting policies applied in their preparation, when necessary, were adjusted to ensure consistency with the Group accounting policies. Subsidiaries are the companies on which the Bank exercises control.

The Group takes into account the following factors, in assessing control:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor’s return.

1.3 Operating segments

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses including income and expenses related to transactions involved with other segments of the Bank. The segments’ results for which discrete financial information is available are reviewed regularly by the Board of Directors of the Bank to take decisions about resources to be allocated to the segment and assess performance viability. Detailed sectoral analysis is provided in note 37.

ACCOUNTING POLICIES APPLIED (cont.)

1.4 Transactions in foreign currency

Transactions in foreign currency are translated to Euro using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Euro using the exchange rate on that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are retranslated into Euros using the currency rate at the date of the transaction.

1.5 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and of loans and advances to financial institutions and other securities, the maturity of which does not exceed three months from their acquisition date. For the cash flow statement this category excludes the mandatory placements with the Central Bank of Cyprus for liquidity purposes.

1.6 Classification and measurement of financial instruments

1.6.1 Classification and measurement of financial instrument

Initial recognition

The Group recognises financial assets or financial liabilities in its statement of financial position when it becomes a party to the terms of the contract.
At initial recognition the Group measures financial assets and liabilities at fair values. Financial instruments not measured at fair value through profit or loss are initially recognised at fair value plus transaction costs and minus income or fees that are directly attributable to the acquisition or issue of the financial instrument.
Loans and advances and bonds are recognized in the Balance Sheet on settlement date.
For bonds that are measured at fair value, the change in fair value during the period between the trade date and the settlement date is recognized in profit or loss or in other comprehensive income based on the bond’s classification category.

Subsequent measurement of financial assets

The Group classifies its financial assets as:
− Financial assets measured at amortised cost
− Financial assets measured at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition
− Equity instruments measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition
− Financial assets measured at fair value through profit or loss.

For each of the above categories the following apply:

a) Financial assets measured at amortised cost

In this category are classified the financial assets that satisfy both of the following criteria:

- are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.1 Classification and measurement of financial instrument (cont.)

The above category is measured at amortised cost using the effective interest method and is periodically assessed for expected credit losses, as it is further described in notes 1.6.3 and 1.6.4.

b) Financial assets measured at fair value through other comprehensive income, with gains or losses recycled to profit or loss on derecognition

In this category are classified the financial assets that satisfy both of the following criteria:

- are held within a business model whose objective is a both to collect contractual cash flows and selling financial assets,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The above category is periodically assessed for expected credit losses, as it is further described in notes 1.6.3 and 1.6.4.

c) Equity instruments measured at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition

In this category are classified equity instruments that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination and that Group decides, at initial recognition, to measure at fair value through other comprehensive income. This decision is irrevocable. With the exception of dividends, which are directly recognized in profit or loss, all other gains and losses arising from those instruments are directly recognized in other comprehensive income and are not reclassified to profit or loss. For those equity instruments there is no impairment assessment.

d) Financial assets measured at fair value through profit or loss

Financial assets included in this category are:

i. those acquired principally for the purpose of selling in the near term to obtain short term profit (held for trading).

The Group has included in this category bonds, treasury bills and a limited number of shares.

ii. those that do not meet the criteria to be classified into one of the above categories

iii. those the Group designated, at initial recognition, as at fair value through profit or loss.

This classification option, which is irrevocable, is used when the designation eliminates an accounting mismatch which would otherwise arise from measuring financial assets and liabilities on a different basis (i.e. amortised cost) in relation to another financial asset or liability (i.e. derivatives which are measured at fair value through profit or loss).

As at the reporting date, the Group had not designated, at initial recognition, any financial assets as at fair value through profit or loss.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

Business Model assessment

The business model reflects how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, business model does not depend on management's intentions for an individual instrument but it is determined on a higher level of aggregation.

The business models of the Group are determined by the Asset Liability Committee (ALCO) or the Executive Committee (ExCo) which decide on the determination of the business model both for the loans and advances to customers and the securities portfolio. In this context:

- Loans and advances to customers and due from banks are included in the business model whose objective is to hold financial assets in order to collect contractual cash flows (hold to collect)
- For bonds and in general for fixed income investments, the Group has identified the following business models:
  - Business model whose objective is to hold financial instruments in order to collect their contractual cash flows (hold to collect)
  - Business model that aims both at collecting contractual cash flows and selling (hold to collect and sell)
  - Trading portfolio.

The determination of the above business models has been based on:

- The way the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, specifically, the way those risks are managed.
- The way the managers are evaluated (e.g., whether the evaluation is based on the fair value of the assets managed or the contractual cash flows collected).
- Past and expected frequency and value of sales from the portfolio

The Group, at each reporting date, reassesses its business models in order to confirm that there has been no change compared to the prior period or application of a new business model. In the context of the reassessment of the hold to collect business model past sales as well as expected future sales are taken into account. In this assessment, the following cases of sales are considered consistent with a hold to collect business model:

a) Sales of non performing loans due to the credit deterioration of the debtor, excluding those sales of loans considered as credit impaired at origination.

b) Sales made close to the maturity of the financial assets so that the proceeds from the sales approximate the collection of the remaining contractual cash flows. In these cases, the Group defines as 'close', what is less than 5% of the total life of the instrument remaining at the time of sale.

c) Sales (excluding a and b) which are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). The Group has defined the following thresholds:

- Significance: Sales exceeding 5% the previous reporting period gross balance of the respective portfolio
- Frequency: Significant sale transactions occurring more than twice a year.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.1 Classification and measurement of financial instrument (cont.)

Solely Payments of Principal and Interest (SPPI) assessment of the contractual cash flows

For the purposes of applying the SPPI assessment:

− Principal is the fair value of the asset at initial recognition, which may change over the life of the financial asset (for example if there are repayments of principal).

− Interest is the consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (i.e. liquidity risk) and costs, as well as a profit margin.

Contractual terms that introduce exposure to risks and volatility in the contractual cash flows that are not related to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this context, in assessing whether contractual cash flows are SPPI, the Group assesses whether the instrument contain contractual terms that change the timing or amount of contractual cash flows. More specifically, the following are taken into account:

- Leveraged payments
- Payments linked with the variability in exchange rates
- Conversion to equity terms
- Interest rates indexed to non-interest variables
- Prepayment or extension options
- Terms that limit the Group's claim to the cash flows from specified assets or based on which the Group has no contractual right to unpaid amounts
- Interest-free deferred payments
- Terms based on which the performance of the instruments is affected by equity or commodity prices

Especially in the case of financing of a special purpose vehicle, in order for the loan to meet the criterion that its cash flows are solely payments of principal and interest on the principal amount outstanding, among other, at least one of the following conditions should apply:

  - At initial recognition, LTV (Loan to Value) shall not exceed the threshold of 80% or LLCR (Loan Life Coverage Ratio) shall be at least equal to the threshold of 1.25.
  - The equity of the special purpose vehicle shall amount to at least 20% of its total assets
  - There are sufficient collaterals that are not related to the asset being funded.

In addition, in determining whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, it is assessed whether time value of money element has been modified. Time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. However, in some cases, the time value of money element may be modified. That would be the case, for example, if a financial asset's interest rate is periodically reset but the frequency of that reset does not match the tenor of the interest rate or if a financial asset's interest rate is periodically reset to an average of particular short- and long-term interest rates. In such cases, the Group assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. The objective of the assessment is to determine how different the contractual (undiscounted) cash flows could be from the (undiscounted) cash flows that would arise if the time value of money element was not modified (benchmark test). The effect of the modified

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

time value of money element must be considered in each reporting period and cumulatively over the life of the instrument. If the Group concludes that the contractual (undiscounted) cash flows could be significantly different from the (undiscounted) benchmark cash flows, the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. According to the policy set by the Group, the above assessment test does not result in significant different contractual cash flows when the cumulative difference over the life of the instrument does not exceed 10% and at the same time the number of individual cash flows with a difference of more than 10% do not exceed 5% of total reporting periods of the asset until maturity.

Reclassification of financial assets

Reclassifications of financial assets between measurement categories occur when, and only when, the Group changes its business model for managing the assets. In this case the reclassification is applied prospectively. Changes in the business model of the Group are expected to be rare. They arise from decisions of the Asset Liability Committee (ALCO) or the Executive Committee (ExCo) as a result of external or internal changes which must be significant to the entity's operations and demonstrable to external parties.

If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognized in profit or loss. The same happens if the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, however in this case the difference between the previous amortised cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. However, the loss allowance would be derecognized (and thus would no longer be recognized as an adjustment to the gross carrying amount) but instead would be recognized as an accumulated impairment amount in other comprehensive income.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount. At this date, the effective interest rate of the asset is calculated while the date of the reclassification is treated as the date of initial recognition for impairment calculation purposes.

If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value. As in the above case, at this date, the effective interest rate of the asset is calculated while the date of the reclassification is treated as the date of initial recognition for impairment calculation purposes.

If a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the asset is reclassified at its fair value at the measurement date. However, the cumulative gain or loss previously recognized in other comprehensive income is reversed and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This reversal affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment under IAS 1. The effective interest rate and the calculation of expected credit losses are not affected. However, the

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

loss allowance is recognized as an adjustment to the gross carrying amount of the financial asset from the reclassification date.

If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (in accordance with IAS 1) at the reclassification date.

Derecognition of financial assets

The Group derecognizes financial assets when:

- the contractual rights to the assets cash flows expire,
- the contractual right to receive the cash flows of the financial assets are transferred and at the same time all the risks and rewards of ownership are substantially transferred,
- loans or investments in securities are no longer recoverable and consequently are written off,
- the contractual cash flows of the assets are significantly modified.

In the case of transactions where despite the transfer of the contractual right to receive the cash flows from financial assets both the risk and rewards remain with the Group, no derecognition of these financial assets occurs. The amount received by the transfer is recognized as a financial liability.

In the case of transactions, whereby the Group neither retains nor transfers risks and rewards of the financial assets, but retains control over them, the financial assets are recognized to the extent of the Group’s continuing involvement. If the Group does not retain control of the assets then they are derecognised, and in their position the Group recognizes, distinctively, the assets and liabilities which are created or retained during the transfer. No such transactions occurred upon balance sheet date. In case of a change in the contractual terms of a financial asset, the change is considered significant and therefore it results in the derecognition of the original financial asset and the recognition of a new one when one of the following criteria is met:

- Change of issuer/debtor
- Change in denomination currency
- Consolidation of different types of contracts
- Consolidation of contracts that do not entirely satisfy the criterion that cash flows are solely payments of principal and interest on the principal amount outstanding
- Addition or deletion of equity conversion terms
- Separation of a non-SPPI debt instrument into two or more new instruments so that the reason that leads to SPPI failure of the original instrument is not included in all of the new instruments.

In case of derecognition due to significant modification, the difference between the carrying amount of the original asset and the fair value of the new asset is directly recognized in the Income Statement. Additionally, in case the original asset was measured at fair value through other comprehensive income, the cumulative gains or losses recognized in other comprehensive income are recycled to profit or loss.

In contrast, if the change in contractual cash flows is not significant, the gross carrying amount of the asset is recalculated by discounting new contractual cash flows with the original effective interest rate and the difference compared to the current gross carrying amount is directly

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

recognized in profit or loss. Fees related to the modification adjust the carrying amount of the asset and are amortised over the remaining term of the modified financial asset through the effective interest method.

Subsequent measurement of financial liabilities

The Group classifies financial liabilities in the following categories for measurement purposes:

a) Financial liabilities measured at fair value through profit or loss

i. This category includes financial liabilities held for trading, that is:

- financial liabilities acquired or incurred principally with the intention of selling or repurchasing in the near term for short term profit, or
- derivatives not used for hedging purposes. Liabilities arising from either derivatives held for trading or derivatives used for hedging purposes are presented as “derivative financial liabilities” and are measured according to the principles set out in note 1.6.2.

ii. this category also includes financial liabilities which are designated by the Group as at fair value through profit or loss upon initial recognition, when:

- doing so results in more relevant information, because either:
  - it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
  - a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s key management personnel; or
- the contract contains one or more embedded derivatives and the Group measures the compound financial instrument as a financial liability measured at fair value through profit or loss unless:
  - the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or
  - it is clear with little or no analysis when a similar hybrid instrument is first considered that the separation of the embedded derivative(s) is prohibited.

It is noted that in the above case, the amount of the change in fair value attributable to the Group’s credit risk is recognized in other comprehensive income, unless this treatment would create or enlarge an accounting mismatch in profit or loss. Amounts recognized in other comprehensive income are never recycled to profit or loss.

b) Financial liabilities carried at amortised cost

The liabilities classified in this category are measured at amortised cost using the effective interest method.

Liabilities to credit institutions and customers, debt securities issued by the Group and other loan liabilities are classified in this category.

c) Liabilities arising from financial guarantees and commitments to provide loans at a below market interest rate

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.1 Classification and measurement of financial instrument (cont.)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payments when due in accordance with the agreed terms.

The financial guarantee contracts and the commitments to provide loans at a below market interest rate are initially recognized at fair value, and measured subsequently at the higher of:

• the amount of the provision determined during expected credit loss calculation ,

• the amount initially recognised less cumulative amortization which is calculated based on the term of the instrument.

d) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies

In the first case the liability should be equal to the amount received during the transfer while in the second case it should measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

• The amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost or

• Equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

e) Contingent consideration recognized by an acquirer in a business combination

Such contingent consideration is subsequently measured at fair value with changes recognized in profit or loss.

Derecognition of financial liabilities

Financial liabilities (or part thereof) are derecognized when the contractual obligation is been discharged, cancelled or expires.

When a financial liability is exchanged for another liability with substantially different terms, the exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new one. The same applies in cases of a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor). The terms are considered substantially different if the discounted present value of the cash flows under the new terms (including any fees paid net of any fees received), discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability.

In cases of derecognition, the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the amount are reported net on the balance sheet, only in cases when the Group has the legally enforceable right to offset recognized amounts and there is the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.6.2 Derivative financial instruments

Derivatives are financial instruments that upon inception have a minimal or zero fair value that subsequently changes in accordance with a particular underlying instrument or indices defined in the contract (foreign exchange, interest rate, index or other variable).
All derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.
Derivatives are entered into for either hedging or trading purposes and they are measured at fair value irrespective of the purpose for which they have been transacted.

The Group uses derivatives such as currency and interest rate swaps and forward rate agreements to hedge market price risk arising from its operating and investing activities. Derivatives are initially recognized at cost and are subsequently revalued to their fair value. The fair value of foreign exchange and interest rate swaps is the estimated value that the Group would receive or pay for the termination of its foreign exchange rate swaps at the end of a reporting period taking into account the current creditworthiness of the contracting parties. The fair value of the forward rate agreements is the market price at the reporting period. Any adjustments at fair value are recognized in the comprehensive income.

1.6.3 Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee

The Group, at each reporting date, recognizes a loss allowance for expected credit losses on loans and advances to customers not measured at fair value through profit or loss as well as for off-balance sheet exposures (letters of guarantee, letters of credit, undrawn loan commitments).

The loss allowance for loans and off-balance sheet exposures is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument. In addition, if the financial asset falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

a) Default definition

The Group has adopted as default definition non-performing exposures (NPE), as defined in the EBA Guidelines (GL/2016/07), thus harmonizing the definition of default used for accounting purposes with the one used for regulatory purposes.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.3 Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee (cont.)

b) Classification of exposures into stages based on credit risk (Staging)

For the purposes of calculating expected credit losses, the exposures are classified into stages as follows:

- Stage 1: Stage 1 includes performing exposures that do not have significant increase in credit risk since initial recognition. Stage 1 also includes exposures for which credit risk has been improved and the exposure has been reclassified from Stages 2 or 3. In this stage, expected credit losses are recognized based on the probability of default within the next twelve months.
- Stage 2: Stage 2 includes performing exposures for which there has been a significant increase in credit risk since initial recognition. Stage 2 also includes exposures for which credit risk has been improved and the exposure has been reclassified from Stage 3. In this stage, lifetime expected credit losses are recognized.
- Stage 3: Stage 3 includes non performing/impaired exposures. In this stage, lifetime expected credit losses are recognized.

As an exception to the above, for purchased or originated credit impaired (POCI) exposures, lifetime expected credit losses are always recognized. Purchased or originated credit impaired exposures include:

- Exposures that at the time of acquisition meet the criteria to be classified as non-performing exposures.
- Exposures for which there has been a change in repayment terms, either due to financial difficulty or not, which resulted in derecognition and recognition of a new impaired asset (POCI). As long as the exposure before the derecognition has been impaired, it continues to maintain that designation on the new exposure, which is classified as POCI. However, especially for wholesale banking exposures, in case the newly recognized exposure is the result of a change of borrower whose creditworthiness is generally better than the previous one, based on a relevant evaluation by the competent Credit Committee, has no financial difficulty and at the same time has presented a viable business plan and no debt reduction has taken place, the exposure is not classified as POCI.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.3 Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee (cont.)

c) Significant increase in credit risk

In determining significant increase in credit risk of an exposure since initial recognition and the recognition of lifetime expected credit losses instead of 12 months expected credit losses, the Group assesses, at each reporting date, the risk of default compared to the risk of default at initial recognition for all its performing exposures including those with no delinquencies. More details are provided in note 38.

The assessment of the significant increase in credit risk is based on the following:

- Quantitative Indicators: refers to the quantitative information used and more specifically to the comparison of the probability of default (PD) between the reporting date and the date of initial recognition.
- Qualitative Indicators: refers to the qualitative information used which is not necessarily reflected in the probability of default, such as the classification of an exposure as forborne performing (FPL, according to EBA ITS). Additional qualitative indicators, both for corporate and retail portfolios are also reflected through the Early Warning indicators where depending on the underlying assessment, an exposure can be considered to have a significant increase in credit risk or not. Especially for special lending portfolio, additional qualitative indicators are captured through slotting category.
- Backstop Indicators: in addition to the above, and in order to capture cases for which there are no triggers reflecting the increase in credit risk, based on qualitative and quantitative indicators, the 30 days past due indicator is used as a backstop.

d) Calculation of expected credit loss

The measurement of expected credit losses is made as follows:

- For financial assets, a credit loss is the present value of the difference between:
  (a) the contractual cash flows and
  (b) the cash flows that the Group expects to receive
- For undrawn loan commitments, a credit loss is the present value of the difference between:
  (a) the contractual cash flows that are due if the holder of the loan commitment draws down the loan; and
  (b) the cash flows that the Group expects to receive if the loan is drawn down.
- For letters of guarantee and letters of credit, the loss is equal to the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder.

The Group calculates impairment losses either on a collective (collective assessment) or on an individual basis (individual assessment), taking into account the significance of an exposure or the borrower’s limit. In addition, exposures that do not have common credit risk characteristics or for which there are no sufficient historical behavioral data are assessed on an individual basis.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments (cont.)</u>

1.6.3 Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee (cont.)

The Group calculates expected credit losses based on the weighted probability of three scenarios. More specifically, the Economic Research Division produces forecasts for the possible evolution of macroeconomic variables that affect the level of expected credit losses of loan portfolios under a baseline and under alternative macroeconomic scenarios and also generates the cumulative probabilities associated with these scenarios.

The mechanism for calculating expected credit loss is based on the following credit risk parameters:

- Probability of Default (PD): It is an estimate of the probability of a debtor to default over a specific time horizon. The probability of default is determined with the use of statistical credit risk rating models through which the creditworthiness of the borrowers is assessed for the Group's core portfolio. These models use a range of qualitative and quantitative parameters including data on the current and historical behavior of borrowers.
- Exposure at default (EAD): Exposure at Default is an estimate of the amount of the exposure at the time of the default taking into account: (a) expected changes in the exposure after the reporting date, including principal and interest payments; (b) the expected use of credit limits and (c) accrued interest. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit exposure equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF). The Credit Conversion factor of credit exposure is calculated based on statistical models.
- Loss given default (LGD): Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received, including the liquidation of collaterals and cure rate.

e) Measurement of expected credit losses on receivables from customers

Receivables from customers are derived from the Group's commercial, other than loan, activity. The loss allowance for receivables from customers is measured at an amount equal to the lifetime expected credit losses (there is no stage allocation) based on the simplified approach provided by IFRS 9.

f) Presentation of expected credit losses in financial statements

Loss allowances for expected credit losses are presented in the Balance Sheet as follows:

- Financial assets measured at amortised cost and finance lease receivables: loss allowance is presented as a deduction from the gross carrying amount of the assets.
- Financial assets measured at fair value through other comprehensive income: for those assets no loss allowance is recognized in the Balance Sheet, however, its amount is disclosed in the notes to the financial statements.
- Undrawn loan commitments, letters of credit/letters of guarantee: loss allowance is recognized in line "Provisions" of liabilities in Balance Sheet.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.3 Credit impairment losses on loans and advances to customers, undrawn loan commitments, letters of credit and letters of guarantee (cont.)

If a financial asset includes both a loan and an undrawn loan commitment, the accumulated expected credit losses of the loan commitment are presented together with the accumulated expected credit losses of the loan, as a deduction from its gross carrying amount. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized in line "Provisions" of liabilities in Balance Sheet.

The amount of expected credit losses for the period is presented in the caption "Impairment losses and provisions to cover credit risk". In the same caption the following are also recognized: recoveries from written-off loans measured at amortised cost or at fair value through other comprehensive income, modification gains or losses of loans measured at amortised cost or at fair value through other comprehensive income and the favourable changes in expected credit losses of POCI assets in case expected credit losses are less than the amount of expected credit losses included in the estimated cash flows on initial recognition.

g) Write-offs

The Group proceeds with the write-off of loans and advances to customers when it has no reasonable expectations for their recovery. In this case, the loss allowance is used against the carrying amount of the financial asset.

1.6.4 Credit impairment losses on due from banks and bonds

The Group, at each reporting date, recognizes a loss allowance for expected credit losses on due from banks and bonds not measured at fair value through profit or loss.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument. In addition, if the financial asset falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

a) Default definition

Due from banks and bonds are considered impaired when the external rating of the issuer/counterparty is equivalent to default (D). In case there is no external rating, then the instrument is characterized as impaired based on internal rating. If there is also an exposure to the corporate issuer/counterparty to the loan portfolio which has been classified as impaired, the instrument is also characterized as impaired.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.4 Credit impairment losses on due from banks and bonds (cont.)

b) Classification of due from banks and bonds into stages based on credit risk (Staging)

For the purposes of calculating expected credit losses, the exposures are classified into stages as follows:

- Stage 1: Stage 1 includes non impaired instruments that do not have significant increase in credit risk since initial recognition. Stage 1 also includes instruments for which credit risk has been improved and the instrument has been reclassified from Stages 2 or 3. In this stage, expected credit losses are recognized based on the probability of default within the next twelve months.
- Stage 2: Stage 2 includes non impaired instruments for which there has been a significant increase in credit risk since initial recognition. Stage 2 also includes instruments for which credit risk has been improved and the instrument has been reclassified from Stage 3. In this stage, lifetime expected credit losses are recognized.
- Stage 3: Stage 3 includes impaired instruments. In this stage, lifetime expected credit losses are recognized.

As an exception to the above, for purchased or originated credit impaired (POCI) instruments, lifetime expected credit losses are always recognized. An instrument is characterized as purchased or originated credit impaired when:

- The instrument (or the issuer) has an external rating that corresponds to default at the time of acquisition
- Corporate bonds resulting from debt restructuring are classified as purchased or originated credit impaired, based on the guidelines applicable to the loan portfolio.

When a debt security has been purchased at a large discount and does not fall into any of the categories mentioned above, the Group examines the transaction in detail (transaction price, recovery rate, issuer’s financial condition at the time of purchase, etc.) in order to determine whether it should be recognised as purchased or originated credit-impaired (POCI). Classification in this category requires documentation and approval by the relevant committees of the Group.

c) Significant increase in credit risk

The classification into stages for the purpose of expected credit loss measurement is based on the credit rating of rating agencies or, for corporate securities issued by Greek issuers for which there is also an exposure in loan portfolio, on the issuer’s internal rating.

The Group defines as low credit risk all investment grade securities, which are classified in Stage 1.

The determination of significant increase in credit risk for non-investment grade securities is based on the following two conditions:

- Downgrade in the issuer / counterparty’s credit rating on the reporting dates compared to the credit rating on the date of the initial recognition.
- Increase in the probability of default of the issuer / counterparty for the 12-month period compared to the corresponding probability of default at initial recognition.

Additionally, the Group monitors the change in the credit spread since initial recognition. A change in credit spread at the reporting date that exceeds a specific threshold compared to the credit margin prevailing at the date of initial recognition is a trigger for reviewing the securities classification stage.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments (cont.)

1.6.4 Credit impairment losses on due from banks and bonds (cont.)

d) Calculation of expected credit loss

The expected credit loss is the present value of the difference between:

(a) the contractual cash flows and

(b) the cash flows that the Group expects to receive

For present value calculation, original effective interest rate is used as a discount rate. Especially for POCI assets credit— adjusted effective interest rate is used. For the calculation of the expected credit loss, the following parameters are used:

- Probability of default (PD): the probability of default over the next 12 months is used to calculate the expected credit loss for 12 months, and the probability of default over the life of the instrument is used to calculate the lifetime expected credit losses.
- Exposure at default (EAD): In the case of securities, the Group estimates the future unamortised cost in order to calculate the EAD. In particular, for each period, EAD is the maximum loss that would result from issuer / counterparty potential default.
- Loss given default (LGD) is the percentage of the total exposure that the Group estimates as unlikely to recover at the time of the default. The Group distinguishes sovereigns from non-sovereign issuers / counterparties as regards to the LGD estimation. In case the Group has also granted a loan to the issuer / counterparty of the security, the estimated LGD is aligned to corresponding estimate for the loan portfolio (taking into account any potential collaterals the loan portfolio is likely to have against the unsecured debt securities).

e) Presentation of expected credit losses in financial statements

Loss allowances for expected credit losses are presented in the Balance Sheet as follows:

- Financial assets measured at amortised cost: loss allowance is presented as a deduction from the gross carrying amount of the assets.
- Financial assets measured at fair value through other comprehensive income: for those assets no loss allowance is recognized in the Balance Sheet, however, its amount is disclosed in the notes to the financial statements.

The amount of expected credit losses for the period is presented in the caption “Impairment losses and provisions to cover credit risk”. The caption includes also the favourable changes in expected credit losses of POCI assets in case expected credit losses are less than the amount of expected credit losses included in the estimated cash flows on initial recognition.

ACCOUNTING POLICIES APPLIED (cont.)

1.7 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, 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 Group measures the fair value of assets and liabilities traded in active markets based on available quoted market prices. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Especially, for the measurement of securities, the Group uses a particular range of prices, within the bid-ask spread, in order to characterize the prices as prices of an active market.

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate in the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. If observable inputs are not available, other model inputs are used which are based on estimations and assumptions such as the determination of expected future cash flows, discount rates, probability of counterparty default and prepayments. In all cases, the Group uses the assumptions that 'market participants' would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Assets and liabilities which are measured at fair value or for which - fair value is disclosed-, are classified according to the inputs used to measure their fair value as follows:

- Level 1 inputs: quoted market prices (unadjusted) in active markets,
- Level 2 inputs: directly or indirectly observable inputs,
- Level 3 inputs: unobservable inputs used by the Bank, to the extent that relevant observable inputs are not available.

Non financial assets and liabilities

The most important category of non financial assets for which fair value is estimated is real estate property. The process, mainly followed, for the determination of the fair value is the assignment to an engineer/valuer. To derive the fair value of the real estate property, the valuer chooses among the three following valuation techniques:

- Market approach (or sales comparison approach), which measures the fair value by comparing the property to other identical ones for which information on transactions is available.
- Income approach, which capitalizes future cash flows arising from the property using an appropriate discount rate
- cost approach which reflects the amount that would be required currently to replace the asset with another asset with similar specifications, after taking into account the required adjustment for impairment

It is noted that the fair value measurement of a property takes into account a market's participant 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.

ACCOUNTING POLICIES APPLIED (cont.)

1.8 Property, plant and equipment

Land and buildings are stated at historic cost less depreciation on buildings and any losses from impairment. Plant and equipment are stated at historic cost less accumulated depreciation. The historic cost includes expenses directly associated with the acquisition of property and equipment. The cost of material renovations and other expenses are included in the carrying value of the asset or it is recognised as separate asset when it is probable that the Group will incur future economic benefits in relation to the asset and the costs can be measured reliably.

Depreciation is calculated on a straight line basis in such a way that the cost less the estimated residual value is being depreciated over the expected useful economic life of the assets. Annual depreciation rates are as follows:

Premises and improvements on leasehold premises	10 - 50 years
Plant and equipment	4 - 10 years

No depreciation is calculated on land. They are however reviewed for possible impairment. The residual values and the useful lives are reviewed and adjusted at each reporting period, if considered necessary.

On disposal of property, plant and equipment the difference between the net receipts and the net carrying value is debited or credited to the statement of comprehensive income.

Assets with right of use are classified in this category, as described in Note 1.11 "Leases".

1.9 Investment property

Investment property is initially recognised at cost which includes any expenditure directly attributable to the acquisition of the asset. Subsequently, investment property is measured at cost less accumulated depreciation and impairment losses.

Subsequent expenditure is recognized on the carrying amount of the item when it increases future economic benefit. All costs for repairs and maintenance are recognized in profit or loss as incurred. The estimated useful lives over which depreciation is calculated using the straight line method.

In case of sale of investment property as well as when no economic benefits are expected for the Group, the fixed asset is derecognised. When selling the asset, the difference between the sale price and its carrying amount is recognized in profit or loss.

1.10 Intangible assets

Computer application software
Computer application software programs are stated at cost less accumulated depreciation. Amortisation is calculated on a straight line basis in such a way that the cost less the estimated residual value of the intangible assets is being amortised over the expected useful economic life of the assets. Amortization is calculated as follows:

Computer application software	3 years
Computer software	5 years

ACCOUNTING POLICIES APPLIED (cont.)

1.10 Intangible assets (cont.)

Expenses incurred for the maintenance of computer application software programs are charged in the statement of comprehensive income for the year in which they incur.

In case of sale of an intangible asset as well as when no economic benefits are expected for the Group, the intangible asset is derecognised. When selling the asset, the difference between the sale price and its carrying amount is recognized in profit or loss.

1.11 Leases

The Group enters into leases as a lessee. At inception, the Group assesses whether a contract is or contains a lease. If the contract conveys the right to control the use of an identified asset for a period of time for consideration, then the contract is accounted as a lease.
The lease term is determined as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. After lease commencement, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee, the Group, as a lessee, reassesses the lease term. The Group, revises the lease term if there is a change in the non cancellable period of a lease.

The Group, as a lessee, for all leases recognizes a right of use asset and a lease liability at the commencement of the lease. The right of use asset is initially measured at cost, comprising the initial lease liability amount, any initial direct costs and an estimate of the obligation for costs to refurbish the asset, less any lease incentives received. Right-of use assets are subsequently measured at cost less any accumulated depreciation, any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

Depreciation is charged on a straight line basis 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. Right-of-use assets are reviewed at each reporting date to determine whether there is an indication of impairment and if they are impaired the carrying amount is adjusted to its recoverable amount with the difference recorded in profit or loss

For short-term leases (lease term of 12 months or less at the commencement date) and leases for which the underlying asset is of low value (less than 5.000 EUR when new) the Group does not recognize a right-of-use asset and a lease liability but instead recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of lease payments that are not paid at that date, net of cash lease incentives. Lease payments include fixed payments and variable payments that depend on an index (such as an inflation index) or a rate and are discounted using the lessee’s incremental borrowing rate. Incremental borrowing rate is determined by using as reference rate Alpha Bank’s secured funding rate, adjusted for different currencies and taking into consideration government yield curves, where applicable.

After the commencement date, the Group measures the lease liability by increasing the carrying amount to reflect interest, reducing the carrying amount to reflect lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications.

Right of use assets are included within Property, plant and equipment or Investment property and the lease liability is included in other liabilities.

1.12 Tax

Tax on income is provided for in accordance with the tax legislation and tax rates which apply in Cyprus where the Bank carries its operations and is recognised as an expense in the year in which the income arises.

Special contribution for the defence rate on interest income
The special contribution for the defence rate on interest income is 30%. Special contribution for the defence is payable by Cyprus tax residents only and applies for both physical and legal persons receiving interest income which is not incurred in the ordinary course of the company's activities.

Immovable property tax
The immovable property is taxed at rates ranging between 0,6% and 1,9% of the immovable property values of January 1st , 1980. The above tax is included in the "General administrative expenses and other expenses" in the statement of comprehensive income.

Special tax levy on bank deposits
Special tax levy on financial institutions for customers deposits, excluding bank deposits, is in force since 14 April 2011 and is paid by the financial institutions . With effect from 1 January 2013 the tax percentage increased from 0,11% to 0,15%. The legislation was amended in 2015 and the tax is calculated on the customer deposits of the previous quarter instead on the deposits of the previous year. From 2016, part of the tax on deposits of credit institutions is paid to the Single Resolution Fund via the Central Bank of Cyprus. The above tax is included in the "General administrative expenses and other expenses" in the statement of comprehensive income.

1.13 Deferred tax assets

Deferred tax is the tax that will be paid or for which relief will be obtained in future periods due to the different period that certain items are recognized for financial reporting purposes and for taxation purposes. It is calculated based on the temporary differences between the tax base of assets and liabilities and their respective carrying amounts in the financial statements.

Deferred tax assets and liabilities are calculated using the tax rates that are expected to apply when the temporary difference reverses, based on the tax rates (and laws) enacted at the balance sheet date.

Deferred tax assets are recognized for unutilized tax losses, and deductible temporary differences, to the extent that future taxable profits are likely to be available against which they can be used. Future taxable profits are calculated on the basis of business plans and the reversal of temporary differences. Deferred tax assets are reassessed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Income tax, both current and deferred, is recognized in profit or loss except when it relates to items recognized directly in equity. In such cases, the respective income tax is also recognized in equity.

ACCOUNTING POLICIES APPLIED (cont.)

1.14 Repossessed assets

Non-current assets acquired through auctions or by exchanging real estate collaterals with loans which are not immediately available for sale or not expected to be sold within one year are presented on Repossessed Assets and are valued at the lower of cost and net realisable value, determined as fair value less estimated cost to sell.

1.15 Securities sale and repurchase agreements and securities lending

The Group enters into purchases of securities under agreements to resell at a certain date in the future at a fixed price (reverse repos). Securities purchased subject to commitments to resell them at future dates are not recognized in the balance sheet. The amounts paid, including interest accruals, are recognized in loans and advances to either banks or customers. The difference between the purchase price and the resale price is recognized as interest income using effective interest method.
Similarly, securities that are sold under agreements to repurchase (repos) are not derecognized but they continue to be measured in accordance with the accounting policy of the category that they have been classified. The proceeds from the sale of the securities are reported as liabilities to either banks or customers. The difference between the sales price and the repurchase price is recognized as interest expense using effective interest method.
Securities borrowed by the Group under securities lending agreements are not recognized in the balance sheet except when they have been sold to third parties whereby the liability to deliver the security is recognized and measured at fair value.

1.16 Non-current assets held for sale

Non-current assets or disposal groups that are expected to be recovered principally through a sale transaction, along with the related liabilities, are classified as held-for-sale.
The above classification is used if the asset is available for immediate sale in its present condition and its sale is highly probable. The sale is considered highly probable when it has been decided by the competent bodies of the Management, an active programme to locate a buyer has been initiated, the asset is actively marketed for sale at a price which is reasonable in relation to its current fair value and the sale is expected to be completed within one year. Non-current assets that are acquired exclusively with a view to their subsequent disposal are classified as held for sale at the acquisition date when the one-year requirement is met and it is highly probable that the remaining criteria will be met within a short period following the acquisition (usually within three months).
Before their classification as held for sale, the assets are remeasured in accordance with the respective accounting standard.
Non current assets held for sale are initially recognised and subsequently remeasured at each balance sheet date at the lower of their carrying amount and fair value less cost to sell.

1.17 Employee benefits

The Group operates a defined contribution plan. As part of the plan the Group deposits a defined, on a case by case basis, contribution to an independent fund. The Group has no further obligation, legal or constructive, to deposit any further contributions, in the circumstance that the fund does not have the sufficient assets to cover the claims of personnel which are derived from their current and previous service. The contributions are recognized as part of staff costs on an accruals basis.

The Group does not operate a defined benefit plan.

ACCOUNTING POLICIES APPLIED (cont.)

1.18 Provisions for litigation and arbitration of disputes

Provisions for litigation and arbitration of disputes are recognized when:

(a) the Group has a present obligation (legal or constructive) as a result of a past event
(b) it is probable that an outflow of resources embodying economic benefits to settle the obligation and
(c) may be a reliable estimate of the amount of the obligation.

The Group will secure legal advice on the amount of the provision of specific cases and arbitration of disputes.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any litigation or arbitration proceedings.

Where the effect of the time value of money is material, the amount of the provision is the present value of estimated future expenditures expected to be required to settle the obligation.

The Group does not recognize in the statement of financial position contingent liabilities which relate to:

- possible obligations resulting from past events whose existence will be confirmed only by the occurrence or nonoccurrence
of one or more uncertain future events not wholly within the control of the Group, or
- present obligations resulting from past events for which:
    - it is not probable that an outflow of resources will be required, or
    - the amount of liability cannot be measured reliably.

The Group provides disclosures for contingent liabilities taking into consideration their materiality.

1.19 Subordinated bonds

Subordinated bonds consists of bonds that are initially recognized based on financial instruments classification and measurement principles and are reported at amortized cost. The amortised cost is the fair value of securities issued after deducting interest payments plus the cumulative amortization using the effective interest method of any difference between the initial amount and the amount at maturity date. The bonds are classified as Tier II Capital for the purposes of calculating the capital adequacy ratio.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or financial liabilities) allocating income or interest expenses during the period concerned. The real interest rate is the rate that exactly discounts estimated future cash payments or receipts which correspond to the expected life of the instrument or, when appropriate for a shorter period, to the net carrying amount of the financial asset or financial liability.

ACCOUNTING POLICIES APPLIED (cont.)

1.20 Share capital

The ordinary shares are classified as equity.

The difference between the fair value of the consideration received and the nominal value of share capital issued is recognised in share premium.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

1.21 Convertible Capital Securities

The convertible capital securities are of perpetual maturity financial instruments issued by the Bank and are initially recognized based on financial instruments classification and measurement principles. The Group may at its sole discretion at all times, taking into account its financial position and solvency, elect to cancel an interest payment on a non cumulative basis.

Any interest payment not paid is no longer due and payable by the Bank. The convertible capital securities may be redeemed back at the discretion of the Bank and after the approval of the Central Bank of Cyprus at their nominal value and any accrued interest but excluding any interest payments previously cancelled, at 30 September 2019 or on any interest payment date. The convertible capital bonds are obligatory converted into ordinary shares of the Bank on the occurrence of a Contingency event or a viability event. The conversion price is constant and cannot be lower than the nominal value of the Bank's ordinary shares.

These financial instruments are classified as equity, as they do not include a contractual obligation for the Bank to repay the holder in cash or other financial asset. The convertible capital bonds are classified as additional Tier 1 capital for the purpose of calculating the capital adequacy ratio.

1.22 Interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial assets and liabilities.

Interest income and expense is recognised on an accrual basis and measured using the effective interest method. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

For financial assets, in particular, the following apply:

- For those financial assets classified within Stage 1 or Stage 2 for the purpose of expected credit losses measurement, interest income is calculated by applying effective interest rate to the gross carrying amount of the asset.
- For those financial assets classified within Stage 3 for the purpose of expected credit losses measurement, interest income is calculated by applying the effective interest rate to the amortised cost of the asset.
- For purchased or originated credit impaired financial assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

ACCOUNTING POLICIES APPLIED (cont.)

1.22 Interest income and expense (cont.)

Borrowing costs that are directly attributable to assets that require a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of the asset. Capitalisation ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

1.23 Income and expenses from fees and commissions

Income from fees and commissions is recognised in the Income statement on an accrual basis when the relevant service has been provided.

For fees and commissions, revenue is recognized as the service is provided to the client.
In most cases of providing services to the client for the execution of transactions, the execution and completeness of the transaction marks the point at which the service is transferred to the customer and as a result the revenue is recognized

1.24 Dividend Income

Income from dividends is recognized in the financial statements when it is received.

1.25 Gains less losses on financial transactions

Gains less losses on financial transactions include:

- fair value changes of financial assets and liabilities,
- gains and losses arising from the modification of the contractual terms of financial assets measured at fair value through profit or loss,
- gains and losses arising from the derecognition of financial assets and liabilities due to early repayment, disposal or significant modification of the contractual terms, except for gains and losses arising from the derecognition of financial assets measured at amortised cost which are recognized in a separate line item of the Income Statement,
- gains and losses arising from the impairment or disposal of Group entities that have not been classified as discontinued operations,
- exchange differences arising from the translation of financial instruments denominated in foreign currencies.

ACCOUNTING POLICIES APPLIED (cont.)

1.26 Impairment losses on non-financial assets

The Group assess as at each balance sheet date non-financial assets for impairment, particularly, right of use assets, goodwill and other intangible assets and at least annually property, plant and equipment and investment property.
In assessing whether there is an indication that an asset may be impaired both external and internal sources of information are considered, of which the following are indicatively mentioned:
- The asset's market value has declined significantly, more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect have taken place during the period or will take place in the near future, in the technological, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.
- Significant unfavorable changes in foreign exchange rates.
- Market interest rates or other rates of return of investments have increased during the period, and those increases are
likely to affect the discount rate used in calculating an asset's value in use.
- The carrying amount of the net assets of the entity is greater than its market capitalization.
- Evidence is available of obsolescence or physical damage of an asset.

Specifically for right of use assets, triggers for impairment include:
- The existence of leased properties that are neither used nor leased by the Group.
-The fact that the present value of the leases received in the event of a sublease is lower than the value of the rents aid under the lease.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.
Fair value less costs to sell is the amount received from the sale of an asset (less the cost of disposal) in an orderly transaction between market participants.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash –generating unit through their use and not from their disposal. For the valuation of property, plant and equipment, value in use incorporates the value of the asset as well as all the improvements which render the asset perfectly suitable for its use by the Group.

1.27 Gains less losses on derecognition of financial assets measured at amortised cost

Gains less losses on derecognition of financial assets measured at amortised cost include:
- Gains and losses from the derecognition of financial assets measured at amortised cost
- The difference, at initial recognition, between the nominal and the fair value of a financial asset measured at amortised cost that is the result of the derecognition of another financial asset due to significant modification of its contractual terms.

ACCOUNTING POLICIES APPLIED (cont.)

1.28 <u>Related parties definition</u>

In accordance with IAS24, related parties for the bank are:

a) the parent company Alpha Bank A.E. and legal entities which constitute for the Bank or its parent:

    i. Subsidiaries,
    ii. Joint ventures,
    iii. Associates.

b) Related parties for the Bank also include the Hellenic Financial Stability Fund and its subsidiaries given that within the framework of Law 3864/2010 the Hellenic Financial Stability Fund acquired participation in the Board of Directors but also in important committees of Alpha Bank A.E. and as a consequence it is assumed that it exercises significant influence over them.

c) Individuals who are key management personnel and their close relatives. Key management personnel are comprised of members of the Board of Directors of the Bank , members of the executive committee of the Bank whereas close relatives are considered to be spouse as well as their first class relatives and those dependent on them and their spouse.

Related parties are also considered the entities controlled or jointly controlled by the above mentioned persons and more specifically the entities in which the above persons participate with more than 20%.

1.29 <u>Estimates, decision making criteria and significant sources of uncertainty</u>

The estimates and judgments applied by the Group in making decisions and in preparing the financial statements are based on historical information and assumptions which at present are considered appropriate. The estimates and judgments are reviewed on an ongoing basis in order to take into account current conditions, and the effect of any changes is recognized in the period in which the estimates are revised.

The Group, in the context of applying accounting policies and preparing financial statements in accordance with the International Financial Reporting Standards, makes estimates and assumptions that affect the amounts that are recognized as income, expenses, assets or liabilities. The use of estimates and assumptions is an integral part of recognizing amounts in the financial statements that mostly relate to the following:

Fair value of assets and liabilities

For assets and liabilities traded in active markets, the determination of their fair value is based on quoted, market prices. In all other cases the determination of fair value is based on valuation techniques that use observable market data to the greatest extent possible. In cases where there is no observable market data, the fair value is determined using data that are based on internal estimates and assumptions e.g. determination of expected cash flows, discount rates, prepayment probabilities or potential counterparty default.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 Estimates, decision making criteria and significant sources of uncertainty (cont.)

Business Model Assessment

Classification of financial assets is based on the assessment of business model and contractual cash flows. Business model, in particular, is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment requires judgement in which the following are taken into account: the way the performance of the business model is evaluated, the risks that affect the performance of the asset portfolios held within the business model, the way managers of the Group are evaluated and the expected frequency and value of sales. For financial assets included in hold to collect business model, the Group assesses past sales as well as expected future sales in order to confirm consistency with a hold to collect business model.

Expected credit losses of financial assets

The measurement of expected credit losses requires the use of complex models and significant estimates of future economic conditions and credit behavior, taking into account the events that have occurred until reporting date. Significant estimates are also required to identify the criteria that indicate a significant increase in credit risk, the choice of appropriate methodologies for measuring expected credit risk losses and the determination of the alternative macroeconomic scenarios and the cumulative probabilities associated with these scenarios. Details are provided in note 38.

Expected credit losses of non financial assets

The Group, at each reporting date, assesses for impairment non – financial assets, and in particular, goodwill, other intangible assets, property, plant and equipment and investment property. Internal estimates are used to a significant degree to determine the recoverable amount of the assets, i.e. the higher between the fair value less costs to sell and value in use.

Income Tax

The Group recognizes assets and liabilities for current and deferred tax, as well as the related expenses, based on estimates concerning the amounts expected to be paid to or recovered from tax authorities in the current and future periods. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit as described in note 22. Future tax audits, changes in tax legislation and the amount of taxable profit actually realised may result in the adjustment of the amount of assets and liabilities for current and deferred tax and in tax payments other than those recognized in the financial statements of the Group. Any adjustments are recognized within the year that they become final.

Provisions and contingent liabilities

The Group recognises provisions when it estimates that it has a present legal or constructive obligation that can be estimated reliably, and it is almost certain that an outflow of economic benefits will be required to settle the obligation. In contrast, when it is probable that an outflow of resources will be required, or when the amount of liability cannot be measured reliably, the Group does not recognise a provision but it provides disclosures for contingent liabilities, taking into consideration their materiality. The estimation for the probability of the outflow as well as for the amount of the liability are affected by factors which are not controlled by the Group, such as court decisions and the practical implementation of the relevant legislation.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 Estimates, decision making criteria and significant sources of uncertainty (cont.)

The estimates and judgments applied by the Group in making decisions and in preparing the financial statements are based on historical information and assumptions which at present are considered appropriate. The estimates and judgments are reviewed on an ongoing basis in order to take into account current conditions, and the effect of any changes is recognized in the period in which the estimates are revised.

1.29.1 Going concern

The Group Financial Statements for the year 31.12.2019 have been prepared on the going concern basis.

For the application of this principle, the Group takes into account current economic developments and evaluates the economic environment in which it operates. The main factors that generate uncertainties regarding the application of this principle relates to the economic environment in Cyprus and in Greece, where the parent company Alpha Bank A.E. operates, and the high level of non-performing loans in the banking system of Cyprus and the consequences of Covid -19 in Europe during the first quarter of 2020.

The Group, in preparing the Financial Statements of 31.12.2019, took into account the following factors:

- **Capital Adequacy**

The Group increased its capital in 2018 to further enhance the Group against risks. The total capital ratio on 31.12.2019 stood with transitional provisions at 20,2%. According to the CRR and the CRD IV the minimum Overall Capital Requirement is 13,625% for 2019. However, the said requirement increases in 2020 to 13,75%. The Bank's capital adequacy on 31 December 2019 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Bank with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

In relation to the impact from the application of IFRS 9, the Group will make use of the transitional provisions, according to which the impact will be absorbed applying within five years by applying the provisions of the new standard. The Group is sufficiently capitalized to meet the needs arising from the application of the new standard as the CET1 ratio stands at 16,5% as at 31.12.2019 under the transitional provisions, while the impact from full implementation is estimated at around 2,3% thus forming a ratio of 14,2% on 31.12.2019.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 <u>Estimates, decision making criteria and significant sources of uncertainty (cont.)</u>

<u>1.29.1 Going concern (cont.)</u>

- **Liquidity**

During 2019, despite the decrease of interest rates, the Group managed to maintain its deposit base. The loans to deposits ratio was further improved. This allows to the Group more flexibility on liquidity management.

- **Cyprus economy**

<u>Achievements</u>

The Cyprus economy recorded, as in 2018, positive performance. GDP growth is estimated for 2019 at 3,2% compared to 3,9% in 2018. Unemployment fell further to 7% compared to 8,7% in 2018. Inflation remained low at 0,5%. According to the forecasts of the Ministry of Finance, the debt will rise to 97% in 2019 with the prospect of reducing by 2022 to 81%. The Republic of Cyprus proceeded with an early repayment of the loan it had received from Russia and plans to make an early repayment of the loan received from the International Monetary Fund in 2020.

The strong performance of the economy is driven by private consumption, tourism and services. Private consumption has benefited from the rapid expansion of employment in all sectors, which has led to a significant reduction in unemployment. Tourism, services and shipping have made a major contribution to growth.

The introduction of the General Health Scheme has created surpluses in the General Government due to the contributions to the health system from 1.3.2019 in contrast to the provision of services that started on 1.6.2019.

The Cyprus economy remains by the international rating agencies Standard and Poor's and Fitch in the investment grade BBB- with a stable horizon. This provides flexibility on public debt management.

The Republic of Cyprus has successfully issued in 2019 five-year, fifteen-year and thirty-year bonds totaling Euro 2,75 billion.

The hydrocarbon deposits discovered in the Exclusive Economic Zone of the Republic of Cyprus are expected to give additional impetus to investments in the field of energy exploitation.

<u>Forecasts</u>

Although according to the macroeconomic and fiscal forecasts of the Ministry of Finance, the fiscal balance in 2020 was projected to be in surplus and reach 2,7%, as a percentage of GDP, while the primary balance surplus was projected to be around 5,1% of GDP, the spread of the COVID-19 epidemic and the announced government measures are projected to negatively affect both GDP growth and the primary balance surplus. It is not yet possible to accurately assess the impact on the Cypriot economy and GDP, from the spread of the COVID-19 virus and the announced government recovery measures.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 <u>Estimates, decision making criteria and significant sources of uncertainty (cont.)</u>

<u>1.29.1 Going concern (cont.)</u>

- **Cyprus economy <u>(cont.)</u>**

Based on the above initial forecasts, in 2020 the public debt was expected to be reduced to € 20,4 billion and as a percentage of GDP to be reduced to 91,1%. The declining trend of public debt as a percentage of GDP was expected to continue in the coming years and reach 85,9% and 81,1% at the end of 2021 and 2022, respectively.

According to the European Commission's winter forecasts, the Cypriot economy would continue to be robust and was expected to grow at a slower pace in 2020. The lower expectations for 2020 are affected by the reduced growth of the euro area as well as the uncertainties of important countries that trade with Cyprus. The construction sector may be affected by the program to restrict the issuance of passports to residents of third countries.

Inflation was expected to reach 0,5% in 2019 while for 2020 it is estimated that there will be an increase that will reach up to 0,8% mainly due to the increase in disposable income.

The risks that the Cypriot economy may face concern the international economic environment which is still unstable, due to the continuing tension in trade relations and geopolitical developments in the surrounding area of the Eastern Mediterranean, including the migration problem. The slowdown in global growth, especially in the EU economies and the Eurozone and other important trading partners of Cyprus, which has begun to become apparent, if it continues longer than expected, it will have a negative impact on key growth forecasts. Additional risk is the uncertainty about how the European Union will co-operate with the United Kingdom after its withdrawal. The international environment of prolonged low interest rates has an impact on the profitability of the banking sector as it reduces the net income of banks.

The emergence of coronavirus in Europe in the first quarter of 2020, which soon received pandemic features, is adding a major uncertainty in terms of both macroeconomic developments and the ability of businesses to operate under the regime of the restrictive measures imposed. This development is expected to adversely affect the ability of borrowers to repay their liabilities and, consequently, the amount of expected credit risk losses. The financial implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. In the context of efforts to relieve individuals and businesses most affected by the coronavirus and its associated restrictive measures, the Cyprus government has announced a package of tax and other relief measures. At the same time, the supervisory authorities of the systemic banks are taking a number of measures to enhance the liquidity of the credit institutions and also facilitate the gradual absorption of the effects on the capital adequacy ratios, as specifically described in note 45.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 Estimates, decision making criteria and significant sources of uncertainty (cont.)

1.29.1 Going concern (cont.)

- **Greek economy–Operating environment of the parent company**

An environment of high confidence regarding the country's potential, was formed in 2019, which is reflected, on the one hand, in the remarkable improvement of the domestic business and consumer expectations' indices and on the other hand, in the substantial reduction of the risk premium, imposed on the debt securities issued by the Hellenic Republic. In parallel, the country's growth dynamics have been strengthened further, amid the slowdown of the European economy and the maintenance of fiscal discipline.

The recovery of the domestic economic activity maintained its pace in 2019, with real GDP growing by 1,9%, the same as in 2018. The primary surplus under the enhanced surveillance definition stood at 4,16% of GDP in 2018, significantly above the target of 3,5%, mainly due to the under-execution of public expenditure for intermediate consumption and the Public Investment Budget. The 2019 EC Autumn Forecast, published in November 2019, indicated that the primary surplus is expected to reach 3,8% of GDP in 2019, whereas the fiscal targets are likely to be met for both 2020 and 2021.

Inflation, based on the Harmonised Index of Consumer Prices (HICP), reached 1,1% in December 2019. According to the 2019 EC Autumn Economic Forecasts, HICP inflation is expected to increase to 0.6% in 2020 and further to 0,9% in 2021.

The unemployment rate continued to decline in the first ten months of 2019, standing at 16,6% in October 2019 (according to seasonally adjusted data), lower by 1,9 percentage points compared to October 2018.

The liquidity conditions in the banking system continued to improve, due to the positive deposit flows from the private sector of the economy, as well as the funding received from the Eurosystem and the interbank market. The dependency of the Greek Banks on the Emergency Liquidity Assistance (ELA) mechanism has been eliminated since March 2019.

As a result of Greece's positive performance, its sovereign credit rating was upgraded in March 2019 (Moody's: B1), October 2019 (S&P: BB-) and January 2020 (Fitch: BB), but still remains below the investment grade threshold.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 Estimates, decision making criteria and significant sources of uncertainty (cont.)

1.29.1 Going concern (cont.)

Greek economy - Operating environment of the parent company (cont.)

The management of non-performing loans (NPLs) further progressed in the first nine months of 2019. NPLs were reduced to Euro 71.2 billion at the end of September 2019, decreasing by Euro 10,6 billion compared to December 2018 and by Euro 36 billion compared to March 2016, when the highest level of NPLs was recorded. The ratio of NPLs to total loans remains high not only overall (42,1% in September2019), but also per loan category (43% for mortgages, 49,7% for consumer loans and 40,4% for the business loans portfolio). The decrease of NPLs stock in the first nine months of 2019, was mostly due to write-offs and loans sales (Euro3,1 billion and Euro 7,1 billion, respectively). It should be noted that, according to the NPL targets submitted to the Single Supervisory Mechanism (SSM) at the end of March 2019, Greek credit institutions aim to reduce the total NPLs ratio, to below 20% by the end of 2021.

On examining the capability of the Bank to operate as a going concern, the Board of Directors took into consideration the following:

- the profitability of 2019
- the monitoring of cash inflows and outflows on a daily basis,
- the capital adequacy ratios of the Bank on 31.12.2019,
- the ability of the Bank to access funding via the Central Bank of Cyprus,
- the strong capital adequacy of the Alpha Bank Group,
- the measures taken by the European Central Bank to ensure that banks can continue to play their role in financing the economy,
- The measures taken by the Republic of Cyprus to support the economy from the consequences of the Covid-9 virus,
- the decisions of the Eurozone countries to take a series of fiscal and other measures to stimulate the economy as well as the decisions of the banks' supervisory authorities to provide liquidity and support their capital adequacy to the extent that it is affected by the spread of the coronavirus,
- the measures taken by the Group to protect its employees from coronavirus, the implementation of actions under the Business Continuity Plan and the activation of the ability for teleworking at a large scale whilst ensuring that critical operations are performed.

Based on the above, it is estimated that the conditions for the application of the going concern principle are met, for the preparation of the Financial Statements.

2. NET INTEREST INCOME

		From 1 January to	
		31.12.2019	31.12.2018
	Note	€΄000	€΄000
Interest and similar income			
Due from banks measured at amortised cost		413	1.640
Loans and advances to customers measured at amortised cost		66.522	75.385
Investment securities measured at fair value through other comprehensive income		2.272	747
Derivatives held for risk mitigation		-	356
Total		**69.207**	**78.128**
Interest expense and similar charges			
Balances with Central Banks		(45)	(2.264)
Due to banks		(607)	(1.421)
Due to customers		(6.877)	(21.254)
Subordinated bonds	28	(1.272)	(3.038)
Derivative financial instruments		(794)	-
Lease liabilities		(192)	-
Total		**(9.787)**	**(27.977)**
Net interest income		**59.420**	**50.151**

The following table shows the items of interest income and interest expense calculated using the effective interest rate per category of financial asset valuation

	From 1 January to	
	31.12.2019	31.12.2018
Financial assets measured at amortised cost	66.935	77.025
Financial assets measured at fair value through other comprehensive income	2.272	747
Financial assets measured at fair value through profit or loss	(794)	356
Financial liabilities measured at amortised cost	(8.801)	(27.977)

During 2019, compared to 2018, net interest income was decreased mainly due to the reduction of deposits interest rates which reduced interest on Due to customers balances .

3. NET FEE AND COMMISSION INCOME

	From 1 January to	
	31.12.2019	31.12.2018
	€΄000	€΄000
Loans	113	15
Letters of guarantee	880	724
Imports – Exports	87	90
Credit cards	681	761
Transfers of funds	2.840	2.073
Foreign exchange	541	492
Insurance	782	656
Deposits	3.143	2.132
	9.067	6.943

The table below presents income from contracts per operating segment, that fall within the scope of IFRS 15:

2019	Retail Banking €'000	Corporate Banking €'000	Treasury €'000	Other €'000	Total €'000
Loans	15	98			113
Letters of guarantee	66	814			880
Imports – Exports	2	85			87
Credit cards	603	78			681
Transfers of funds	817	2.023			2.840
Foreign exchange	298	243			541
Other	3.057	1.163		(295)	3.925
Total	**4.858**	**4.504**		**(295)**	**9.067**

2018	Retail Banking €'000	Corporate Banking €'000	Treasury €'000	Other €'000	Total €'000
Loans	8	7			15
Letters of guarantee	149	575			724
Imports – Exports	11	79			90
Credit cards	610	151			761
Transfers of funds	832	1.241			2.073
Foreign exchange	247	245			492
Other	1.940	1.139		(291)	2.788
Total	**3.797**	**3.437**		**(291)**	**6.943**

4 . DIVIDEND INCOME

	From 1 January to	
	31.12.2019 €´000	31.12. 2018 €´000
Shares of investing portfolio measured at fair value through other comprehensive income	311	502
	311	**502**

The amount represents dividends received by the Bank from its investment in JCC Payments Systems Limited and Visa Inc.

5. GAINS LESS LOSSES ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

1.1.2019 – 31.12.2019	Carrying amount €´000	(Losses) from derecognition €´000	Gain from derecognition €´000	Gains less losses on derecognition €´000
Early repayments				
Loans	33.031	(352)	796	444
Significant modifications				
Loans	66.935	(953)	774	(179)
Total		**(1.305)**	**1.570**	**265**

1.1.2018 – 31.12.2018	Carrying amount €´000	(Losses) from derecognition €´000	Gain from derecognition €´000	Gains less losses on derecognition €´000
Early repayments				
Loans	11.608	(13)	274	261
Significant modifications				
Loans	7.577	(532)	342	(190)
Total		**(545)**	**616**	**71**

The “Early repayments” item includes the gain or loss recognized in Income Statement as a result of derecognizing the unamortized balance of capitalised commissions and expenses of early repayment loans.

The “Significant modifications” item includes the carrying amount of loans derecognized in 2019 due to a material change in contractual terms, as well as the difference in the fair value.

6. GAINS LESS LOSSES ON FINANCIAL TRANSACTIONS

	From 1 January to	
	31.12.2019	**31.12.2018**
Foreign exchange differences	1.329	692
Financial assets measured at fair value through other comprehensive income:		
- Bonds	308	81
Derivative financial instruments	(2)	20
Other financial instruments	(8)	7
Sale of investments	7	-
Total	**1.634**	**800**

7. OTHER INCOME

	From 1 January to	
	31.12.2019 €΄000	31.12.2018 €΄000
Profit from sale of fixed assets	17	103
Income from services offered to group companies	6.873	5.008
Income from leases	262	-
	7.152	3.074

Income from Group companies concerns services offered by staff of the Alpha Bank Cyprus Ltd to other Group companies for the management of the loan portfolio held by these companies.

8. STAFF COSTS

	From 1 January to	
	31.12.2019 €΄000	31.12.2018 €΄000
Wages and salaries	30.507	27.794
Social security contributions	2.109	1.861
Other staff costs	78	845
Contributions to employee’s provident fund	2.310	2.152
	35.004	**32.652**

The total number of employees as at 31.12.2019 were 683 (31.12.2018 : 681)

9. GENERAL ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

	From 1 January to	
	31.12.2019	31.12.2018
	€΄000	€΄000
Advertisement and promotion expenses	1.838	1.811
Lease expenses	10	1.321
Special tax levy on customer deposits	3.383	3.162
Contributions to the resolution fund	158	191
Repairs and maintenance	376	340
Professional expenses	1.434	1.768
Legal fees	92	260
Legal fees associated with NPLs management	1.366	1.285
Collection companies fees	654	1.437
Subscriptions for card use (VISA)	908	1.162
Computer maintenance and supplies	1.450	829
Insurance	263	289
Electricity	577	550
Telecommunication expenses	590	572
Stationery and printing	349	379
Value added tax	2.001	2.203
Consultancy services	361	359
Consultancy services relating to non performing loans management	3.937	114
Other	3.100	2.938
	22.847	20.970

On 11 February 2016, Cyprus adopted the provisions of the new European Directive 2014/59 "Bank Recovery and Resolution Directive". The new framework provides for the establishment of pre-funded resolution fund of 1% of deposits to be built up by 31 December 2024. Credit institutions' contributions will be based on their risk profile and the amount of their covered deposits. For the year 2019, the Group contributed €158 thous., (2018: €191 thous.) which was covered by the contributions made to the "Special tax levy on customer deposits".

Other expenses of 2019 includes a reversal of Euro 1.545 thousand that was initially recognized in 2017 which concerned the imposition of a fine by the Commission for the Protection of Competition. The reversal was carried out after an annulment decision of the Administrative Court.

In addition, Other expenses include an amount of Euro 799 thousand. concerning the impairment of repossessed assets as well as a reversal of Euro 130 thousand concerning provision for legal cases. It also includes an expense of Euro 4,416 thousand for the cooperation with a foreign company for the management of the non-performing portfolio.

The implementation of IFRS 16, effective from 1.1.2019, differentiates the accounting of leases, since the classification of leases for lessees as either operating or finance lease is not valid. For all leases with term of more than 12 months, the lessee is required to recognize the right-of-use asset, with the corresponding depreciation charge included in the caption "Depreciation and amortization" of the Income Statement, as well as the related lease liability for which interest expense is calculated and depicted in the relevant caption of Income Statement.
The caption "Lease expenses" include short-term lease expenses, of low cost assets and variable lease expenses not included in lease liabilities.

10. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

The amount of impairment loss to cover credit risk of € 5.285 thousand includes the impairment loss and provisions for credit risk of loans and advances to customers, which are presented in table (i) below, as well as the impairment losses on other financial instruments presented in table (ii).

(i) Impairment losses and provisions to cover credit risk on loans and advances to customers

	From 1 January to	
	31.12.2019	**31.12.2018**
	€΄000	**€΄000**
Impairment losses on loans	10.800	18.306
Provisions to cover credit risk on off balance sheet items	1.269	1.044
Gains/(Losses) on modifications of contractual terms of loans and advances to customers	(1.553)	7.072
Recoveries	(5.538)	(2.269)
Total	**4.978**	**24.153**

For the year 2019, Impairment losses and provisions to cover credit risk amounted to € 4.978 thous. and included the following:

- Impairment losses on loans and provision to cover credit risk relating to off balance sheet items, which resulted from the impairment assessment exercises that the Group performs on a quarterly basis. The methodology for the calculation of the expected credit losses as well as explanation regarding of how significant changes in the gross carrying amount contribute to the change in the expected credit losses and impairment losses of the year, are described in note 38, as well as explanations of how significant changes in the impairment balance contribute to the change in expected credit losses and losses for the year.
- Gain on modification of contractual terms of loans and advances to customers, which relate to cases for which the expected change in contractual cash flows is not substantial and does not result in a derecognition, the carrying amount of the loan will be adjusted to reflect the present value of the modified cash flows discounted with the original effective interest rate.

The amount of Euro 5.538 thousand "recoveries" is the result of the settlement / collection of non performing loans that have been written off.

(ii) **Impairment losses on other financial instruments**

	From 1 January to	
	31.12.2019	31.12.2018
	€΄000	€΄000
Impairment (gain) / loss on debt securites and other securities measured at fair value through other comprehensive income	91	237
Impairment (gain) / loss on due from banks	216	(1.220)
Total	**307**	**(983)**

	From 1 January to	
	31.12.2019	31.12.2018
(Gain) / Loss (i) and (ii)	**5.285**	**23.170**

10. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK (cont.)

(Gains)/Losses on modifications of contractual terms of loans and advances to customers

The Group, in the context of renegotiation with borrowers and restructurings, proceeds with the modifications of the contractual cash flows of the loans in order to ensure their regular repayment.

The following table presents Loans and Advances to customers modified (which were not derecognised) during the year when they had a life time expected credit loss.

	From 1 January to 31.12.2019 €΄000	**From 1 January to** 31.12.2018 €΄000
Net carrying amount before the modification	428.084	234.588
Net profit or (loss) due to the modification	**1.553**	**(6.553)**

The following table presents the carrying amount of Loans and Advances to customers modified since initial recognition at a time they had a life time expected credit loss and for which the allowance is measured based on 12-month expected credit risk losses at the end of the year.

	From 1 January to 31.12.2019 €΄000	**From 1 January to** 31.12.2018 €΄000
Gross carrying amount at the end of the year	**26.677**	**25.120**

11. PROFIT BEFORE TAX

The profit for the year before tax is stated after charging the following items:

		From 1 January to	
		31.12.2019	31.12.2018
	Note	€´000	€´000
Directors' remuneration:			
Executive Directors	43(a)	509	531
Non-Executive Directors	43(a)	193	193
Independent auditors' remuneration for statutory audit of annual accounts		200	140
Independent auditors' remuneration for other non-audit services		56	2
Depreciation on investment property	19	374	-
Depreciation of property, plant and equipment	20	2.875	1477
Amortization of intangible assets	21	649	553
Lease expenses	9	10	1.321

12. TAX

		From 1 January to	
		31.12.2019	31.12.2018
	Note	€´000	€´000
Deferred tax - debit/(credit)	22	274	3.721
Debit/(Credit) for the year		274	3.721

The Group is taxed for corporation tax purposes at the rate of 12,5% on taxable profits of the year. Taxable profits are not subject to special defence contribution.

Additionally, tax losses incurred from 2006 onwards, can be carried forward and be offset against taxable profits for a period limited to five years. Group companies can offset losses against profits arising during the same tax year.

The Bank has been audited for tax purposes until the year 2017 without any liabilities arising.

Applying best practices, the Bank has instructed an audit firm to assure that the procedures applied for calculating and submitting its tax liabilities, are in compliance with the tax framework.

The assurance covered, inter alia, income tax, defense tax, value added tax, and other taxes.

12. TAX (cont.)

Reconciliation of tax based on the taxable income and tax-based accounting (loss)/profit of the Bank

	From 1 January to			
	%	31.12.2019 €´000	%	31.12.2018 €´000
Accounting profit / (loss) before tax		10.815		(15.244)
Tax calculated at applicable tax rates (nominal tax rate)	(12,5)	1.352	12,5	(1.906)
Tax effect of expenses not deductible for tax purposes	(29,3)	3.173	(7,2)	1.088
Tax effect of allowances and income not subject to tax	40,8	(4.410)	61,4	(9.343)
Utilisation of tax losses	1,06	(115)	-	-
Not recognized tax due to tax losses	-	-	(66,8)	10.161
Tax impact from deferred tax	(2,5)	274	(24,4)	3.721
Tax as per statement of comprehensive income (effective tax rate)	2,5	274	24,4	3.721

The Group has not recognized deferred tax assets amounting to € 24,188 thous. as it is not likely that a future economic profit will be available against which the Bank may use the benefit in conjunction with the fact that they can only be transferred and offset against income in the next five years.

13. EARNINGS/(LOSSES) PER SHARE

Earnings and losses per share are calculated by dividing the earning / (losses) for the year attributable to the owners of the Group by the weighted average number of issued ordinary shares during the year.

	From 1 January to	
	31.12.2019 €´000	31.12.2018 €´000
Profit / (Losses) attributable to the owners	10.541	(18.965)
Weighted average number of shares for the year	212.581.357	191.283.098
Basic and diluted earnings /(losses) per share (€ cent)	4,96	(9,91)

14. CASH AND BALANCES WITH CENTRAL BANKS

	31.12.2019 €΄000	31.12.2018 €΄000
Cash and cash equivalents	20.585	19.149
Balances with Central Bank of Cyprus	188.356	518.219
	208.941	537.368
Mandatory reserve deposits with Central Bank of Cyprus	21.889	22.545
	230.830	559.913

Deposits with the Central Bank of Cyprus bear interest based on the interbank interest rate of the relevant period and currency. The amount of mandatory deposits with the Central Bank of Cyprus multiplied 6 times is exempted and has a zero interest rate.

Deposits with Central Bank include mandatory deposits for liquidity purposes

The exposure of the Bank to market risk, interest rate risk and analysis of the above assets at maturity and currency are disclosed in note 38 of the financial statements.

15. DUE FROM BANKS

	31.12.2019 €΄000	31.12.2018 €΄000
Placements with Alpha Bank Group	125.135	120.390
Placements with other financial institutions	9.068	9.089
Reverse repos	193.995	48.256
Accumulated provisions	(232)	(15)
	327.966	177.720

The increase in the balances is mainly due to the Reverse repo agreements that are carried out mainly with the Alpha Bank SA Group.

The exposure of the Bank to market risk, interest rate risk and analysis of the above loans and advances to financial institutions at maturity are disclosed in note 38 of the financial statements.

16. INVESTMENT SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2019 €΄000	31.12.2018 €΄000
Government bonds and treasury bills	212.198	230.038
Corporate bonds	230.604	40.736
Shares	8.255	6.669
	451.057	277.443
Listed	447.595	273.214
Non Listed	3.462	4.229
	451.057	277.443
Geographical analysis based on issuer's region:		
- Cyprus	184.487	234.267
- Greece	32.850	30.509
- United Kingdom	98.153	-
- European Union	31.340	-
- United States of America	104.227	12.667
	451.057	277.443

The non listed securities include the Bank's interest in the company JCC Payments Systems Limited. The Group exercised the option allowed by IFRS 9 for equity securities to classify them at fair value through other comprehensive income recognized directly in Equity

INVESTMENT PORTFOLIO SHARES VALUED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Fair value 31.12.2019 €΄000	Dividend income from 1.1.2019 – 31.12.2019 €΄000	Fair value 31.12.2018 €΄000	Dividend income from 1.1.2018 – 31.12.2018 €΄000
Visa Inc.	3.462	17	2.441	12
JCC Limited	4.793	294	4.228	490
Total	8.255	311	6.669	502

The analysis of the above assets at maturity date is reported in note 38 of the financial statements.

17. DERIVATIVE FINANCIAL INSTRUMENTS (Assets - Liabilities)

	31.12.2019 €´000		
		Fair value	
	Contractual Nominal amount	Assets	Liabilities
Derivatives for trading purposes			
Foreign Exchange Derivatives			
FX swaps	219.094	490	1.099
Total	219.094	490	1.099

	31.12.2018 €´000		
		Fair value	
	Contractual Nominal amount	Assets	Liabilities
Derivatives for trading purposes			
Foreign Exchange Derivatives			
FX swaps	362.505	173	3.394
Total	362.505	173	3.394

18. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2019 €´000	31.12.2018 €´000
Loans and advances to customers	2.013.570	2.138.814
Allowance for impairment losses	(517.444)	(598.035)
	1.496.126	**1.540.779**

Loans measured at amortised cost

	31.12.2019 €´000	31.12.2018 €´000
Individuals:		
- Mortgages	923.405	932.545
- Consumer	193.613	209.314
-Credit cards	13.665	13.305
Total	**1.130.683**	**1.155.164**
Companies:		
Corporate loans	882.870	983.622
Total	**882.870**	**983.622**
Central government	17	28
Total	**17**	**28**
	2.013.570	**2.138.814**
Less : Allowances for impairment losses	(517.444)	(598.035)
Total	**1.496.126**	**1.540.779**

Accumulated allowance for impairment losses

Balance 1.1.2018	**779.815**
Changes in the period 1.1. - 31.12.2018	
Impairment losses for the year	24.122
Sale of impaired loans	(157.713)
Derecognizing due to significant modifications in loans' contractual terms	(4.696)
Change in the present value of the impairment losses	39.975
Foreign exchange differences	7.562
Amounts used to write-off loans during the year	(91.030)
Balance 31.12.2018	**598.035**
Changes in the period 1.1. - 31.12.2019	
Impairment losses for the year	18.571
Derecognizing due to significant modifications in loans' contractual terms	(4.221)
Change in the present value of the impairment losses	34.594
Foreign exchange differences	5.645
Amounts used to write-off loans during the year	(135.180)
Balance 31.12.2019	**517.444**

18. LOANS AND ADVANCES TO CUSTOMERS (cont.)

The exchange difference arises from the valuation of the balance of provisions held in foreign currency that are held to cover credit risk.

The exposure of the Group to credit risk and analysis of loans and advances to customers by industry sector, and by maturity is disclosed in note 38 of the financial statements.

19. INVESTMENT PROPERTY

	Land - Buildings €΄000
Balance **1.1.2018**	
Cost	2.023
Accumulated depreciation and impairment losses	-
1.1.2018 - 31.12.2018	
Net Book value 1.1.2018	2.023
Additions from companies consolidated in the year	5.247
Net Book value 31.12.2018	**7.270**
Balance 31.12.2018	
Cost	**7.270**
Accumulated depreciation and impairment losses	**0**
Balance 1.1.2019	
Cost	7.270
Accumulated depreciation and impairment losses	-
1.1.2019 - 31.12.2019	
Additions from companies consolidated in the year	16.068
Impairment	(542)
Depreciation	(374)
Disposals	(878)
Depreciation on disposals	20
Transfer to non current assets held for sale	(3.665)
Transfer of impairments to non current assets held for sale	606
Net Book value 31.12.2019	**18.505**
Balance 31.12.2019	
Cost	**18.790**
Accumulated depreciation and impairment losses	**285**

Investment property is initially recognised at cost which includes any expenditure directly attributable to the acquisition of the asset. Subsequently, investment property is measured at cost less accumulated depreciation and impairment losses..

The fair value of investment property on 31.12.2019 amounted to €23,5 mil. (2018 : €12,0 mil.) The fair value of immovable property is calculated in accordance with the methods described in note 1.7 and is ranked according to the hierarchy of fair value at Level 3 having made use of information provided from case investigations and data relating to properties of similar characteristics and consequently included a wide range of non-observable data on the market.

19. INVESTMENT PROPERTY (cont.)

During 2019, an impairment loss of €542 thousand was recognized (31.12.2018: zero), so that the net book value is reflecting the recoverable value on 31.12.2019, as assessed by certified valuers.

The additions of the current and previous year as well as the additions from companies that were consolidated for the first time in the years 2019 and 2018, mainly concern investments in real estate that had been taken as collateral against loans and acquired by the Group in the context of credit risk management.

20. PROPERTY, PLANT AND EQUIPMENT

	Land (Note 1)	Buildings and improvements on leasehold premises (Note 1)	Plant and equipment	Right of use - Buildings	Right of use - Cars	Total
Cost	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 31.12.2018	3.089	33.935	17.375	-	-	54.399
Impact from the implementation of I.F.R.S. 16 on 1.1.2019	-	-	-	8.254	69	8.323
1 January 2019	3.089	33.935	17.375	8.254	69	62.722
Additions	-	752	1.186	-	46	1.984
Write offs	-	-	(155)			(155)
Disposals / Terminations	-	-	(272)	(301)	-	(573)
31 December 2019	3.089	34.687	18.134	7.953	115	63.978
1 January 2018	3.089	33.574	18.061	-	-	54.724
Additions	-	511	883	-	-	1.394
Disposals / Terminations	-	(150)	(1.569)	-	-	(1.719)
Write offs	-	-	-	-	-	-
31 December 2018	3.089	33.935	17.375	-	-	54.399

Note 1: The recoverable value of land and buildings is not less than its book value.

20. PROPERTY, PLANT AND EQUIPMENT (cont.)

	Land (Note 1)	Buildings and improvements on leasehold premises (Note 1)	Plant and equipment	Right of use - Buildings	Right of use - Cars	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Depreciation						
1 January 2019	-	16.678	15.310	-	-	31.988
Charge for the year	-	793	792	1.252	38	2.875
Write offs	-	-	(155)			(155)
Disposals / Terminations	-	-	(184)	(70)	-	(254)
31 December 2019	-	17.471	15.763	1.182	38	34.454
1 January 2018	-	15.954	16.190	-	-	32.144
Charge for the year	-	792	685	-	-	1.477
Write offs	-	(68)	(1.565)	-	-	(1.633)
Disposals / Terminations	-	-	-	-	-	-
31 December 2018	-	16.678	15.310	-	-	31.988
Net book value						
1 January 2018	3.089	17.620	1.871	-	-	22.580
31 December 2018	3.089	17.257	2.065	-	-	22.411
31 December 2019	3.089	17.216	2.371	6.771	77	29.524

Note 1: The recoverable value of land and buildings is not less than its book value.

21. INTANGIBLE ASSETS

	Computer Software
	€´000
Cost	
1 January 2019	10.361
Additions	629
Disposals	-
31 December 2019	10.990
1 January 2018	8.917
Additions	1.648
Disposals	(204)
31 December 2018	10.361
Amortization	
1 January 2019	8.726
Charge for the year	649
Disposals	-
31 December 2019	9.375
1 January 2018	8.377
Charge for the year	553
Disposals	(204)
31 December 2018	8.726
Net book value	
1 January 2018	540
31 December 2018	1.635
31 December 2019	1.615

22. DEFERRED TAX ASSETS

31.12.2019	Tax losses €΄000	Difference between depreciation and capital allowances €΄000	Total €΄000
1 January	9.739	(1.215)	8.524
Credit / (Debit) in the statement of comprehensive income	(112)	(162)	(274)
31 December	9.627	(1.377)	8.250
31.12. 2018			
1 January	13.397	(1.152)	12.245
Credit / (Debit) in the statement of comprehensive income	(3.658)	(63)	(3.721)
31 December	9.739	(1.215)	8.524

Deferred tax assets are recognized for unutilized tax losses, and deductible temporary differences, to the extent that future taxable profits are likely to be available against which they can be used. The most important category of deferred tax asset recognized by the Group relate to tax losses. Deferred tax asset for the tax losses carried forward relate to the years 2014-2018.
Tax losses can be set off against taxable profits within five years of their recognition.

The Group recognizes deferred tax because it estimates that its future taxable profits, for the subsequent years until the expiry of the right to set off the tax losses, are recoverable. The estimation of future taxable profits is based on the Group's Business Plan.

23. REPOSSESSED ASSETS

	€΄000
Balance 1.1.2018	
Cost	7.824
Accumulated impairments	-
1.1.2018 – 31.12.2018	
Net book value 1.1.2018	7.824
Additions	6.125
Disposals	(704)
Impairment for the period	(367)
Net book value 31.12.2018	12.878
Balance 31.12.2018	
Cost	13.245
Accumulated impairments	(367)
1.1.2019 -31.12.2019	
Net book value	12.878
Additions	13.582
Disposals	(679)
Impairment for the period	(333)
Transfer to non current assets held for sale	(641)
Impairment on assets transferred to non current assets held for sale	159
Net book value	24.966
Balance 31.12.2019	
Cost	**25.507**
Accumulated impairments	**(541)**

Assets acquired through auctions or from the exchange of loans with real estate but are not immediately available for sale or are not expected to be sold within a year are presented in "Repossessed assets" and are measured at the lower of cost (or carrying amount) and net realizable value. Net realizable value is considered equal to fair value less costs to sell.

The fair value of the assets is calculated in accordance with the methods mentioned in accounting policies and are classified, in terms of fair value hierarchy, in Level 3 since data based on market research, assumptions and inputs relating to properties of relevant characteristics are used for the determination of fair value and therefore encompass a wide range of unobservable market inputs.

24. OTHER ASSETS

	31.12.2019 €΄000	31.12.2018 €΄000
Receivables from Alpha Bank Group companies (Note 43)	1.646	1.625
Other receivables and prepayments	5.849	4.064
	7.495	5.689

25. NON CURRENT ASSETS HELD FOR SALE

	31.12.2019 €΄000	31.12.2018 €΄000
Non current assets held for sale		
ABC RE P2 Ltd	2.013	-
ABC RE P4 Ltd	765	-
Other non current assets held for sale	961	-
Total	3.739	-

	31.12.2019 €΄000	31.12.2018 €΄000
Liabilities related to assets classified as non current held for sale		
ABC RE P2 Ltd	22	-
ABC RE P4 Ltd	10	-
Total	32	

During 2019 the Group after receiving offers for the sale of all shares of the companies ABC RE P2 LTD and ABC RE P4 LTD decided to sell both companies to the same bidder for the total amount of Euro3 million. The transaction is expected to be legally completed within the second quarter of 2020.

In accordance with IFRS 5, the above companies were classified on 31.12.2019 as held for sale. The Group valued the assets and liabilities of its subsidiaries at the lower of cost and fair value less costs to sell.

The remaining held for sale items mainly concern other properties that were recovered through Debt for Assets transactions with customers.

26. DUE TO BANKS

	31.12. 2019 €΄000	31.12.2018 €΄000
Amounts due to companies of Alpha Bank Group (Note 43)	29.159	26.995
Amounts due to other financial institutions	25.782	28.118
	54.941	55.113

Amounts due to Alpha Bank A.E. are secured with «Loans and advances to customers» (Note 38.6) The exposure of the Group to liquidity risk and analysis of deposits from financial institutions by maturity is disclosed in note 38 of the financial statements.

27. DUE TO CUSTOMERS

	31.12.2019 €΄000	31.12.2018 €΄000
Deposits:		
Current	1.004.840	783.428
Savings	74.836	47.686
Fixed term or notice	1.089.810	1.381.679
	2.169.486	2.212.793

The exposure of the Group to liquidity risk and analysis of deposits from customers by maturity are disclosed in note 38 of the financial statements.

28. SUBORDINATED BONDS

Subordinated bonds at amortised cost

	Listed €΄000	Non - Listed €΄000	Total €΄000
1 January 2019	-	15.748	15.748
Interest payable	-	1.272	1.272
Payments	-	(6.869)	(6.869)
31 December 2019	-	10.151	10.151

	Listed €΄000	Non - Listed €΄000	Total €΄000
1 January 2018	100.220	16.042	116.262
Interest payable	1.023	2.015	3.038
Payments	(101.243)	(2.309)	(103.552)
31 December 2018	-	15.748	15.748

Listed

The Board of Directors of the Bank has approved the issue of 1m bonds with 10 years duration and a nominal value of € 100 each which have been offered to a limited number of investors in Cyprus and abroad. The bonds were issued on May 30th , 2008 with maturity May 30th , 2018. On May 30th, 2018 the Bank has fully redeemed them.

28. SUBORDINATED BONDS (cont.)

Subordinated bonds at amortised cost (cont.)

Non - Listed

Non - listed securities are secondary capital (Tier II) issued by Emporiki Bank Cyprus Ltd and held by companies of the Alpha Bank Group. These securities were recognised at their fair value at the acquisition date of Emporiki Bank Cyprus Ltd for the amount of € 15.936 thous. The difference between the nominal value and the fair value at the acquisition date (1.3.2015) will be amortized until the maturity of the securities. An amount of Eur1.046 thous., in 2019 has been charged to the income statement. (2018 : Eur1.678 thous.)

The capital securities were issued with a floating interest rate plus margin, which is set at the beginning of each interest period and is applicable to that specific period.

The applicable rate for outstanding capital is shown in the table below:

Date of issue	Capital outstanding €000	Interest base	Margin
3.3.2011	10.667	Euribor 3m	2,16%
Total	10.667		

The capital securities are not secured and in case of liquidation, their repayment follows in priority the repayment of the Bank's depositors and other obligations.

The bonds are due by 2021 and the repayment of the nominal value is shown below:

	31.12.2019 € 000
Within one year	5.333
1 to 3 years	5.334
Total	10.667

	31.12.2018 € 000
Within one year	6.633
1 to 3 years	10.667
Total	17.300

29. OTHER LIABILITIES AND PROVISIONS

	31.12.2019 €΄000	31.12. 2018 €΄000
Accrued expenses	3.701	4.415
Provisions for litigation and arbitration (Note i)	-	130
Provisions to cover credit risk relating to off-balance sheet items (iii)	4.023	2.753
Other payables (Note ii)	31.031	18.642
Amounts due to Alpha Bank Group companies (Note 43)	2.230	2.727
Taxes payables on behalf of clients	123	491
Liabilities on leases (Note iv)	7.211	-
	48.319	29.158

(i) Provisions for litigation and arbitration

	2019 €΄000	2018 €΄000
1 January	130	63
Provision for the year	(130)	67
31 December	-	130

The Group, in the ordinary course of business, is a defendant in claims from customers and other lawsuits. According to the estimations of the legal department, the ultimate settlement is not expected to have a material effect on the financial position or the operations of the Group. The Group has recorded a provision for pending legal cases amounting to €130 thous. for 2018 which is included in "Other Liabilities and provisions". The relative amount for 2019 is nil.

(ii) Other payables

Other payables included in 2018, an amount of Euro 1,5 million which concerns a fine imposed in 2017 by the Competition Protection Commission for charges on domestic interbank commissions. Following a court decision of the Administrative Court issued in favor of the Bank in 2019, the amount has been reversed.

(iii) Provisions to cover credit risk relating to off-balance sheet items

Balance 1.1.2018	1.709
Changes in the period 1.1.2018 – 31.12.2018	
Provisions to cover credit risk relating to off-balance sheet items	1.044
Balance 31.12.2018	**2.753**

Balance 1.1.2019	2.753
Changes in the period 1.1.2019 – 31.12.2019	
Provisions to cover credit risk relating to off-balance sheet items	1.270
Balance 31.12.2019	**4.023**

29. OTHER LIABILITIES AND PROVISIONS (cont.)

(iv) Lease liabilities

The following table presents the changes of lease liabilities as a result of the implementation of IFRS 16.

Balance 1.1.2019	Cash flows	Non cash flows			Balance 31.12.2019
	Payments	Debit interest	New leases	Terminations	
€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
8.323	(1.120)	192	46	(230)	7.211

30. SHARE CAPITAL

	2019		2018	
	Number of shares	**€000**	**Number of shares**	**€000**
Authorised				
31 December				
(Ordinary shares of €0,85 each)	600.000.000	510.000	600.000.000	510.000
Issued and fully paid				
1 January	212.581.357	180.694	174.474.178	148.303
Shares issue	-	-	38.107.179	32.391
31 December (Ordinary shares of €0,85 each)	212.581.357	180.694	212.581.357	180.694

Shareholders Structure

		31.12.2019		31.12. 2018	
	Shareholder	Number of shares	%	Number of shares	%
1.	Alpha Bank A.E.	210.362.877	98,95%	172.255.698	98,73%
2.	Emporiki Venture Capital Developed Markets Ltd	1.163.835	0,55%	1.163.835	0,67%
3.	Emporiki Venture Capital Emerging Markets Ltd	1.054.645	0,50%	1.054.645	0,60%
	Total	**212.581.357**	**100.00%**	**174.474.178**	**100.00%**

The shareholders Emporiki Venture Capital Developed Markets Ltd and Emporiki Venture Capital Emerging Markets Ltd are fully controlled (100%) by Alpha Bank A.E.

31. CONVERTIBLE CAPITAL SECURITIES

	31.12.2019 €΄000	31.12.2018 €΄000
Issue of convertible capital securities	64.000	64.000

On the 1st November 2013, the Bank issued 75.294.118 perpetual convertible capital securities with no maturity with nominal value €0,85 each which were purchased by the parent company Alpha Bank A.E.

Convertible capital securities bear a fixed annual interest of 7% which is payable on the 30 September each year.

The Bank may at its sole discretion at all times, elect to cancel an interest payment on a non-cumulative basis. Cancellation of a coupon payment does not constitute an event of default of interest payment, and does not entitle the holders to petition for the insolvency of the Bank.

The Bank has cancelled the payment of interest for 2018 and 2019.

The convertible capital securities may be redeemed, at the discretion of the Bank subject to the prior approval of the Central Bank of Cyprus, at their nominal value including any accrued interest but excluding any interest payment previously cancelled, at 30 September 2019 or at any subsequent interest payment date.

Mandatory cancellation of interest payment shall apply when:

- The Bank fails to comply with the minimum capital requirements set by the Central Bank of Cyprus for credit institutions operating in Cyprus in the Directive on the calculation of the capital requirements and large exposures, as amended or replaced, or

- The Bank has insufficient distributable items to make an interest payment, or

- The Central Bank of Cyprus may require, in its sole discretion, at any time the Bank to cancel interest payments.

The convertible capital securities are obligatory converted into ordinary shares of the Bank on the occurrence of a contingency event or a viability event. The conversion price is constant and cannot be lower than the nominal value of the Bank's ordinary shares.

These financial instruments are classified as equity, as the Bank does not have a contractual obligation to repay the holder in cash or other financial asset. The convertible capital securities are classified as Tier 1 capital for the purpose of calculating the capital adequacy ratio.

32. SHARE PREMIUM

	2019 €´000	2018 €´000
Opening balance 1 January	**102.661**	**90.467**
Changes in the period 1.1 – 31.12		
Shares issue	-	12.194
Total	-	12.194
Balance 31 December	**102.661**	**102.661**

On July 23, 2018, after the share capital increase and the issue of 38.107.179 new ordinary shares, with nominal Euro 0,85, allotted at the price of Euro 1,17, a total difference of Euro 12,194 thousand arose. The difference was credited in the "Share Premium" in Equity.

33. RESERVES

a) Investments reserves measured at fair value through other comprehensive income

The investments revaluation reserve measured at fair value through other comprehensive income is not distributable, however, in the event of a sale of an investment, any revaluation surplus is transferred from the revaluation reserve to profit or loss.

	2019 €´000	2018 €´000
Balance 1 January	**1.088**	**1.947**
Changes in the period 1.1 – 31.12		
Revaluation of investment securities measured at fair value through other comprehensive income	6.176	(859)
Balance 31 December	**7.264**	**1.088**

b) Reserve from the conversion of share capital

	2019 €´000	2018 €´000
Balance 31 December	**600**	**600**

	2019 €´000	**2018** €´000
Reserves total (a + b)	**7.864**	**1.688**

34. RETAINED EARNINGS

The revenue reserve (retained earnings) is distributable according to the requirements of the Company Law, Cap. 113.

Companies which do not distribute 70% of their profits after tax, as determined by the Special Defence contribution Law, during the two years after the end of taxable year that the profits are reported, it will be considered that they have distributed this amount as dividend. Special defence contribution of 17% from 2014 and afterwards will be payable on the deemed dividend distribution at the extent which owners (individuals and companies) at the end of the two year period after the end of taxable year that the profits are reported, are taxable Cyprus residents. The amount of deemed distribution of dividends is reduced by any realised dividend that has already been distributed for the year during which the profits are reported. The special defence contribution is paid by the Bank for the account of the owners.

The above requirements of the Law are not applied in the case of the Group, due to the fact that its owners are not residents in Cyprus for tax purposes.

A gain of Euro 1.589 thous. (2018 : Euro 681 thous.) has been recognized in retained earnings from securities measured at fair value through other comprehensive income

35. CONTINGENT LIABILITIES AND COMMITMENTS

35.1 OFF BALANCE SHEET LIABILITIES

	31.12.2019 €΄000	31.12.2018 €΄000
Contingent liabilities		
Bank guarantees	77.418	74.123
Commitments		
Letters of credit and letters of guarantees	6.769	2.274
Undrawn credit facilities	121.252	120.376
	128.021	122.650
Total off balance sheet liabilities	205.439	196.773

Documentary credits and letters of guarantee are usually compensated through respective third party liabilities.

Documentary credits which are in the form of letters of credit relating to imports/exports commit the Group to make payments to third parties on production of documents and provided that the terms of the documentary credit are satisfied. The repayment by the customer is due immediately or within up to six months.

Loan and facility limits that have been approved but not utilized by clients represent a contractual obligation. Loan and facility limits include overdraft limits that are granted for a specific time period and may be cancelled by the Group at any time.

For commitments, an impairment provision of Euro 4,0 mil. for 2019 (2018: Euro 2,7mil.) is recognised.

The exposure of the Group to credit risk is disclosed in note 38 of the financial statements.

35. CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

35.2 LEGAL

The Group, in the ordinary course of business, is a defendant in claims from customers and other legal proceedings. In the context of managing the operational risk events and on the basis of the accounting principles followed, the Group records all the filed lawsuits or similar actions performed by third parties against the Group and considers any possibility of their success, as well as the possible outcome.

For cases where there is a significant probability of a negative outcome, and the result may be sufficiently estimated, the Group creates a provision that is included in the Balance Sheet under the caption “Other liabilities and provisions”. On 31.12.2019 the amount of the provision stood at zero. (31.12.2018: € 130 thous.).

For cases where according to their progress and the evaluation of the Legal department on December 31, 2019, a negative outcome is not probable or the potential outflow cannot be estimated reliably due to the complexity of the cases, the time period they will last and the uncertainty of their outcome, the Group has not recognized a provision. As of 31.12.2019 the legal claims against the Group for the above cases amount to € 26.215 thous. (31.12.2018: €31.656 thous.).
According to the estimations of the legal department, the ultimate settlement of these matters is not expected to have a material effect on the financial position or the operations of the Group.

35.3 TAX

The Bank has been audited for tax purposes until the year 2017 without any tax liabilities arising. The companies that are being consolidated have not been audited for tax purposes.

35.4 LEASES

Impact from IFRS 16 Implementation

The Group applied the standard to all active, as at 1.1.2019, lease contracts, with the cumulative effect of initially applying the standard recognized directly in equity as at 1.1.2019 in accordance with the transitional requirements of the standard and did not restate comparative information.
In addition, the Group elected to make use of the practical expedient and did not apply the requirements of the standard to leases for which the lease term is less than 12 months (short term), as well to leases for which the underlying asset is of low value (less than 5,000 euro when new). It is noted that the Group has made assumptions for extension for leases expiring within 2019 that however were expected to be renewed.

35. CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

35.4 LEASES (cont.)

The Group's obligations during 2018 with respect to leases related to buildings used as branches and other operating units. The minimum future lease obligations under operating leases that expire on different dates until 2032 are analyzed as follows:

	31.12.2018 €´000
Within one year	1.316
Between one to five years	3.034
More than five years	3.534
	7.884

During 2019, the Group maintained lease agreements mainly for commercial real estate buildings used for its network and store buildings. The application of IFRS 16 has led to the recognition of a right of use assets recognized in "Property, plant and equipment" and an equal amount of lease liabilities without any effect on the equity and accumulated profits of the Group on January 1, 2019.

During the application of IFRS 16, estimates have been made for contract renewals based on the extension rights. There are no leases which include a variable lease term based on the amount of total income.

In addition, there are no short-term lease agreements that were signed in the last days of 2019 and have been implemented on 1.1.2020.

The table below shows the impact from the initial adoption of IFRS 16:

	1.1.2019 €´000
Right of use asset	
Right of use (shown in " Property , plant and equipment")	8.323
Lease liability	
Lease liability (shown in "Other liabilities and provisions ")	8.323

35. CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

35.4 LEASES (cont.)

The reconciliation of lease liabilities with operating lease commitments, as disclosed in the consolidated financial statements for the year ended 31 December 2018, at 1 January 2019 is set out below:

	€΄000 Buildings	€΄000 Cars	€΄000 Total
Commitments of operating leases on 31.12.2018	**7.814**	**71**	**7.884**
Average incremental interest rate on 1 January 2019	**2,26%**	**1,04%**	
Discounted liability for operating leases on 1 January 2019	**6.810**	**69**	**6.879**

		1.1.2019	
	€΄000 Buildings	€΄000 Cars	€΄000 Total
Lease liability on 1 January 2019	**6.810**	**69**	**6.879**
Adjustment for the renewal of matured contracts for a period of 3 years	**1.444**	**-**	
Lease liability on 1 January 2019	**8.254**	**69**	**8.323**
Payments	(1.120)		(1.120)
New leases	46		46
Debit interest	192		192
Terminations	(230)	-	(230)
Balance 31.12.2019	**7.142**	**69**	**7.211**

The Group in order to discount remaining lease payments used incremental borrowing rate (IBR) 2,26% for buildings and 1,04% for cars which was determined using as reference rate the secured funding rate of the parent company Alpha Bank, adjusted for different currencies and taking into consideration government yield curves, where applicable.

36. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the cash and cash equivalents includes the following:

	Note	31.12.2019 €΄000	31.12.2018 €΄000
Cash and balances with Central Banks	14	208.941	537.368
Due from banks	15	327.966	177.720
Due to banks		(54.941)	(55.097)
		481.966	659.991

37. OPERATING SEGMENTS

The Group, in assessing the presentation of information by operating segment and taking into consideration the information that the management receive, who are responsible for the allocation of resources and assessing the performance of its banking sectors, identified the following operating segments:

- Retail Banking
- Corporate Banking
- Treasury
- Other

The activities of subsidiary companies are included in “Other” category.

A) The below table presents the income, expenses, impairment losses, profit/(loss) before tax and certain information on assets and liabilities with regard to the above segments.

	1.1-31.12.2019				
	Retail Banking €000	Corporate Banking €000	Treasury €000	Other €000	Total €000
Net interest income	36.515	22.720	214	(29)	59.420
Net fee and commission income	4.858	4.504	(256)	(39)	9.067
Other income	495	(349)	1.995	7.221	9.362
Total income	41.868	26.875	1.953	7.153	77.849
Total expenses	(25.378)	(13.229)	-	(23.142)	(61.749)
Impairment losses and provisions to cover credit risk	13.023	(16.025)	(307)	(1.976)	(5.285)
Net profit / (loss) before tax	29.513	(2.379)	1.646	(17.965)	10.815
Tax	-	-	-	(274)	(274)
Profit / (loss) after tax	29.513	(2.379)	1.646	(18.239))	10.541
Total assets 31.12.2019	874.718	627.146	1.010.293	88.406	2.600.563
Total liabilities 31.12.2019	1.810.212	359.287	56.040	58.489	2.284.028
Capital expenditure	-	-	-	2.567	2.567
Depreciation and amortization	(2.133)	(1.529)	-	(235)	(3.898)

37. OPERATING SEGMENTS (cont.)

1.1 - 31.12.2018	Retail Banking €000	Corporate Banking €000	Treasury €000	Other €000	Total €000
Net interest income	29.451	23.316	(2.616)	-	50.151
Net fee and commission income	3.796	3.438		(291)	6.943
Other income	(99)	98	1.303	5.182	6.484
Total income	33.148	26.852	(1.313)	4.891	63.578
Total expenses	(24.894)	(11.700)	-	(19.058)	(55.652)
Impairment losses and provisions to cover credit risk	(23.684)	(683)	1.197	-	(23.170)
Net profit / (loss) before tax	(15.430)	14.469	(116)	(14.167)	(15.244)
Tax	-	-	-	(3.721)	(3.721)
Profit / (loss) after tax	(15.430)	14.469	(116)	(17.888)	(18.965)
Total assets 31.12.2018	853.442	698.068	1.015.250	47.675	2.614.435
Total liabilities 31.12.2018	1.869.821	342.991	58.507	44.887	2.316.206
Capital expenditure	-	-	-	3.042	3.042
Depreciation and amortization	(1.080)	(884)	-	(66)	(2.030)

37. OPERATING SEGMENTS (cont.)

B) The below table presents the income, expenses, impairment losses, profit/(loss) before tax and certain information on assets and liabilities per geographical segment:

	31.12.2019		
	Cyprus	Other countries	Total
	€000	€000	€000
Net interest income	43.956	15.464	59.420
Net fee and commission income	6.516	2.551	9.067
Other income	7.813	1.549	9.362
Total income	58.285	19.564	77.849
Total expenses	(47.540)	(14.209)	(61.749)
Impairment losses and provisions to cover credit risk	(5.555)	270	(5.285)
Net profit / (loss) before tax	5.190	5.625	10.815
Tax	(274)	-	(274)
Profit / (loss) after tax	4.916	5.625	10.541
Total assets 31.12.2019	1.545.674	1.054.889	2.600.563

	31.12.2018		
	Cyprus	Other countries	Total
	€000	€000	€000
Net interest income	36.596	13.555	50.151
Net fee and commission income	4.773	2.099	6.872
Other income	5.764	791	6.555
Total income	47.133	16.445	63.578
Total expenses	(41.468)	(14.184)	(55.652)
Impairment losses and provisions to cover credit risk	(7.571)	(15.599)	(23.170)
Net profit / (loss) before tax	(1.906)	(13.338)	(15.244)
Tax	(3.721)	-	(3.721)
Profit / (loss) after tax	(5.627)	(13.338)	(18.965)
Total assets 31.12.2018	1.925.609	688.826	2.614.435

37. OPERATING SEGMENTS (cont.)

Retail Banking
Includes all individuals (Retail banking customers), professionals and small businesses, who are operating in Cyprus and abroad. Through its branch network it manages all deposit products, consumer mortgage products and corporate loans, liquidity products, letters of guarantee, letters of credit , and debit and credit cards of the above customers.

Corporate Banking
Includes all Medium and Large Businesses who are operating in Cyprus. It manages all liquidity products, corporate loans, and letters of guarantee, and letters of credit of the above businesses.

Treasury
Includes the activity of the Dealing Room on the interbank markets (FX Swaps, Bonds, Inter-bank placements – loans etc.)

Other
Includes the operating expenses of the Management that are not classified to other sectors of the Group.

38. RISK MANAGEMENT

The Bank has established a thorough and prudent risk management framework which is built on best supervisory practices and which, based on the common European legislation and banking system rules, principles and standards, is evolved over time in order to be implemented on the Bank's conduct of the day-to-day business and to ensure the effectiveness of its corporate governance.

The Bank's main focus in 2019 was to maintain high standards of internal governance and compliance with regulatory risk guidelines and to retain confidence in the conduct of its business activities through sound and robust provision of financial services.

Risk Management Organization

Board of Directors (BoD)

The BoD determines, oversees and reviews the implementation of the Bank's business objectives as well as its strategies for achieving those objectives including risk management strategies, internal capital targets and budget ensuring the Bank's solvency and long-term financial interests.

The BoD ensures that the Bank has an appropriate risk management framework in place which takes into consideration the Bank's business model, the complexity of its operations and its size. The BoD has overall responsibility and takes an active role in setting, approving and overseeing the implementation of the Risk Appetite Framework and risk culture, whilst ensuring its alignment with the Bank's short- and long-term strategy, business and capital plans and its supervisory and other requirements.

At the same time, the BoD periodically approves and reviews all strategies and policies for the undertaking, management, monitoring and mitigating of the risks to which the Bank is exposed and through the Board Risk Committee is kept informed of any changes in its risk profile, actions and decisions that involve significant risks and deficiencies identified in relation to the Risk Management Framework, etc.

Board Risk Committee

The Board Risk Committee recommends to the BoD the risk taking and capital management strategy which corresponds to the business objectives of the Bank and is also responsible to monitor its implementation. The BoD is also responsible for setting the principles in terms of risk identification, estimation, measurement, monitoring and management considering resources available and Bank's risk appetite limits. Furthermore, it is responsible to monitor the implementation of the risk management policies and procedures of the Bank in regards to risks undertaken, their monitoring and management.

Risk Divisions

Based on the provisions of the Central Bank of Cyprus Directive and the guidelines of the European Supervisory Authorities in relation to internal governance, the Bank's Risk Divisions, constitute independent control functions which refer to the Board Risk Committee through the General Manager Risk for matters of their competence and through this to the Board of Directors, with notification of the Managing Director.

The Credit Risk Division and the Market and Operational Risk Division, which operate under the supervision of the General Manager Risk are responsible for the implementation of the risk management framework in accordance with the Board Risk Committee's guidelines.

38. RISK MANAGEMENT (cont.)

Risk Divisions (cont.)

The Credit Risk Division constitutes of the following departments:

- Policy
- Regulatory Requirements and Corporate Governance
- Credit Control
- Data Analysis
- Methodologies
- Individual Impairment Assessment
- Collective Impairment Assessment

The Market and Operational Risk Division, constitutes of the following departments:

- Market and Liquidity
- Operational

In addition to the above, the Credit Risk Model Validation department also operates under the direct supervision of the General Manager Risk.

38.1 Credit Risk

Credit risk is the risk that an obligor will fail to meet his obligations (principal, interest, fees) on time or in full according to the contractual agreed terms. This risk arises from the probability that an obligor is either unwilling or unable to perform on an obligation.

Credit risk derives from almost all of the Bank's activities and the offered products and services.

The Credit Risk Management is implemented on the basis of the Credit Risk Management Framework defined by the Alpha Bank Group and adopted by the Bank. This Framework includes all policies, procedures, systems and methodologies used to identify, assess and monitor credit risk and effectively implement mitigation measures. Through the Credit Risk Management Framework the Bank and the Alpha Bank Group ensure compliance with the supervisory guidelines and also the adoption of best banking practices aiming primarily to the effective management and limitation of credit risk.

The principles of the Credit Risk Management Framework are implemented through an appropriate governance and organizational structure that establishes clear roles and responsibilities across functions and committees and covers all credit risk areas involved.

For credit risk management purposes the facilities are separated into Wholesale and Retail. The procedures followed include among others the assessment of customers' repayment ability and describe the stages followed from the preparation and submission of the customer's request to the appropriate approval authority until its final approval and implementation. The procedures also include the customers and the accounts transactional behavior monitoring, following the disbursement. Procedures are reviewed on a regular basis, aiming at greater standardization and better measurement and monitoring of credit risk.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Credit approvals are granted only by approving Committees, the approval limits of which are determined on the basis of the credit product, the amount, the rating of the client and the collateral offered. The credit policy of the Bank is in line with the Alpha Bank Group policy and the regulations of the Central Bank of Cyprus.

Measuring credit risk and internal ratings

Credit rating models are important tools which are used for the loan approval process as well as for the credit quality classification of the Bank's loan portfolio.

Retail Banking

In order to assess the applications for granting new exposures of to Retail banking portfolio borrowers , the Bank uses two demographic-based credit risk models. In addition to the above, an additional credit rating scale is used to assess existing client loan applications in accordance with the customer behavior in existing products.

Wholesale Banking

In relation to the Wholesale portfolio, the assessment of the borrowers' creditworthiness and their classification in credit risk scales is established through rating systems.

The Bank's borrowers classification with the use of credit risk rating systems constitutes a basic tool for:

- The decision-making process of Credit Committees for the approval / renewal of credit limits and the implementation of the appropriate pricing policy (interest rate spreads, etc.).
- The estimation of the future behavior of customers which belong to a group with similar characteristics.
- The early recognition of potential troubled facilities and the prompt, effective action for the minimization of the expected loss for the Bank; and
- The assessment of the quality of the Bank's loan portfolio and the credit risk undertaken.

The aim of the credit risk rating systems is the estimation of the probability the borrowers will not meet their contractual obligations to the Bank.

The rating systems employed by the Bank are the Alpha Bank Rating System (ABRS) and the Moody's Risk Analyst (MRA) which incorporate different credit rating models.

All current and future clients of the Bank are assessed based on the appropriate credit risk rating model and within specified time frames.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Measuring credit risk and internal ratings (cont.)

For the estimation of the probability of default of the obligors of the Bank the credit risk rating models evaluate a series of parameters, which can be grouped as follows:

- Financial Analysis: Obligor's Financial Ability (liquidity's ratios, debt to income, etc.)
- Peers' Analysis: Obligor's comparative position in the market in which it operates mostly compared to its peers.
- Behavioral status and transactional history of the obligor with the Bank and with third parties (debt in arrears, adverse transaction records, etc).
- Obligor's qualitative characteristics (solid and healthy administration, management succession, appropriate infrastructure and equipment etc.).

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Measuring credit risk and internal ratings (cont.)

The credit rating models which are currently employed by the Bank are differentiated according to:

- The credit facility's specific characteristics.
- The available information for the obligor's assessment. Specifically, for the financial analysis, the differentiations have to do with the type of the local accounting standards used (financial services, insurance services, etc.) as well as whether the financial statements are prepared based on the International Financial Reporting Standards (IFRS).

For each of the credit rating models, different parameters may be used, each of which contributes in a specific manner to the relevant assessment.

The statistical validation of the credit risk rating models is reviewed regularly in order to ensure the maximum predictive ability according to the best international practices and the credit risk management regulatory guidelines.

Obligors Rating Scale

Borrowers are rated in the following rating scales:

AA, A+, A, A-, BB+, BB, BB-,B+, B, B-, CC+, CC, CC-, C, D, D0, D1, D2, E

The "Regular Credit Risk" perimeter includes rating scales AA, A+, A, A-, BB+, BB, BB-, B+, B, B-, CC+ and CC, the "Obligors Under Close Monitoring" perimeter includes rating scales CC- and C and the "Defaulted Obligors" perimeter includes rating scales D, D0, D1, D2 and E.

For special purpose financing (Structured and Shipping Financing) special models have been designed (slotting) with the following categorization scale:

Strong (Class 1), Good (Class 2), Satisfactory (Class 3), Weak (Class 4), Default (Category 5).

For presentation purposes of table "Loans by credit quality and IFRS9 Stage", the "Strong" rating zone includes rating scales AA, A+, A, A-, BB+, BB and BB- and Categories 1 and 2, the "Satisfactory" rating zone includes rating scales B+, B and Category 3, and the "under close monitoring" (higher risk) zone includes rating scales B-, CC+, CC, CC-, C and Category 4. Lastly, "In default" category, includes rating scales D, D0, D1, D2, E and Category 5.

With regards to the Retail Banking portfolio, the classification of accounts in the above rating categories is based on their Probability of Default – as calculated by the relevant statistical models that have been developed for IFRS 9 purposes – and following the implementation of specific exercise which had as its ultimate purpose the optimization of the distinctiveness of the Probability of Default between the "strong", "satisfactory" and "under close monitoring" rating categories. Lastly, "in default" category includes the rating scales with 100% Probability of Default.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Credit Control

According to the risk management and control framework, there are three "lines of defence" with distinct roles and responsibilities, the first being the Business and Operations Units, the second being the Risk Management Units and the third being the Internal Audit Unit.

In the context of the second line of defence, credit controls are carried out in order to optimise Credit Risk management, to assess the quality of the loan portfolio and to ensure that the first "line of defence" operates within the framework set out for effective Credit Risk management.
This operation of the second "line of defence" is independent and aims, among other, to the:

- Design and development of procedures and controls for credit risk management.
- Monitoring of the adequacy and effectiveness of existing credit risk management procedures.
- Highlight of critical issues and deviations from the Bank's Manuals and Policies.
- Provision of guidelines and instructions concerning the credit risk management and control procedures.
- Provision of information to the responsible Bank Units about the findings of the controls and recommendations made.

Credit Risk Model Validation Department

Credit Risk Model Validation Department was established, with the perspective to reinforce Bank's second "line of defense". The Department is under the direct supervision of the General Manager Risk and it is responsible for the statistical validation of the Bank's credit risk models, ensuring their robustness and reliability while maintaining its independence from the model development activities. In particular, it undertakes the validation of the models used for the measurement and evaluation of the Bank's credit risk, in accordance with the Models Risk Management Framework of Alpha Bank Group, which is based on the supervisory framework and best international practices.

CREDIT RISK MITIGATION

Collaterals are received in order to mitigate credit risk that may arise from the obligor's inability to fulfill his contractual obligations.

Collaterals include all kind of assets and rights which are made available to the Bank either by their debtors or by third parties, in order to be used as complementary liquidity sources of relative loans.

The mitigation tools applied by the Bank include two broad categories: intangible and tangible collaterals.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

CREDIT RISK MITIGATION (cont.)

Intangible Collaterals - Guarantees

Intangible collaterals form the framework of the obligations and rights that are typically included and described in specific contractual documents that bind the Bank and the borrowers during the lending process with specific commitments. The commitments involve a third party who substitutes for the primary debtor in the event of the latter's default or the primary debtor itself (natural or legal entities) to honor the contractual loan agreements and their prompt repayment to the Bank and on the other hand the Bank has the right to claim them.

The main type of intangible collateral is the Guarantee.

Tangible Collaterals

Tangible collaterals provide the Bank with the rights over an asset (movable or immovable),owned by the obligor or the guarantor, providing priority in the satisfaction of the creditor by the liquidation proceeds of the asset.

Tangible collaterals involve mortgages registered over immovable properties and pledges on movable assets (e.g., commodities, checks, bills of exchange) or on claims and rights.

Mortgages

Mortgages are registered on real estate or immovable assets which can be liquidated as indicatively reported below:

- **Residential Real Estate** including building plots**;**
- **Commercial Real Estate;**
- **Agricultural land** with or without buildings or with buildings that will be developed the future**;**
- **Mines;**
- **Ships and aircrafts** regardless of being movable**; and**
- **Machinery or other facilities** (engineering, mechanical, electrical, etc.), if they are permanently and consistently connected with the mortgaged estate

For loans secured with mortgage, limits on the loan to value (LTV) have been set, which are differentiated based on the purpose of the loan and is used for the determination of the own contribution by the borrower. The client's contribution to the funded property is important, as it directly affects the customer's ability to repay and the risk borne by the Bank.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

CREDIT RISK MITIGATION (cont.)

Pledges

Pledges provide seniority rights over liquidation proceeds from a movable third party asset.

Pledges can be registered on movable assets, rights, claims or titles which have not been excluded or banned from exchanges and are liquid , including:

- Pledges on movable assets
- Pledges on titles and securities
- Pledges on rights or claims

The Bank calculates the value of the securities/ collaterals received based on the potential proceeds that could arise in case of liquidation.

Therefore, the following are taken into consideration:

- the quality of the collateral
- market / commercial value
- any difficulties in the liquidation process
- the time required for the liquidation
- the costs associated with liquidation
- any encumbrances on the property (e.g. mortgages, foreclosures, memos)
- any preferential claims that may arise during the liquidation of corporate assets (from government agencies, employees)

Periodic revaluation of mortgaged property

According to the Bank’s Collateral Policy, the existence and valuation of mortgages is closely monitored. The property revaluations should be carried out yearly for all property types, except for cases where:

- contract foresees something different,
- there are perceptible changes on the property or the business process or
- urban planning changes occur or other factors.

The initial valuations of the properties received as collateral are undertaken by the valuer's on site visit and internal inspection.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

CREDIT RISK MITIGATION (cont.)

Revaluations of property, used as collateral on performing exposures should be carried out for:

- Residential Real Estate: on an annual basis, based on the CBC Property price Index or an on-site visit where deemed necessary
- Commercial Real Estate and agricultural land: on an annual basis, for exposures:
  - of up to Euro 1 million, with Desktop appraisal or an on-site visit where deemed necessary.
  - Exceeding € 1m with on-site visit

Revaluations of property used as collateral on non-performing exposures is carried out at least once a year for:

- Residential Real Estate
  - exposures of up to Euro 300 thousand, based on the CBC's property price index or an on-site visit where deemed necessary.
  - exposures exceeding Euro 300 thousand with Desktop appraisal or an on-site visit where deemed necessary.
- Commercial Real Estate and Agricultural Land:
  - Exposures of up to Euro 300 thousand, with Desktop appraisal
  - Exposures between Euro 300 thousand and Euro 1 million with Desktop appraisal or on-site visit where deemed necessary
  - Exposures exceeding Euro 1 million on-site visit or Desktop appraisal if the borrower is not cooperative, as defined in the relevant policies.

In the context of the credit control process, the Bank performs, at least annually and through proper sampling, credit controls on the implementation of the Loan Collateral Policy, the verification of property valuations, both of those based on indices and those based on individual assessments and other controls in order to ensure that the respective collateral values in the Bank's core systems represent the values referred in the relevant Committee approvals.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Credit Risk Early Warning Policy

In order to optimise the management of Lending and, in particular, limit the loans whose status changes from Performing (PLs) to Non-Performing (NPLs), due to the debtor's negligence or financial difficulty of a temporary or permanent nature, the Bank has developed the Credit Risk Early Warning System (EWS).

The EWS is defined as the aggregation of actions, processes and reports required to ensure the early identification of events (Early Warning Alerts), at borrower and portfolio level, which may possibly lead to either an increase in NPLs or an increase in exposures with significant increase in credit risk, as well as the relevant actions that must be taken in order to manage the borrowers concerned.

The implementation perimeter of the Credit Risk Early Warning System encompasses all performing exposures, as well as exposures past due for up to 30 days which have not been forborne (PLs).

The effectiveness of the EWS is being monitored on a regular basis by the "three lines of defence", as follows:

- The first "line of defence" consists of controls within the Units of the Bank that participate in the process.
- The second "line of defence", i.e. the Risk Management Function, is responsible for ensuring on an ongoing basis and at least once per year, that the controls of the "first line of defence" are applied effectively, through the Credit Control mechanism.
- The third "line of defence" is the internal audit function that carries out regular evaluations and proposes potential improvements.

Environmental & Social Risk

Within the Credit Risk Management Framework and the Credit Policy, it has been integrated the assessment of the strict compliance of the principles of an environmentally and socially responsible financing towards legal entities.

The main purpose is the management of potential risk arising from the operations of obligors that may be connected with a damage to the environment or the society or with any direct threat of such a damage, having as a result a negative impact on the business operations and financial results of the Bank.

Forbearance

Maintaining a healthy loan portfolio depends on the constant monitoring and assessment of the borrowers in order to allow early detection of future liquidity problems, which could affect the normal repayment of their obligations to the Alpha Bank Group.

The credit tools which are normally used by the Bank for managing the liquidity problems that borrowers are facing for repaying their obligations are the restructuring of debt through the renegotiation of the original terms and conditions of the loan agreement they have entered into.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

EU Regulation No. 575/2013 established the framework for prudential requirements on the management by credit institutions of loans arrears and non-performing loans.

Also, based on the European Commission Regulation EU 227/2015 of 9 January 2015 and the technical standards implementation of the European Banking Authority, the Bank undertakes the resulting obligations in relation to restructured loans.

Restructurings are proposed to cooperative and viable borrowers who are experiencing financial difficulties on the condition that the restructuring will be effective and viable in the long term, taking into consideration the causes which resulted in financial difficulties as well as the repayment capability of the borrower.
The existence of more favourable terms for renegotiating and modifying the terms and conditions of the bilateral arrangement between the Bank and the debtor (concession), who is facing or is about to face difficulties in meeting his financial commitments ("financial difficulty"), are defined with respect to:

- Respective existing terms that apply to customers with no financial difficulty; and
- Existing market terms that apply to debtors with similar risk profile.

Loan Impairment Assessment Methodology

The Loan Impairment Methodology is uniform and applicable both to Wholesale and Retail Banking Portfolios. The Bank carries out the loan impairment measurement and recognition procedure per calendar quarter.

For the timely identification of significant increase in credit risk of an exposure since initial recognition and the measurement of lifetime expected credit loss, as opposed to expected credit loss within the next twelve months, the risk of default at the reference date is compared to the risk of default at initial recognition for all performing exposures, including exposures with zero days past due.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Significant increase in credit risk

The assessment of whether credit risk has increased significantly or not is based on the following:

- Quantitative Indicators: They refer to the use of quantitative information and more specifically to the comparison between the probability of default ("PD") at the reference date and the probability of default at the initial recognition date. The assessment of significant increase in credit risk takes into consideration both the absolute increase of PD between the reporting date and the initial recognition date (established absolute threshold of increase in PD by 4 percentage points), as well as the relative increase of PD between the reporting date and the initial recognition date (established relative threshold of doubling of PD). The established absolute and relative thresholds used for determining whether credit risk has increased significantly since initial recognition are assessed on an annual basis, in order to document the materiality of statistical differentiation. Particularly for specialized lending portfolios (Project Finance and Shipping Finance), a deterioration of the respective slotting grade since initial recognition to Category 4 (high risk), is considered to be an indication of significant increase in credit risk.

- Qualitative Indicators: They refer to the use of qualitative information which is not necessarily captured within the probability of default, such as the classification of an exposure as performing forborne (FPL, for at least two years according to EBA ITS). Additional qualitative indicators for both the Wholesale Banking portfolios and the Retail Banking portfolios are included within the mechanisms of the Bank's Early Warning Policy, where, depending on the assessment performed, the credit risk of an exposure may be considered to have significantly increased.

- Other indicators (Backstop Indicator): In addition to the above, in order to ensure that cases with no indication of significant credit risk deterioration based on the quantitative and qualitative indicators are addressed, the Bank also considers, by definition, that a significant increase in credit risk occurs for exposures with more than 30 days past due.

Portfolio Classification in Stages based on the Credit Risk (Staging)

Following initial recognition, an exposure is classified to a stage based on its credit risk characteristics. The portfolio classification in stages is based on changes in the credit quality of the loan portfolio since initial recognition.
At initial recognition of an exposure, the Bank must determine whether the exposure is considered to be credit impaired (Credit Impaired at Initial Recognition).

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

The Purchased or Originated Credit Impaired category ("POCI") includes the following financial assets:

- Exposures that meet the criteria of non-performing exposures at the time of purchase ("Purchased").

- Exposures for which accounting derecognition of the old exposure occurs and a new exposure is recognized, and for which the following apply ("Originated"): if the exposure was classified as credit impaired prior to derecognition (hence NPE), the new exposure will maintain this classification and will be classified as POCI.

For exposures not classified as POCI, the classification in stages is performed as follows:

- Stage 1 includes performing credit exposures which have not had significant increase in credit risk since initial recognition. The expected credit losses are recognised based on the probability of default within the next twelve months, and the assessment is performed on a collective basis, with the exception of borrowers assessed on an individual basis.

- Stage 2 includes credit exposures which have had significant increase in credit risk since initial recognition but which are not non-performing. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective basis, with the exception of borrowers assessed on an individual basis.

- Stage 3 includes the non-performing / defaulted credit exposures. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective or individual basis.

With regards to POCI exposures, the expected credit losses calculated are the lifetime losses.

Individual assessment for impairment

The impairment calculation is carried out on an individual basis, taking into account the significance of the exposure, the fact that certain exposures do not share common risk characteristics and that there are not sufficient historical data, or collectively for the remaining exposures.

The following Exposures to Companies are assessed on an individual basis:

- Borrowers with at least one Non-Performing Exposure whose Customer General Limit in the Bank exceeds the amount of €0,750 million.

The following Exposures to Individuals are assessed on an individual basis:

- Borrowers with at least one Non-Performing Exposure and total debit outstanding balances over €1,5 million.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Collective assessment for impairment

The Collective Assessment applies to credit exposures which are not assessed individually after having been categorized based on similar characteristics of the credit risk group and the portfolio that the borrower or the credit facility belong to.

For the classification of credit facilities into groups with similar credit risk characteristics, the following indicative attributes are considered:

- Staging according to Credit Risk
- Type of product
- Currency of product
- Nationality of the account owner
- Time in default status
- Collateral existence, taking into account the percentage of collateral coverage (Loan to Value)
- Credit risk rating
- Activity sector

Calculation of expected credit loss

The amount of expected credit losses is updated on a calendar quarterly basis so as to reflect the changes in credit risk since initial recognition and thus provide timely information on expected credit losses.

The measurement of expected credit losses is performed as follows:

- For financial assets, the credit loss is equal to the present value of the difference between:
  a. the contractual cash flows and
  b. the cash flows that the Bank expects to receive

- For undrawn revolving loan commitments, the credit loss is equal to the present value of the difference between:
  a. the contractual cash flows that are due if the holder of the loan commitment draws down the loan; and
  b. the cash flows that the Bank expects to receive if the loan is drawn down.

- For letters of guarantee and letters of credit, the loss is equal to the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

The mechanism for the measurement of expected credit loss on a collective basis is based on the following credit risk parameters:

- Probability of Default (PD): It is an estimate of the probability of default over a specific time horizon. The estimation of PD relies on the use of statistical credit rating and scoring models, based on which the credit quality of borrowers is evaluated across the main portfolio segments of the Bank. Such models take into consideration a range of quantitative and qualitative parameters, including amongst others, information regarding the current and historical behavior of borrowers.

- Exposure at default (EAD): Exposure at Default is an estimate of the amount of the exposure at the time of the default. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit equivalent exposure, which is equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF).

- Loss given default (LGD): Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received by the Bank, including the liquidation of collateral and the probability of cure, which is based on historical data and adjustments made to incorporate the estimated evolution of management actions in connection with the management of the non performing perimeter of Retail Banking credit exposures.

More specifically, for the determination of expected future cash flows, the Bank takes into consideration new data and information stemming from expected future events, which relate mainly to changes in the timing of cash flow payments and recoveries from the liquidation of collateral, based on the solutions offered in the context of the management of the NPE perimeter.

Expected recoveries from tangible collateral are based on the following inputs: most recent (updated within the year) market value of the collateral, the time required for the liquidation or sale of the collateral (5 years for collectively assessed exposures, whilst for individually assessed exposures the respective time horizon varies according to the status of actions, as well as the specific facts and circumstances of each case), expected market value of tangible collateral at the time of liquidation/sale based on the expected evolution of property prices in future years, and expected recoveries through either a consensual or non-consensual process. The haircut used in the collective assessment for the realization of tangible collateral amounts to 25% (including sale costs), whilst the respective haircut used in the individual assessment varies according to the specific characteristics and circumstances of each case. The expected cash flows are discounted using the original effective interest rate of the exposure. Last, it is noted that for exposures secured with tangible collateral, the LGD may vary under each macroeconomic scenario used.

Any changes to the assumptions used, or differences between the assumptions used and actual results could lead to significant changes in the amount of the required impairments.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Incorporation of forward-looking information

The Bank calculates expected credit losses based on the weighted probability of three alternative scenarios.

More specifically, the Bank uses forecasts for the possible evolution of macroeconomic variables that affect the level of expected credit losses of loan portfolios, under a baseline and two alternative macroeconomic scenarios (an upside and an adverse one), while it also produces the cumulative probabilities associated with those scenarios.

The macroeconomic variables that affect the amount of expected credit losses are Gross Domestic Product (GDP), unemployment rate, as well as the future values of housing and commercial real estate.

The annual average for the period 2019-2022 of macroeconomic variables affecting both the estimation of the probability of default and the expected loss given default are the following:

	Adverse Scenario	Base Scenario	Upside Scenario
Change in Real GDP (%)	0,6%	2,7%	4,8%
Unemployment rate (%)	7,7%	5,6%	3,5%
Change in Residential Real Estate prices (%	2,0%	2,9%	3,9%
Change in Commercial Real Estate prices (%)	0,6%	2,2%	4,0%

The production of the baseline scenario, supported by a consistent economic description, serves as the starting point and constitutes the most likely scenario according to the current economic conditions and the Bank's basic assessment of the course of the economy.

The cumulative probabilities attached to the macroeconomic scenarios for the Cyprus economy indicate that the economy performs better or worse than forecasts of the baseline scenario and the alternative scenarios, that is the upside and the adverse scenarios. For each of the alternative scenarios, the expected credit loss is calculated and weighted against the probability of each scenario in order to calculate the weighted expected credit loss.

The cumulative probability assigned to the baseline scenario is 70%, while the cumulative probability assigned to the adverse and upside scenarios is 15% for each scenario.

38. **RISK MANAGEMENT** (cont.)

38.1 Credit risk (cont.)

The Bank has performed sensitivity analysis based on the credit risk models used for the purposes of the collective assessment, in order to assess the impact of changes in key impairment inputs on expected credit losses for non performing exposures. In particular:

- If the assigned cumulative probability of the adverse scenario was increased from 15% to 30%, expected credit losses would increase by €3,2 million.
- If the assigned cumulative probability of the upside scenario was increased from 15% to 30%, expected credit losses would decrease by €3,2 million.
- If the expected recovery period for tangible collateral was increased by 1 year, expected credit losses would increase by €8,4 million.
- If the expected recovery period for tangible collateral was decreased by 1 year, expected credit losses would decrease by €8,7 million.
- If the haircut for the sale/ realization of tangible collateral was increased by 5%, expected credit losses would increase by €15,2 million
- If the haircut for the sale/ realization of tangible collateral was decreased by 5%, expected credit losses would decrease by €14,4 million

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

WRITE-OFFS AND WRITE-DOWNS OF BAD DEBTS

Bad Debt Write-off is defined as the reduction of the gross carrying amount of a financial asset, using accrued impairment when there is no probability of material further recoveries. The write-off refers to the accounting write-off of a debt or a portion of it, i.e. the removal of the financial asset or part of it from the balance sheet, which does not necessarily entail the waiver of the legal right to recover the debt. In the event that the Bank decides to waive its legal right to recover the debt, this is called Debt Forgiveness and this waiver may include either on or off-balance sheet items as well.

Bad Debt Write-down is defined as the definitive reduction of a debt or portion of it, as a result of a legally binding decision or agreement (court judgment, contractual agreement etc.), which is not further claimable. It is noted that this category encompasses **Definitive write-downs** which are unconditional and **Conditional Write-Downs** (Contingent Write-Down) subject to the achievement by the Customer of a specific performance (usually, upon the successful implementation of a specific repayment program).

Indicative conditions for the submission of proposals for writing-off a part or the whole of bad debts include, but are not limited to, the following:

• The relevant Agreements with the Customers have been terminated.

• Payment Orders have been issued against all liable parties to such Agreements.

• The actions regarding the investigation of immovable property have been completed without any results.

• The procedure for the registration of encumbrances has been completed.

• At least one real estate property has been auctioned, so that the preferential claims (through the final creditor's classification list) and, by extension, the Bank's potential losses, are finalised.

• In cases where the likelihood of further recovery of the debt is considered to be particularly low, due to:

- the fact that the debtors are placed under special liquidation;
- the proven existence of preferential claims of a significant amount and the adoption of a decision to cease litigation actions, in order to avoid non-collectable enforcement costs;
- the fact that further litigation actions seeking collection of the claim is economically unprofitable (e.g. low-value collateral);

The write-off requires the existence of an impairment provision in the same amount, established no later than in the quarter preceding the submission of the proposal.

The Group has cumulatively written off an amount of Euro 424.413 thousand, which continues to claim (2018: Euro 334.981 thousand).

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

DEFINITIONS:

The following definitions apply for the purpose of completing the tables that follow:

Past Due Exposures

Past due exposures are defined as exposures that are more than one (1) day past due. The amount due is considered as the sum of the principal, interests and charges/commissions that is over one day due at the account level.

Non Performing Exposures

An exposure is considered as non-performing when at least one of the following criteria apply at the time of the credit risk rating assessment:

- The exposure is materially more than 90 days past due (NPL):, The amount due exceeds Euro 100 - for retail exposures - or Euro 500 - for wholesale exposures and 1% of the total - on balance sheet - debt.
- Legal actions have been undertaken by the Bank – Legal (NPL).
- The exposure is classified as Forborne Non-Performing Exposure,.
- It is assessed as Unlikely to Pay (UTP).

When a Wholesale Banking borrower has an exposure that is more than 90 days past due and the amount of this exposure exceeds 20% of the Total Exposures of the borrower, then all exposures of the borrower are considered as Non-Performing (Pulling Effect).

Performing Exposures

An exposure is considered as performing when the following criteria are cumulatively met:

- the exposure is less than 90 days past due;
- no legal actions have been undertaken against the exposure;
- it is not assessed as Unlikely to Pay
- is not classified as credit impaired or
- the exposure is classified as forborne performing exposure, as defined in the aforementioned Implementing Regulation (EU) 2015/227 of 9 January 2015.

Unlikely to pay

An exposure is flagged as ‘Unlikely To Pay’ (UTP) when it is less than 90 days past due and the Bank assesses that the borrower is unlikely to fully meet his credit obligations, without the liquidation of collateral, regardless the existence of any past due amount or the number of days past due, with the exception of the cases of collaterals that are part of the production and trade chain of the borrower (e.g. properties for Real Estate companies, corporate shares for Holding companies).

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

The Bank assesses the existence of unlikely to pay triggers on the basis of a particular procedure, as follows:

a) Events are determined which when occur the exposure is identified as Non-Performing (Hard UTP Triggers) without any assessment needed by any Credit Committee,

b) Triggers are determined which when occur, the borrower should be assessed by the relative Credit Committee to decide if the borrower's exposures should be assessed as Non-Performing or not (Soft UTP Triggers).

Credit Impaired Exposures

An Exposure is considered as Credit Impaired when the criteria specified by the definition of Non-performing Exposures are met.

Default Exposures

An Exposure is considered as "In Default" when the criteria specified by the definition of Non-performing Exposures are met.

Cumulative Impairments

An accumulated impairment loss, for credit risk purposes, is the amount of the impairment loss calculated either individually or collectively, including the fair value adjustment balance of the contractual balances of the loans acquired as a result of an acquisition, as well as the exposures that were Purchased or Originated Credit Impaired (POCI) at their initial recognition.

Wholesale and Retail Banking credit facilities

Wholesale Banking credit facilities are included in each of the following categories subject to the characteristics of the credit facility of the obligor, as shown in the table below:

	Portfolio	Characteristics
Wholesale banking customers	Corporate	Groups with turnover > €2,5 mil. or credit facility > €1 mil.
	SME	Groups with turnover between €0,5 mil. and €2,5 mil. or credit facility between €150 thous. and €1 mil.

Customers that do not meet the above mentioned criteria, fall under the Retail Banking Sector.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Concentration risk

Concentration Risk is a specific form of credit risk which arises due to the low degree of diversification between counterparties, products or group of counterparties, sectors, geographic regions, products or collaterals.

The Bank monitors on a regular basis concentration risk through detailed reporting to the Senior Management and the Board of Directors. According to the supervisory framework, the Bank adopts and complies with the regulatory directives regarding Large Exposures, while the capital requirements for single name and sector concentration risks are estimated in the context of Pillar 2 of Basel II.

Additionally the Bank's Risk Appetite Framework includes relevant concentration risk limits that are regularly monitored by the relevant Bank Committees in order to take corrective actions where deemed necessary.

DUE FROM BANKS

Exposure to credit institutions relates to loans, interbank transactions (which include positions in derivatives) and International Trade activities. Following the basic rules of designation, monitoring and revision of corporate lending, boundaries are established by the relevant Credit Committees for the monitoring of credit risk for the overall exposure per credit institution counterparty, excluding positions related to bonds issued by them. The approved credit limits are monitored on a daily basis. The validity period of the limits is specified in the approval of the limits in accordance with the counterparty credit institutions rating from international credit rating agencies.

In addition to the regular revisions of counterparty credit institutions limits, interim revisions may be carried out either due to circumstances associated with the trading activity of the Group or due to markets conditions or problems associated with counterparty credit institutions. Trigger events for an extraordinary review are regularly monitored per counterparty in order to review the relevant limits when such trigger events exist.

At each reporting date, a loss allowance for expected credit losses on due from banks is recognized.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument.

In addition, if the receivable falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

Due from bank's credit risk is assessed based on credit rating of rating agencies or internal credit rating of the counterparty when a loan exposure exists at bank level.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

DUE FROM BANKS (cont.)

The Group defines as low credit risk all investment grade counterparties, for which it calculates a credit allowance equal to a 12-month expected credit loss (Stage 1).

For counterparties which do not meet the criteria of investment grade, the assessment of the significant increase in credit risk for which calculation of lifetime expected credit losses is required (Stage 2), is based on the two following conditions:
- Downgrade by at least two notches of the counterparty credit rating between the reporting date and the initial recognition date
- The 12-month PD at reporting date is above 5% in absolute terms and has increased more than 50% compared to the respective PD existing at initial recognition date.

In addition, the Group is monitoring, the change in credit spreads since the initial recognition date. A change in the credit spread of the issue of more than 500bps since the initial recognition date is a trigger for the review of the debt instrument staging.

INVESTMENTS IN DEBT SECURITIES

Investments in debt securities relate to securities that are classified into investment security portfolio. The positions are subject to Group investment limits and issuer's limits and are monitored on a daily basis.

At each reporting date, a loss allowance for expected credit losses on bonds, which are not measured at fair value through profit or loss, is recognized.

In addition, if the debt securities fall under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument.

Credit risk of investment in debt securities is assessed based on credit ratings of rating agencies or internal credit rating in case of corporate issuers for which loan exposure exists.

The Group defines as low credit risk all investment grade securities, for which it calculates a credit allowance equal to a 12-month expected credit loss (Stage 1).

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

For debt securities, which do not meet the criteria of investment grade, the assessment of the significant increase in credit risk for which calculation of lifetime expected credit losses is required (Stage 2), is based on the two following conditions:

- Downgrade by at least two notches of the counterparty credit rating between the reporting date and the initial recognition date
- The 12-month PD at reporting date is above 5% in absolute terms and has increased more than 50% compared to the respective PD existing at initial recognition date .

In addition, the Group is monitoring, the change in credit spreads since the initial recognition date. A change in the credit spread of the issue of more than 500bps since the initial recognition date is a trigger for the review of the debt instrument staging.

Depending on the outcome of the above review the debt instrument will remain at Stage 1 or be allocated at Stage 2, regardless of whether the primary staging criteria for allocation to Stage 2 have been triggered or not.

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

FINANCIAL INSTRUMENTS CREDIT RISK

For credit risk disclosure purposes, the accumulated provision for impairment losses of loans to customers measured at amortised cost (i.e. Expected Credit Loss) include the accumulated allowance for impairment losses and the fair value adjustment for the contractual balance of loans which were impaired at their acquisition or origination (POCI) since the Group, from credit risk perspective, monitors the respective adjustment as part of the provisions

The maximum credit risk per category, in which the Group is exposed, is depicted in the "Net exposure to credit risk".

		2019	
	Exposure before impairment	Provision for impairment losses	Net exposure to credit risk
	€΄000	€΄000	€΄000
A. Credit risk exposure relating to on balance sheet items			
Balances with central banks	210.245	-	210.245
Due from banks	328.198	232	327.966
Loans and advances to customers measured at amortised cost	2.106.690	610.564	1.496.126
Derivative financial assets	490	-	490
Securities measured at fair value through other comprehensive income	451.581	524	451.057
Other assets	7.495	-	7.495
Total amount of balance sheet items exposed to credit risk (a)	**3.104.699**	**611.320**	**2.493.379**
Other balance sheet items not exposed to credit risk	107.184		107.184
Total assets	**3.211.883**	**611.320**	**2.600.563**
B. Credit risk exposure relating to off balance sheet items:			
Letters of guarantee, letters of credit and other guarantees	84.187	2.839	81.348
Undrawn loan agreements and credit limits	121.252	1.184	120.068
Total amount of off balance sheet items exposed to credit risk (b)	**205.439**	**4.023**	**201.416**
Total credit risk exposure (a+b)	**3.310.138**	**615.343**	**2.694.795**

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

FINANCIAL INSTRUMENTS CREDIT RISK

The maximum credit risk per category, in which the Group is exposed, is depicted in the "Net exposure to credit risk".

		2018	
	Exposure before impairment	Provision for impairment losses	Net exposure to credit risk
	€΄000	€΄000	€΄000
A. Credit risk exposure relating to on balance sheet items			
Balances with central banks	540.764	-	540.764
Due from banks	177.735	15	177.720
Loans and advances to customers measured at amortised cost	2.254.472	713.693	1.540.779
Derivative financial assets	173	-	173
Securities measured at fair value through other comprehensive income	277.875	432	277.443
Other assets	5.689	-	5.689
Total amount of balance sheet items exposed to credit risk (a)	**3.256.708**	**714.140**	**2.542.568**
Other balance sheet items not exposed to credit risk	71.867		71.867
Total assets	**3.328.575**	**714.140**	**2.614.435**
B. Credit risk exposure relating to off balance sheet items:			
Letters of guarantee, letters of credit and other guarantees	76.397	2.008	74.389
Undrawn loan agreements and credit limits	120.376	745	119.631
Total amount of off balance sheet items exposed to credit risk (b)	**196.773**	**2.753**	**194.020**
Total credit risk exposure (a+b)	**3.453.481**	**716.893**	**2.736.588**

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS

For credit risk disclosure purposes, the accumulated provision for impairment losses of loans to customers measured at amortised cost (i.e. Expected Credit Loss) include the accumulated allowance for impairment losses and the fair value adjustment for the contractual balance of loans which were impaired at their acquisition or origination (POCI) since the Group, from credit risk perspective, monitors the respective adjustment as part of the provisions.

Loans by IFRS 9 Stage (past due and not past due)

The following table presents past due and not past due loans, measured at amortised cost, per IFRS 9 Stage :

	31.12.2019									
	Loans measured at amortised cost									
	Not past due	Past due	Stage 1 Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Stage 2 Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Retail lending	260.216	82.687	342.903	(1.313)	341.590	64.494	42.195	106.689	(4.123)	102.566
Mortgage	211.194	66.869	278.063	(819)	277.244	51.733	33.910	85.643	(2.964)	82.679
Consumer	32.262	11.330	43.592	(423)	43.169	8.815	5.637	14.452	(979)	13.473
Credit cards	7.034	1.033	8.067	(15)	8.052	176	18	194	(13)	181
Small Business Loans	9.726	3.455	13.181	(56)	13.125	3.770	2.630	6.400	(167)	6.233
Corporate lending	240.874	181.261	422.135	(3.254)	418.881	64.145	4.001	68.146	(1.514)	66.632
Large	237.511	178.425	415.936	(3.244)	412.692	62.788	3.664	66.452	(1.472)	64.980
SME’s	3.363	2.836	6.199	(10)	6.189	1.357	337	1.694	(42)	1.652
Public sector	2	0	2	0	2	15	0	15	0	15
Cyprus	2	0	2	0	2	15	-	15	0	15
Other countries	0	0	0	0	0	0	0	0	0	0
Total	501.092	263.948	765.040	(4.567)	760.473	128.654	46.196	174.850	(5.637)	169.213

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
LOANS AND ADVANCES TO CUSTOMERS (cont.)

31.12.2019												
	Loans measured at amortised cost											
	Stage 3					Purchased or originated credit impaired loans (POCI)						
	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Total net carrying amount at amortised cost	Value of collateral
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	144.268	436.171	580.439	(273.393)	307.046	57.045	162.576	219.621	(101.031)	118.590	869.792	719.466
Mortgage	101.625	342.044	443.669	(203.377)	240.292	40.347	119.579	159.926	(69.539)	90.387	690.602	615.590
Consumer	29.329	73.514	102.843	(53.521)	49.322	12.573	35.356	47.929	(24.521)	23.408	129.372	73.011
Credit cards	3.374	1.455	4.829	(3.463)	1.366	741	76	817	(559)	258	9.857	1.396
Small Business Loans	9.940	19.158	29.098	(13.032)	16.066	3.384	7.565	10.949	(6.412)	4.537	39.961	29.469
Corporate lending	67.762	221.278	289.040	(173.297)	115.743	24.632	53.068	77.700	(52.639)	25.061	626.317	406.418
Large	44.769	130.037	174.806	(101.304)	73.502	12.433	12.669	25.102	(13.780)	11.322	562.496	341.161
SME's	22.993	91.241	114.234	(71.993)	42.241	12.199	40.399	52.598	(38.859)	13.739	63.821	65.257
Public sector	0	0	0	0	0	0	0	0	0	0	17	15
Cyprus	0	0	0	0	0	0	0	0	0	0	17	15
Other countries	0	0	0	0	0	0	0	0	0	0	0	0
Total	212.030	657.449	869.479	(446.690)	422.789	81.677	215.644	297.321	(153.670)	143.651	1.496.126	1.125.899

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS (cont.)

	31.12.2018									
	Loans measured at amortised cost									
	Stage 1					Stage 2				
	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	286.714	15.323	302.037	(1.156)	300.881	83.605	49.832	133.437	(8.387)	125.050
Mortgage	229.026	13.215	242.241	(808)	241.433	69.930	39.148	109.078	(5.585)	103.493
Consumer	37.998	1.634	39.632	(292)	39.340	9.907	8.865	18.772	(2.587)	16.185
Credit cards	7.367	227	7.594	(5)	7.589	5	138	143	(6)	137
Small Business Loans	12.323	247	12.570	(51)	12.519	3.763	1.681	5.444	(209)	5.235
Corporate lending	400.490	4.022	404.512	(1.421)	403.091	103.982	7.761	111.743	(2.016)	109.727
Large	393.720	3.973	397.693	(1.344)	396.349	103.298	7.618	110.916	(2.008)	108.908
SME's	6.770	49	6.819	(77)	6.742	684	143	827	(8)	819
Public sector	-	-	-	-	-	28	-	28	-	28
Cyprus	-	-	-	-	-	28	-	28	-	28
Other countries	-	-	-	-	-	-	-	-	-	-
Total	687.204	19.345	706.549	(2.577)	703.972	187.615	57.593	245.208	(10.403)	234.805

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS (cont.)

	31.12.2018											
	Loans measured at amortised cost											
	Stage 3					Purchased or originated credit impaired loans (POCI)						
	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Total net carrying amount at amortised cost	Value of collateral
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	49.244	579.258	628.502	(315.202)	313.300	34.907	193.177	228.084	(122.283)	105.801	845.032	737.554
Mortgage	36.076	435.331	471.407	(230.090)	241.317	28.195	136.061	164.256	(83.640)	80.616	666.859	631.905
Consumer	10.666	108.236	118.902	(67.737)	51.165	5.223	45.269	50.492	(31.771)	18.721	125.411	73.327
Credit cards	3	5.004	5.007	(4.065)	942	6	886	892	(632)	260	8.928	1.246
Small Business Loans	2.499	30.687	33.186	(13.310)	19.876	1.483	10.961	12.444	(6.240)	6.204	43.834	31.076
Corporate lending	27.240	326.251	353.491	(202.038)	151.453	5.881	86.757	92.638	(61.190)	31.448	695.719	472.784
Large	24.662	208.931	233.593	(133.174)	100.419	5.251	26.797	32.048	(17.257)	14.791	620.467	398.337
SME's	2.578	117.320	119.898	(68.864)	51.034	630	59.960	60.590	(43.933)	16.657	75.252	74.447
Public sector	-	-	-	-	-	-	-	-	-	-	28	28
Cyprus	-	-	-	-	-	-	-	-	-	-	28	28
Other countries	--	-	-	-	-	-	-	-	-	-	-	-
Total	76.484	905.509	981.993	(517.240)	464.753	40.788	279.934	320.722	(183.473)	137.249	1.540.779	1.210.366

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage

The following tables presents loans measured at amortised cost , letters of guarantee, letters of credit and undrawn loan commitments per IFRS 9 Stage and credit quality, as at 31.12.2019 and 31.12.2018.

2019					
Loans measured at amortised cost					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Mortgage					
Strong credit quality	121.323	6.947	-	5.344	133.614
Satisfactory credit quality	138.549	25.570	-	11.984	176.103
Watch list (higher risk)	18.191	53.126	177	5.211	76.705
Default	-	-	443.492	137.387	580.879
Carrying amount (before provision for impairment losses)	278.063	85.643	443.669	159.926	967.301
Expected credit losses	(819)	(2.964)	(203.377)	(69.539)	(276.699)
Net Carrying Amount	277.244	82.679	240.292	90.387	690.602
Value of collateral			216.607	76.536	293.143
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Consumer					
Strong credit quality	23.321	3.009	-	531	26.861
Satisfactory credit quality	16.537	4.474	-	1.011	22.022
Watch list (higher risk)	3.733	6.969	-	2.238	12.940
Default	-	-	102.843	44.150	146.993
Carrying amount (before provision for impairment losses)	43.592	14.452	102.843	47.929	208.816
Expected credit losses	(423)	(979)	(53.521)	(24.521)	(79.444)
Net Carrying Amount	43.169	13.473	49.322	23.408	129.372
Value of collateral			31.701	14.876	46.577

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2019					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€´000	€´000	€´000	€´000	€´000
Credit cards					
Strong credit quality	7.981	16	-	6	8.003
Satisfactory credit quality	86	126	-	1	213
Watch list (higher risk)	-	52	-	-	52
Default	-	-	4.829	810	5.639
Carrying amount (before provision for impairment losses)	8.067	194	4.829	817	13.907
Expected credit losses	(15)	(13)	(3.463)	(559)	(4.050)
Net Carrying Amount	8.052	181	1.366	258	9.857
Value of collateral			160	-	160

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2019					
Loans measured at amortised cost					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Small Business					
Strong credit quality	8.369	258	-	52	8.679
Satisfactory credit quality	3.964	1.572	-	235	5.771
Watch list (higher risk)	848	4.570	-	838	6.256
Default	-	-	29.098	9.824	38.922
Carrying amount (before provision for impairment losses)	13.179	6.400	29.099	10.950	59.628
Expected credit losses	(56)	(167)	(13.032)	(6.412)	(19.667)
Net Carrying Amount	13.125	6.233	16.066	4.537	39.961
Value of collateral			13.423	3.108	16.531
Large Corporate					
Strong credit quality	232.586	95	-	-	232.681
Satisfactory credit quality	166.570	14.222	-	-	180.792
Watch list (higher risk)	16.780	52.135	-	-	68.915
Default	-	-	174.806	25.102	199.908
Carrying amount (before provision for impairment losses)	415.936	66.452	174.806	25.102	682.296
Expected credit losses	(3.244)	(1.472)	(101.304)	(13.780)	(119.800)
Net Carrying Amount	412.692	64.980	73.502	11.322	562.496
Value of collateral			76.077	9.803	85.880

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2019					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€´000	€´000	€´000	€´000	€´000
SME's					
Strong credit quality	1.987	18	-	-	2.005
Satisfactory credit quality	3.317	0	-	-	3.317
Watch list (higher risk)	895	1.676	-	-	2.571
Default	-	-	114.234	52.598	166.832
Carrying amount (before provision for impairment losses)	6.199	1.694	114.234	52.598	174.725
Expected credit losses	(10)	(42)	(71.993)	(38.859)	(110.904)
Net Carrying Amount	6.189	1.652	42.241	13.739	63.821
Value of collateral			46.819	12.826	59.645
Public Sector - Cyprus					
Strong credit quality	**2**	-	-	-	**2**
Satisfactory credit quality	-	15	-	-	**15**
Watch list (higher risk)	-	-	-	-	-
Default	-	-	-	-	-
Carrying amount (before provision for impairment losses)	**2**	**15**	-	-	**17**
Expected credit losses	-	-	-	-	-
Net Carrying Amount	**2**	**15**	-	-	**17**
Value of collateral	-	-	-	-	-

38. **RISK MANAGEMENT** (cont.)

38.1 Credit risk (cont.)

Off-balance sheet items by credit quality and IFRS 9 Stage

2019					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Letters of guarantee, letters of credit and other guarantees					-
Strong credit quality	20.181	-	-	-	20.181
Satisfactory credit quality	25.377	-	-	-	25.377
Watch list (higher risk)	28.405	3.989	-	-	32.394
Default	-	-	6.235	-	6.235
Carrying amount (before provision for impairment losses)	73.963	3.989	6.235	-	84.187
Expected credit losses	(2.472)	(9)	(358)	-	(2.839)
Net Carrying Amount	71.491	3.980	5.877	-	81.348
Value of collateral			-	-	-
Undrawn loan agreements and credit limits	-	-	-	-	-
Strong credit quality	92.897	516	-	17	93.430
Satisfactory credit quality	15.096	986	-	10	16.092
Watch list (higher risk)	6.972	2.930	-	1	9.903
Default	-	-	1.811	16	1.827
Carrying amount (before provision for impairment losses)	114.965	4.432	1.811	44	121.252
Expected credit losses	(449)	(7)	(727)	(1)	(1.184)
Net Carrying Amount	114.516	4.425	1.084	43	120.068
Value of collateral			-	-	-

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Mortgage					
Strong credit quality	111.190	5.154	-	3.543	119.887
Satisfactory credit quality	114.308	39.861	-	9.345	163.514
Watch list (higher risk)	16.743	64.063	-	1.763	82.569
Default	-	-	471.407	149.605	621.012
Carrying amount (before provision for impairment losses)	242.241	109.078	471.407	164.256	986.982
Expected credit losses	(808)	(5.585)	(230.090)	(83.640)	(320.123)
Net Carrying Amount	241.433	103.493	241.317	80.616	666.859
Value of collateral			250.852	72.553	631.905
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Consumer					
Strong credit quality	29.353	1.013	-	179	30.545
Satisfactory credit quality	9.321	4.704	-	1.045	15.070
Watch list (higher risk)	958	13.055	-	512	14.525
Default	-	-	118.902	48.756	167.658
Carrying amount (before provision for impairment losses)	39.632	18.772	118.902	50.492	227.798
Expected credit losses	(292)	(2.587)	(67.737)	(31.771)	(102.387)
Net Carrying Amount	39.340	16.185	51.165	18.721	125.411
Value of collateral			38.419	11.670	73.327

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Credit cards					
Strong credit quality	7.525	7	-	7	7.539
Satisfactory credit quality	69	63	-	1	133
Watch list (higher risk)	-	73	-	-	73
Default	-	-	5.007	884	5.891
Carrying amount (before provision for impairment losses)	7.594	143	5.007	892	13.636
Expected credit losses	(5)	(6)	(4.065)	(632)	(4.708)
Net Carrying Amount	7.589	137	942	260	8.928
Value of collateral			161	1.246	1.287

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Small Business					
Strong credit quality	8.121	461	-	66	8.648
Satisfactory credit quality	4.303	2.066	-	165	6.534
Watch list (higher risk)	146	2.917	-	140	3.203
Default	-	-	33.186	12.073	45.259
Carrying amount (before provision for impairment losses)	12.570	5.444	33.186	12.444	63.644
Expected credit losses	(51)	(209)	(13.310)	(6.240)	(19.810)
Net Carrying Amount	12.519	5.235	19.876	6.204	43.834
Value of collateral			16.731	2.637	31.076
Large Corporate					
Strong credit quality	178.890	273	-	-	179.163
Satisfactory credit quality	206.423	16.561	-	-	222.984
Watch list (higher risk)	12.380	94.082	-	-	106.462
Default	-	-	233.593	32.048	265.641
Carrying amount (before provision for impairment losses)	397.693	110.916	233.593	32.048	774.250
Expected credit losses	(1.344)	(2.008)	(133.174)	(17.257)	(153.783)
Net Carrying Amount	396.349	108.908	100.419	14.791	620.467
Value of collateral			97.214	13.333	398.337

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
SME's					
Strong credit quality	1.155	-	-	-	1.155
Satisfactory credit quality	2.993	0	-	-	2.993
Watch list (higher risk)	2.671	827	-	-	3.498
Default	-	-	119.898	60.590	180.488
Carrying amount (before provision for impairment losses)	6.819	827	119.898	60.590	188.134
Expected credit losses	(77)	(8)	(68.864)	(43.933)	(112.882)
Net Carrying Amount	6.742	819	51.034	16.657	75.252
Value of collateral			53.012	15.577	74.447
Public Sector - Cyprus					
Strong credit quality	-	-	-	-	-
Satisfactory credit quality	-	28	-	-	**28**
Watch list (higher risk)	-	-	-	-	-
Default	-	-	-	-	-
Carrying amount (before provision for impairment losses)	-	**28**	-	-	**28**
Expected credit losses	-	-	-	-	-
Net Carrying Amount	-	**28**	-	-	**28**
Value of collateral	-	-	-	-	-

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Off-balance sheet items by credit quality and IFRS 9 Stage

2018					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€´000	€´000	€´000	€´000	€´000
Letters of guarantee, letters of credit and other guarantees					-
Strong credit quality	31.176	-	-	-	31.176
Satisfactory credit quality	11.297	-	-	-	11.297
Watch list (higher risk)	27.371	-	-	-	27.371
Default	-	-	6.553	-	6.553
Carrying amount (before provision for impairment losses)	69.844	-	6.553	-	76.397
Expected credit losses	(1.617)	-	(391)	-	(2.008)
Net Carrying Amount	68.227	-	6.162	-	74.389
Value of collateral			-	-	-
Undrawn loan agreements and credit limits	-	-	-	-	-
Strong credit quality	82.054	374	-	15	82.443
Satisfactory credit quality	26.799	1.052	-	7	27.858
Watch list (higher risk)	4.272	2.787	-	7	7.066
Default	-	-	2.427	582	3.009
Carrying amount (before provision for impairment losses)	113.125	4.213	2.427	611	120.376
Expected credit losses	(64)	(62)	(448)	(171)	(745)
Net Carrying Amount	113.061	4.151	1.979	440	119.631
Value of collateral			-	-	-

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Ageing analysis by IFRS 9 Stage and product line of loans

	2019																			
	Loans measured at amortised cost																			
	Retail lending																			
	Mortgage Loans					Consumer					Credit Cards					Small Business				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Current	253.466	43.174	18.943	24.415	339.798	40.687	9.077	6.700	5.049	61.513	7.876	0	2	6	7.884	12.994	3.103	1.347	788	18.232
1 - 30 days	23.777	20.157	9.171	10.741	63.846	2.481	3.272	2.154	2.392	10.299	176	1	0	0	177	131	2.458	642	902	4.133
31 -60 days	-	9.319	5.497	2.382	17.198	0	598	1.862	335	2.795	0	89	0	0	89	0	503	162	35	700
61 -90 days	-	9.885	3.507	815	14.207	0	440	1.328	252	2.020	0	50	2	0	52	0	168	167	89	424
91 - 180 days	-	145	12.139	2.433	14.717	0	24	2.071	1.220	3.315	0	1	20	0	20	0	0	1.140	92	1.232
181 - 360 days	-	-	12.403	820	13.223	0	39	4.512	838	5.389	0	0	20	0	20	0	1	534	89	624
> 360 days	-	-	178.639	48.974	227.613	1	23	30.695	13.322	44.041	0	40	1.322	252	1.612	0	0	12.074	2.542	14.616
Total	277.243	82.680	240.299	90.380	690.602	43.169	13.473	49.322	23.408	129.372	8.052	181	1.366	258	9.856	13.125	6.233	16.065	4.537	39.961
Value of collaterals	254.113	68.334	216.607	76.536	615.590	20.383	6.051	31.701	14.876	73.011	1.213	22	160	-	1.396	8.470	4.468	13.423	3.108	29.469

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Ageing analysis by IFRS 9 Stage and product line of loans (cont.)

2019																				
	Loans measured at amortised cost										**Loans measured at amortised cost**									
	Corporate lending										**Public sector**									
	Large					**SME's**					**Cyprus**					**Other countries**				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Current	391.934	63.900	25.139	2.743	483.716	6.171	1.420	2.832	2.058	12.482	2	15	0	0	17	0	0	0	0	0
1 - 30 days	20.758	1.078	1.121	620	23.577	18	232	201	163	613	0	0	0	0	0	0	0	0	0	0
31 -60 days	0	0	224	0	224	0	0	250	345	595	0	0	0	0	0	0	0	0	0	0
61 -90 days	0	2	1.995	0	1.997	0	0	82	0	82	0	0	0	0	0	0	0	0	0	0
91 - 180 days	0	0	1.121	0	1.121	0	0	639	38	678	0	0	0	0	0	0	0	0	0	0
181 - 360 days	0	0	7.537	0	7.537	0	0	641	0	641	0	0	0	0	0	0	0	0	0	0
> 360 days	0	0	36.365	7.959	44.324	0	0	37.596	11.135	48.731	0	0	0	0	0	0	0	0	0	0
Total	412.692	64.980	73.502	11.322	562.496	6.189	1.652	42.241	13.739	63.821	2	15	0	0	17	0	0	0	0	0
Value of collaterals	199.971	55.310	76.077	9.803	341.161	4.134	1.478	46.819	12.826	65.257	0	15	0	0	15	0	0	0	0	0

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Ageing analysis by IFRS 9 Stage and product line of loans (cont.)

2018																				
	Loans measured at amortised cost																			
	Retail lending																			
	Mortgage Loans					Consumer					Credit Cards					Small Business				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Current	228.381	67.463	26.150	21.623	343.617	37.748	9.370	6.655	3.679	57.452	7.363	5	0	5	7.373	12.276	3.621	1.834	1.278	19.009
1 - 30 days	13.052	14.704	7.906	2.158	37.820	1.591	2.367	943	600	5501	226	8	-	3	237	243	648	338	101	1.330
31 -60 days	-	12.114	7.280	1.214	20.608	0	589	988	1.986	3563	-	57	-	-	57	-	752	1.535	61	2.348
61 -90 days	-	9.212	9.597	1.557	20.366	0	3.791	1.844	876	6.511	-	40	-	-	40	-	206	1.116	126	1.448
91 - 180 days	-	-	14.409	1.510	15.919	0	14	1.950	416	2.380	-	0	20	-	20	-	8	363	198	569
181 - 360 days	-	-	16.881	1.326	18.207	0	39	1.458	100	1.597	-	0	24	-	24	-	-	534	199	733
> 360 days	-	-	159.094	51.228	210.322	1	15	37.327	11.064	48.407	-	27	898	252	1.177	-	-	14.156	4.241	18.397
Total	241.433	103.493	241.317	80.616	666.859	39.340	16.185	51.165	18.721	125.411	7.589	137	942	260	8.928	12.519	5.235	19.876	6.204	43.834
Value of collaterals	219.337	89.163	250.852	72.553	631.905	18.280	4.958	38.419	11.670	73.327	1.079	6	161	-	1.246	8.278	3.430	16.731	2.637	31.076

38. **RISK MANAGEMENT** (cont.)

38.1 Credit risk (cont.)

Ageing analysis by IFRS 9 Stage and product line of loans (cont.)

	2018																			
	Loans measured at amortised cost										**Loans measured at amortised cost**									
	Corporate lending										**Public sector**									
	Large					**SME's**					**Cyprus**					**Other countries**				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Current	392.543	101.332	23.342	3.840	521.057	6.693	676	2.125	496	9.990	-	28	-	-	28					
1 - 30 days	3.806	330	234	-	4.370	49	-	106	-	155	-	-	-	-	-	-	-	-	-	-
31 -60 days	-	864	958	436	2.258	-	103	1.526	783	2.412	-	-	-	-	-	-	-	-	-	-
61 -90 days	-	6.382	1.208	-	7.590	-	40	601	366	1.007	-	-	-	-	-	-	-	-	-	-
91 - 180 days	-	-	3.089	-	3.089	-	-	720	368	1.088	-	-	-	-	-	-	-	-	-	-
181 - 360 days	-	-	4.680	-	4.680	-	-	648	261	909	-	-	-	-	-	-	-	-	-	-
> 360 days	-	-	66.908	10.515	77.423	-	-	45.308	14.383	59.691	-	-	-	-	-					
Total	396.349	108.908	100.419	14.791	620.467	6.742	819	51.034	16.657	75.252	-	28	-	-	28	-	-	-	-	-
Value of collaterals	192.856	94.934	97.214	13.333	398.337	5.114	744	53.012	15.577	74.447	-	28	-	-	28	-	-	-	-	-

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of loans by IFRS 9 Stage

The following table presents the movement in the loans measured at amortised cost by IFRS 9 Stage.

	2019									
	Retail lending					Corporate lending				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2019	302.037	133.439	628.502	228.084	1.292.060	404.512	111.743	353.491	92.637	962.384
Transfers to Stage 1 from Stage 2 or 3	51.510	(50.538)	(972)	-	-	22.113	(21.549)	(564)	-	-
Transfers to Stage 2 from Stage 1 or 3	(39.884)	83.218	(43.334)	-	-	(16.364)	20.443	(4.080)	-	-
Transfers to Stage 3 from Stage 1 or 2	(1.484)	(41.099)	42.583	-	-	(693)	(14.649)	15.342	-	-
New loans originated or purchased	61.584	-	-	15.770	77.354	106.506	-	-	972	107.478
Derecognition of loans	(449)	(1.119)	(11.836)	(2.309)	(15.712)	(48.565)	-	(988)	-	(49.553)
Interest on loans before impairment	10.686	3.893	33.841	13.785	62.206	15.304	4.219	21.221	5.295	46.668
Changes due to modifications that did not result in loans' derecognition	1.066	2.017	2.357	(1.655)	3.785	(441)	(1.466)	(578)	255	(2.230)
Write-offs	(89)	(719)	(67.315)	(29.429)	(97.552)	-	-	(52.583)	(13.118)	(65.702)
Repayments and other movements	(42.074)	(22.403)	(3.387)	(4.625)	(72.489)	(60.237)	(30.595)	(42.221)	(8.971)	(142.024)
Disposal of assets	-	-	-	-	-	-	-	-	-	-
Balance 31.12.2019	342.903	106.689	580.439	219.621	1.249.652	422.135	68.146	289.040	77.700	857.021
Accumulated provision for impairment losses	(1.313)	(4.123)	(273.393)	(101.031)	(379.860)	(3.254)	(1.514)	(173.296)	(52.640)	(230.704)
Balance of loans 31.12.2019	341.590	102.566	307.046	118.590	869.792	418.881	66.632	115.744	25.060	626.317

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Reconciliation of loans by IFRS 9 Stage (cont.)

2019										
	Public sector					Off Balance items				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2019	-	28	-	-	28	182.970	4.212	8.980	611	196.773
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
New loans originated or purchased	2	-	-	-	2	-	-	-	-	-
Derecognition of loans	-	-	-	-	-	-	-	-	-	-
Interest on loans before impairment	-	-	-	-	-	-	-	-	-	-
Changes due to modifications that did not result in loans' derecognition	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-
Repayments and other movements	-	(13)	-	-	(13)	5.958	4.209	(934)	(567)	8.666
Disposal of assets	-	-	-	-	-	-	-	-	-	-
Balance 31.12.2019	2	15	-	-	17	188.928	8.421	8.046	44	205.439
Accumulated provision for impairment losses	-	-	-	-	-	(2.921)	(16)	(1.085)	(1)	(4.023)
Balance of loans 31.12.2019	2	15	-	-	17	186.007	8.405	6.961	43	201.416

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Reconciliation of loans by IFRS 9 Stage (cont.)

2018										
	Retail lending					Corporate lending				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2018	285.158	174.651	816.398	254.358	1.530.565	223.602	191.732	540.486	130.561	1.086.381
Transfers to Stage 1 from Stage 2 or 3	52.609	(52.375)	(234)	-	-	126.135	(125.070)	(1.065)	-	-
Transfers to Stage 2 from Stage 1 or 3	(28.954)	64.242	(35.287)	-	1	(78.970)	87.708	(8.738)	-	-
Transfers to Stage 3 from Stage 1 or 2	(4.454)	(41.955)	46.409	-	-	(5.065)	(14.326)	19.391	-	-
New loans originated or purchased	30.758	379	379	8.503	40.019	139.810	359	564	1.897	142.630
Derecognition of loans	(768)	(586)	(7.728)	(572)	(9.654)	(1.392)	(106)	(11.117)	(229)	(12.844)
Interest on loans before impairment	10.842	4.844	37.556	15.822	69.064	11.247	7.250	26.365	10.765	55.627
Changes due to modifications that did not result in loans' derecognition	(1.046)	(1.386)	(3.756)	(1.031)	(7.219)	528	(24)	(340)	(16)	148
Write-offs	(3)	(119)	(54.819)	(24.795)	(79.736)	-	-	(24.965)	(15.405)	(40.370)
Repayments and other movements	(42.105)	(14.258)	(17.229)	(4.721)	(78.313)	(11.383)	(35.780)	(21.857)	(1.074)	(70.094)
Disposal of assets	-	-	(153.187)	(19.480)	(172.667)	-	-	(174.746)	(33.861)	(208.607)
Balance 31.12.2018	302.037	133.437	628.502	228.084	1.292.060	404.512	111.743	353.491	92.638	962.384
Accumulated provision for impairment losses	(1.156)	(8.387)	(315.202)	(122.283)	(447.028)	(1.421)	(2.016)	(202.038)	(61.190)	(266.665)
Balance of loans 31.12.2018	300.881	125.050	313.300	105.801	845.032	403.091	109.727	151.453	31.448	695.719

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Reconciliation of loans by IFRS 9 Stage (cont.)

2018										
	Public sector					Off Balance items				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	40	554	-	-	594	156.537	9.461	16.599	1.725	184.322
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	17.204	(17.160)	(44)	-	-
Transfers to Stage 2 from Stage 1 or 3	(32)	32	-	-	-	(13.846)	13.944	(98)	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	(1.642)	(46)	1.688	-	-
New loans originated or purchased	-	-	-	-	-	-	-	-	-	-
Derecognition of loans	-	-	-	-	-	-	(7.636)	(1.503)	(577)	(9.716)
Interest on loans before impairment	-	-	-	-	-	-	-	-	-	-
Changes due to modifications that did not result in loans' derecognition	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-
Repayments and other movements	(8)	(558)	-	-	(566)	24.716	5.650	(7.662)	(537)	22.167
Disposal of assets	-	-	-	-	-	-	-	-	-	-
Balance 31.12.2018	-	28	-	-	28	182.969	4.213	8.980	611	196.773
Accumulated provision for impairment losses	-	-	-	-	-	(1.681)	(62)	(839)	(171)	(2.753)
Balance of loans 31.12.2018	-	28	-	-	28	181.288	4.151	8.141	440	194.020

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)
Reconciliation of accumulated provision for impairment losses of loans per IFRS 9 Stage

The following table includes the movement in the accumulated provision for impairment losses of loans measured at amortised cost:

	Retail lending					Corporate lending				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2019	1.156	8.387	315.202	122.283	447.028	1.421	2.016	202.038	61.190	266.665
Transfers to Stage 1 from Stage 2 or 3	1.917	(1.645)	(272)	-	-	554	(554)	-	-	-
Transfers to Stage 2 from Stage 1 or 3	(673)	6.532	(5.859)	-	-	(142)	206	(65)	-	-
Transfers to Stage 3 from Stage 1 or 2	35	(4.064)	4.029	-	-	(8)	(243)	250	-	-
Net remeasurement of loss allowance	(1.023)	(2.653)	4.915	(1.482)	(243)	(281)	331	187	-	238
Impairment losses on new loans	100	-	-	(1.649)	(1.549)	767	-	-	-	767
Derecognition of loans	(14)	(19)	(3.497)	(1.035)	(4.565)	-	-	-	-	-
Loans initial recognition	-	-	-	4.917	4.917	-	-	-	-	-
Write-offs	(89)	(719)	(67.186)	(29.429)	(97.423)	-	-	(52.713)	(13.118)	(65.831)
Changes in risk parameters	(407)	(246)	1.961	1.572	2.880	1.857	676	10.622	1.125	14.280
Changes in methodology	214	(1.639)	2.404	(4.237)	(3.258)	(712)	(972)	(986)	(1.055)	(3.726)
Other reasons	-	-	1	100	101	-	-	1.054	410	1.464
Foreign exchange and other movements	97	173	4.661	2.084	7.015	(202)	53	(155)	(96)	(400)
Change in present value of the allowance	-	16	17.034	7.907	24.957	-	1	13.063	4.185	17.249
Sale of financial assets – accumulated impairments	-	-	-	-	-	-	-	-	-	-
Balance 31.12.2019	1.313	4.123	273.393	101.031	379.860	3.254	1.514	173.296	52.639	230.703

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of accumulated provision for impairment losses of loans per IFRS 9 Stage

	Retail lending					Corporate lending				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	794	12.771	410.562	135.400	559.528	1.401	1.301	285.299	87.880	375.881
Transfers to Stage 1 from Stage 2 or 3	2.841	(2.615)	(225)	-	1	1.750	(1.513)	(237)	-	-
Transfers to Stage 2 from Stage 1 or 3	(505)	11.683	(11.178)	-	-	(538)	851	(314)	-	(1)
Transfers to Stage 3 from Stage 1 or 2	(63)	(5.005)	5.068	-	-	(46)	(396)	442	-	-
Net remeasurement of loss allowance	363	(235)	81	18	227	(748)	425	(642)	-	(965)
Impairment losses on new loans	79	123	746	(163)	785	1.384	(160)	100	(1.231)	93
Derecognition of loans	(15)	(11)	(3.047)	(97)	(3.170)	-	-	(1.502)	(229)	(1.731)
Loans initial recognition	-	-	-	3.458	3.458	-	-	0	1.633	1.633
Write-offs	(3)	(119)	(54.819)	(24.795)	(79.736)	-	-	(24.965)	(15.405)	(40.370)
Changes in risk parameters	(2.043)	(8.286)	18.799	9.051	17.521	(1.976)	1.486	(655)	2.116	971
Changes in methodology	(211)	(114)	-	-	(325)	-	-	-	-	-
Other reasons	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	(82)	172	6.315	1.771	8.176	191	18	(867)	326	(332)
Change in present value of the allowance	1	23	19.420	8.008	27.452	3	4	16.100	5.750	21.857
Sale of financial assets – accumulated impairments	-	-	(76.520)	(10.368)	(86.888)	-	-	(72.334)	(19.650)	(91.984)
Balance 31.12.2018	1.156	8.387	315.202	122.283	447.029	1.421	2.016	200.425	61.190	265.052

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of off-balance sheet items by IFRS 9 Stage

Off-Balance Sheet items include undrawn loan commitments and letters of credit/letters of guarantee, the movement of which is shown below:

	2019				
	Credit risk exposures associated with off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2019	182.969	4.213	8.980	611	196.773
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-
New off-balance sheet items originated or purchased	-	-	-	-	-
Derecognition	-	-	-	-	-
Interest on carrying values before impairments	-	-	-	-	-
Modification gain / losses	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign exchange, repayment and other movements	5.959	4.208	(933)	(568)	8.666
Sale of financial assets – accumulated impairments	-	-	-	-	-
Balance **31.12.2019**	188.928	8.421	8.047	43	205.439
Accumulated impairments	(2.921)	(16)	(1.011)	(1)	(4.023)
Balance of Loans and advances to customers 31.12.2019	186.007	8.405	7.036	42	201.416

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of off-balance sheet items by IFRS 9 Stage

	2018				
	Credit risk exposures associated with off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	156.537	9.461	16.599	1.725	184.322
Transfers to Stage 1 from Stage 2 or 3	17.204	(17.160)	(44)	-	-
Transfers to Stage 2 from Stage 1 or 3	(13.846)	13.944	(98)	-	-
Transfers to Stage 3 from Stage 1 or 2	(1.642)	(46)	1.688	-	-
New off-balance sheet items originated or purchased	-	-	-	-	-
Derecognition	-	(7.636)	(1.503)	(577)	(9.716)
Interest on carrying values before impairments	-	-	-	-	-
Modification gain / losses	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign exchange, repayment and other movements	24.716	5.650	(7.662)	(537)	22.167
Sale of financial assets – accumulated impairments	-	-	-	-	-
Balance **31.12.2018**	182.969	4.213	8.980	611	196.773
Accumulated impairments	(1.681)	(62)	(839)	(171)	(2.753)
Balance of Loans and advances to customers 31.12.2018	181.288	4.151	8.141	440	194.020

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of accumulated allowance for impairment losses of off-balance sheet items by IFRS 9 Stage

The Group has recognized expected credit losses for the undrawn credit limits and letters of credit and letters of guarantee, the reconciliation of which is presented in the following table:

	Off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2019	1.681	62	839	171	2.753
Change in risk parameters	1.240	(46)	246	(170)	1.270
Balance 31.12.2019	2.921	16	1.085	1	4.023

	Off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	151	-	1.558	-	1.709
Change in risk parameters	1.530	62	(720)	171	1.044
Balance 31.12.2018	1.681	62	839	171	2.753

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Credit Risk mitigation techniques (cont.)

31.12.2018					
	Value of collateral				
	Loans measured at amortised cost				
	Real estate collateral	Financial collateral	Other collateral	Total value of collateral	Value of Guarantees
	€´000	€´000	€´000	€´000	€´000
Retail lending	712.949	23.118	1.487	737.554	-
Corporate lending	431.010	7.795	33.979	472.784	-
Public sector	-	28	-	28	-
Total	1.143.959	30.941	35.466	1.210.366	-

31.12.2019					
	Value of collateral				
	Loans measured at amortised cost				
	Real estate collateral	Financial collateral	Other collateral	Total value of collateral	Value of Guarantees
	€´000	€´000	€´000	€´000	€´000
Retail lending	690.788	27.284	1.394	719.466	-
Corporate lending	367.759	7.225	31.434	406.418	-
Public sector	-	15	-	15	-
Total	1.058.547	34.524	32.828	1.125.899	-

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Credit Risk mitigation techniques (cont.)

Loan-to-value ratio (LTV) of Mortgage lending

	31.12.2019	**31.12.2018**
	Loans measured at amortised cost	
		€΄000
< 50%	120.053	110.340
50% - 70%	106.239	93.354
71% - 80%	60.626	51.896
81% - 90%	39.862	55.982
91% - 100%	47.156	51.849
101% - 120%	92.796	94.512
121% - 150%	98.652	113.424
> 150%	401.918	415.625
Total exposure	967.302	986.982
Simple average LTV (%)	158,0%	158.2%

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Credit Risk mitigation techniques (cont.)

Repossessed assets

31.12.2019							
	Balance					Disposals during the year	
	Value of collaterals repossessed 31.12.2019	Of which in 2019	Accumulated impairment allowance 31.12.2019	Of which in 2019	Carrying amount of collaterals repossessed 31.12.2019	Net disposal value	Net gain/ (loss) on disposal
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Real estate	25.507	13.582	541	333	24.966	638	(3)

31.12.2018							
	Balance					Disposals during the year	
	Value of collaterals repossessed 31.12.2018	Of which in 2018	Accumulated impairment allowance 31.12. 2018	Of which in 2018	Carrying amount of collaterals repossessed 31.12.2018	Net disposal value	Net gain/ (loss) on disposal
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Real estate	13.245	5.758	367	-	12.878	655	(49)

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region

	31.12.2019						
	Cyprus						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**253.995**	**74.702**	**347.028**	**156.856**	**832.581**	**222.456**	**610.125**
Mortgage	189.593	53.783	216.798	99.212	**559.386**	**124.524**	**434.862**
Consumer	43.291	14.325	96.597	45.883	**200.096**	**74.433**	**125.663**
Credit cards	8.007	194	4.535	812	**13.548**	**3.832**	**9.716**
Small Business Loans	13.104	6.400	29.098	10.949	**59.551**	**19.667**	**39.884**
Corporate lending	**224.014**	**68.008**	**287.066**	**77.700**	**656.788**	**228.389**	**428.399**
Financial institutions	35.184	1.973	1.218	1.341	**39.716**	**2.387**	**37.329**
Manufacturing	10.594	596	16.137	1.237	**28.564**	**12.344**	**16.220**
Construction and real estate	100.314	46.821	194.696	48.283	**390.114**	**151.105**	**239.009**
Wholesale and retail trade	49.380	2.053	33.994	13.759	**99.186**	**31.085**	**68.101**
Transportation	354	50	1.792	161	**2.357**	**1.063**	**1.294**
Shipping	4.131	0	0	0	**4.131**	**11**	**4.120**
Hotels-Tourism	6.431	16.096	11.461	1.886	**35.874**	**9.317**	**26.557**
Services and other sectors	17.626	419	27.768	11.033	**56.846**	**21.077**	**35.769**
Public sector	2	15	-	-	**17**	**-**	**17**
Total	**478.011**	**142.725**	**634.094**	**234.556**	**1.489.386**	**450.845**	**1.038.541**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2019						
	Greece						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**42**	**357**	**670**	**56**	**1.125**	**408**	**717**
Mortgage	-	357	565	49	**971**	**354**	**617**
Consumer	34	-	95	7	**137**	**46**	**90**
Credit cards	8	-	10	-	**18**	**8**	**10**
Small Business Loans	-	-	-	-	-	-	-
Corporate lending	**118.241**	**138**	**541**	-	**118.920**	**1.432**	**117.488**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	28.647	2	129	-	**28.778**	**430**	**28.348**
Construction and real estate	164	-	94	-	**258**	**-**	**258**
Wholesale and retail trade	1.509	31	95	-	**1.635**	**12**	**1.623**
Transportation	20.226	-	-	-	**20.226**		**20.226**
Shipping	-	-	-	-	-	-	-
Hotels-Tourism	48.850	4	92	-	**48.946**	**768**	**48.178**
Services and other sectors	18.845	100	131	-	**19.076**	**222**	**18.854**
Public sector	-	-	-	-	-	-	-
Total	**118.283**	**495**	**1.211**	**56**	**120.045**	**1.840**	**118.205**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2019						
	Other countries						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**88.866**	**31.630**	**232.741**	**62.709**	**415.946**	**156.996**	**258.950**
Mortgage	88.470	31.503	226.306	60.665	**406.944**	**151.821**	**255.123**
Consumer	267	127	6.151	2.039	**8.584**	**4.965**	**3.619**
Credit cards	52	-	284	5	**341**	**210**	**131**
Small Business Loans	77	-	-	-	**77**	**--**	**77**
Corporate lending	**79.880**	**-**	**1.433**	-	**81.313**	**883**	**80.430**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction and real estate	17.666	-	1.433	-	**19.099**	**883**	**18.216**
Wholesale and retail trade	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Shipping	62.214	-	-	-	**62.214**	-	**62.214**
Hotels-Tourism	-	-	-	-	-	-	-
Services and other sectors	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Total	**168.746**	**31.630**	**234.174**	**62.709**	**497.259**	**157.879**	**339.380**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2018						
	Cyprus						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**206.915**	**87.335**	**379.479**	**161.615**	**835.344**	**263.830**	**571.514**
Mortgage	147.605	63.142	230.624	100.151	**541.522**	**144.493**	**397.029**
Consumer	39.286	18.606	110.924	48.132	**216.948**	**95.063**	**121.885**
Credit cards	7.537	143	4.745	888	**13.313**	**4.464**	**8.849**
Small Business Loans	12.487	5.444	33.186	12.444	**63.561**	**19.810**	**43.751**
Corporate lending	**213.057**	**110.669**	**348.559**	**92.638**	**764.923**	**264.923**	**500.000**
Financial institutions	31.643	923	11.690	1.316	**45.572**	**1.929**	**43.643**
Manufacturing	4.314	469	24.692	5.744	**35.219**	**20.799**	**14.420**
Construction and real estate	108.020	73.060	239.100	56.335	**476.515**	**180.505**	**296.010**
Wholesale and retail trade	42.060	2.916	35.215	16.455	**96.646**	**31.123**	**65.523**
Transportation	201	50	2.879	142	**3.272**	**1.424**	**1.848**
Shipping	5.524	0	0	0	**5.524**	**6**	**5.518**
Hotels-Tourism	6.466	25.218	11.818	1.787	**45.289**	**8.335**	**36.954**
Services and other sectors	14.829	8.033	23.165	10.859	**56.886**	**20.802**	**36.084**
Public sector	**-**	**28**	**-**	**-**	**28**	**-**	**28**
Total	**419.972**	**198.032**	**728.038**	**254.253**	**1.600.295**	**528.753**	**1.071.542**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2018						
	Greece						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**208**	**57**	**801**	**77**	**1.143**	**419**	**724**
Mortgage	193	20	705	50	**968**	**346**	**622**
Consumer	4	37	85	27	**153**	**65**	**88**
Credit cards	11	-	11	-	**22**	**8**	**14**
Small Business Loans	-	-	-	-	-	-	-
Corporate lending	**104.403**	**947**	**3.594**	-	**108.944**	**968**	**107.976**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	31.328	-	143	-	**31.471**	**530**	**30.941**
Construction and real estate	165	-	100	-	**265**	**-**	**265**
Wholesale and retail trade	1.636	43	3.096	-	**4.775**	**237**	**4.538**
Transportation	20521	-	-	-	**20.521**	**16**	**20.505**
Shipping	-	-	-	-	-	-	-
Hotels-Tourism	50.719	805	97	-	**51.621**	**145**	**51.476**
Services and other sectors	34	99	158	-	**291**	**40**	**251**
Public sector	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**104.611**	**1.004**	**4.395**	**77**	**110.087**	**1.387**	**108.700**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2018						
	Other countries						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**94.914**	**46.045**	**248.222**	**66.392**	**455.573**	**182.779**	**272.794**
Mortgage	94.443	45.916	240.078	64.055	**444.492**	**175.284**	**269.208**
Consumer	342	129	7.893	2.333	**10.697**	**7.259**	**3.438**
Credit cards	46	-	251	4	**301**	**236**	**65**
Small Business Loans	83	-	-	-	**83**	**--**	**83**
Corporate lending	**87.052**	**127**	**1.338**	-	**88.517**	**774**	**87.743**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction and real estate	18.724	-	1.338	-	**20.062**	**774**	**19.288**
Wholesale and retail trade	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Shipping	68.328	127	-	-	**68.455**	-	**68.455**
Hotels-Tourism	-	-	-	-	-	-	-
Services and other sectors	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Total	**181.966**	**46.172**	**249.560**	**66.392**	**544.090**	**183.553**	**360.537**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Interest income from loans by loan category and IFRS 9 Stage

The following table presents the interest income from loans per IFRS 9 Stage.
For loans classified in Stages 1 and 2, interest income is calculated by applying the effective interest rate to the gross carrying amount of the loan.
For loans classified in Stage 3, interest income is calculated by applying the effective interest rate on the amortised cost of the loan (i.e. gross carrying amount after impairment), while for Purchased or Originated Credit Impaired loans (POCI) interest income is calculated by applying the adjusted effective interest rate to the amortised cost of the loan.

	31.12.2019				
	Loans measured at amortised cost				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	Total interest income
	€´000	€´000	€´000	€´000	€´000
Retail lending	10.940	3.825	16.599	5.733	37.097
Corporate lending	15.230	4.294	8.161	1.740	29.425
Total interest income	26.170	8.119	24.760	7.473	66.522

	31.12.2018				
	Loans measured at amortised cost				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	Total interest income
	€´000	€´000	€´000	€´000	€´000
Retail lending	10.842	4.822	18.136	7.813	41.613
Corporate lending	11.244	7.248	10.365	5.015	33.872
Total interest income	22.086	12.070	28.501	12.828	75.385

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Forborne Loans

Analysis of forborne loans by type of forbearance measure

	Loans measured at amortised cost	
	31.12.2019	**31.12.2018**
	€´000	€´000
Interest only payment	734	2.525
Reduce payments scheme	40.725	44.775
Grace period	8.828	11.868
Loan term extension	36.987	29.877
Arrears capitalization	128.076	**197.490**
Partial write-off in borrower's obligations	98.431	58.240
Other	48.996	55.621
Total net amount	362.777	400.396

Forborne loans by product line

	Loans measured at amortised cost	
	31.12.2019	**31.12.2018**
	€´000	€´000
Retail lending	**318.068**	**314.895**
Mortgage	258.258	256.280
Consumer	45.173	44.223
Credit cards	-	1
Small Business	14.637	14.391
Corporate lending	**44.709**	**85.501**
Large	35.564	74.952
SME's	9.145	10.549
Public sector	-	-
Cyprus	-	-
Other countries	-	-
Total net amount	**362.777**	**400.396**

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Forborne Loans

Forborne loans by geographical region

31.12.2019		
Loans measured at amortised cost		
	31.12.2019	**31.12.2018**
	€´000	€´000
Cyprus	275.024	308.498
Other countries	87.753	91.898
Total net amount	**362.777**	**400.396**

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Reconciliation of forborne loans

Forborne loans (Net Value)	
	Loans measured at amortised cost
	€΄000
Balance 1.1.2019	**400.396**
Forbearance measures during the year	26.865
Interest income	13.602
Repayment of loans (partial or total)	(65.524)
Loans that exited forbearance status during the year	(37.936)
Impairment losses	15.444
Remeasurment of fair value	-
Loans that exited forbearance status during the year due to disposal	-
Other movements	9.930
Balance 31.12.2019	**362.777**

Forborne loans (Net Value)	
	Loans measured at amortised cost
	€΄000
Balance 1.1.2018	**570.608**
Transition to IFRS 9	(49.075)
Forbearance measures during the year	30.212
Interest income	17.372
Repayment of loans (partial or total)	(47.900)
Loans that exited forbearance status during the year	(39.572)
Impairment losses	(17.032)
Remeasurment of fair value	-
Loans that exited forbearance status during the year due to disposal	(70.668)
Other movements	6.451
Balance 31.12.2018	**400.396**

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Forborne loans according to their credit quality

	31.12.2019		
	Total amount of Loans	Total amount of Forborne Loans	Percentage of Forborne Loans (%)
	€΄000	€΄000	
Loans measured at amortised cost			
Stage 1	765.039	-	-
Stage 2	174.851	78.441	45%
Stage 3	869.479	356.369	41%
Purchased or originated credit impaired loans (POCI)	297.321	82.670	28%
Carrying amount (before provision for impairment losses)	**2.106.690**	**517.480**	**25%**
Stage 1- Accumulated provision for impairment losses	4.566	0	0%
Stage 2- Accumulated provision for impairment losses	5.637	2.897	51%
Stage 3- Accumulated provision for impairment losses	446.690	132.751	30%
Accumulated provision for impairment losses for purchased or originated credit impaired loans (POCI)	153.671	19.055	12%
Total net carrying amount	**1.496.126**	**362.777**	**24%**
Value of collaterals	1.125.899	300.184	27%

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Forborne loans according to their credit quality

	31.12.2018		
	Total amount of Loans	Total amount of Forborne Loans	Percentage of Forborne Loans (%)
	€΄000	€΄000	
Loans measured at amortised cost			
Stage 1	706.549	-	-
Stage 2	245.208	124.459	51%
Stage 3	981.993	392.078	40%
Purchased or originated credit impaired loans (POCI)	320.722	80.152	25%
Carrying amount (before provision for impairment losses)	**2.254.472**	**596.689**	**26%**
Stage 1- Accumulated provision for impairment losses	2.577	0	0%
Stage 2- Accumulated provision for impairment losses	10.403	7.115	68%
Stage 3- Accumulated provision for impairment losses	517.240	161.017	31%
Accumulated provision for impairment losses for purchased or originated credit impaired loans (POCI)	183.473	28.161	15%
Total net carrying amount	**1.540.779**	**400.396**	**26%**
Value of collaterals	1.210.366	365.062	30%

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Financial instruments credit risk

Analysis by industry sector

	31.12.2019										
	Financial Institution and other financial services	**Manufacturing**	**Construction & Real Estate**	**Wholesale and retail trade**	**Public sector Government securities**	**Transportation**	**Shipping**	**Hotels-Tourism**	**Services and other sectors**	**Retail and small businesses**	**Total**
Credit risk exposure relating to balance sheet items:											
Balances with Central Banks	210.244	-	-	-	-	-	-	-	-	-	**210.244**
Due from banks	328.198	-	-	-	-	-	-	-	-	-	**328.198**
Loans and advances to customers	39.714	57.342	409.470	100.821	17	22.583	66.345	84.820	75.924	1.249.654	**2.106.690**
Trading securities	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	490	-	-	-	-	-	-	-	-	-	**490**
Investment securities-available for sale	239.079	-	-	-	212.502	-	-	-	-	-	**451.581**
Investment securities held to maturity	32.692	-	-	-	-	-	-	-	-	-	**32.692**
Investment securities - measured at fair value through other comprehensive income	210.244	-	-	-	-	-	-	-	-	-	**210.244**
Investment securities - measured at amortised cost	328.198	-	-	-	-	-	-	-	-	-	**328.198**
Other balance sheet items not exposed to credit risk	39.714	57.342	409.470	100.821	17	22.583	66.345	84.820	75.924	1.249.654	**2.106.690**
Credit risk exposure relating to off-balance sheet items:											
Letters of guarantee, letters of credit and other guarantees	3.723	137	35.735	31.108	-	111	42	2.055	8.636	2.641	84.187
Undrawn loan agreements and credit limits	262	10.359	5.099	30.783	500	58	1.454	1.720	13.934	57.083	121.252
Total amount of off-balance sheet items exposed to credit risk	3.985	10.496	40.834	61.891	500	169	1.496	3.775	22.569	59.723	205.439

38. RISK MANAGEMENT (cont.)

38.1 Credit risk (cont.)

Financial instruments credit risk

Analysis by industry sector

31.12.2018											
	Financial Institution and other financial services	**Manufacturing**	**Construction & Real Estate**	**Wholesale and retail trade**	**Public sector Government securities**	**Transportation**	**Shipping**	**Hotels-Tourism**	**Services and other sectors**	**Retail and small businesses**	**Total**
Credit risk exposure relating to balance sheet items:											
Balances with Central Banks	540.764	-	-	-	-	-	-	-	-	-	**540.764**
Due from banks	177.735	-	-	-	-	-	-	-	-	-	**177.735**
Loans and advances to customers	45.572	66.690	496.842	101.421	28	23.793	73.979	96.910	57.177	1.292.060	**2.254.472**
Trading securities	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	173	-	-	-	-	-	-	-	-	-	**173**
Investment securities-available for sale	-	-	-	-	-	-	-	-	-	-	-
Investment securities held to maturity	-	-	-	-	-	-	-	-	-	-	-
Investment securities - measured at fair value through other comprehensive income	47.672	-	-	-	230.203	-	-	-	-	-	**277.875**
Investment securities - measured at amortised cost	-	-	-	-	-	-	-	-	-	-	-
Other balance sheet items not exposed to credit risk	5.689	-	-	-	-	-	-	-	-	-	**5.689**
Credit risk exposure relating to off-balance sheet items:											
Letters of guarantee, letters of credit and other guarantees	3.727	1.690	34.922	28.644	12	113	42	1.970	2.607	2.670	76.397
Undrawn loan agreements and credit limits	664	15.801	6.259	27.650	500	250	611	2.334	14.811	51.496	120.376
Total amount of off-balance sheet items exposed to credit risk	**4.391**	**17.491**	**41.181**	**56.294**	**875**	**363**	**653**	**4.304**	**17.418**	**54.166**	**196.773**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Other financial instruments subject to credit risk – analysis per rating

The following table presents other financial assets measured at amortised cost and at fair value through other comprehensive income per IFRS 9 Stage and credit rating:

	31.12.2019				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Balances with Central Banks					
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to BBB-	-	-	-	-	-
Lower than BBB-	210.245	-	-	-	210.245
Unrated	-	-	-	-	-
Carrying amount (before allowance for impairment losses)	210.245	-	-	-	210.245
Expected credit losses	-	-	-	-	-
Net carrying amount	210.245	-	-	-	210.245
Value of collateral	-	-	-	-	-
Due from banks					
AAA	-	-	-	-	-
AA+ to AA-	2.968	-	-	-	2.968
A+ to A-	5.800	-	-	-	5.800
BBB+ to BBB-	262	-	-	-	262
Lower than BBB-	319.168	-	-	-	319.168
Unrated	-	-	-	-	-
Carrying amount (before allowance for impairment losses)	328.198	-	-	-	328.198
Expected credit losses	(232)	-	-	-	(232)
Net carrying amount	327.966	-	-	-	327.966
Value of collateral	-	-	-	-	-
Securities measured at fair value through other comprehensive income					
AAA	-	-	-	-	-
AA+ to AA-	26.556	-	-	-	26.556
A+ to A-	153.197	-	-	-	153.197
BBB+ to BBB-	55.072	-	-	-	55.072
Lower than BBB-	211.963	-	-	-	211.963
Unrated	4.793	-	-	-	4.793
Carrying amount (before allowance for impairment losses)	451.581	-	-	-	451.581
Expected credit losses	(524)	-	-	-	(524)
Net carrying amount	451.057	-	-	-	451.057
Value of collateral	-	-	-	-	-

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Other financial instruments subject to credit risk – analysis per rating

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balances with Central Banks					
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to BBB-	-	-	-	-	-
Lower than BBB-	540.764	-	-	-	540.764
Unrated	-	-	-	-	-
Carrying amount (before allowance for impairment losses)	540.764	-	-	-	540.764
Expected credit losses	-	-	-	-	-
Net carrying amount	540.764	-	-	-	540.764
Value of collateral	-	-	-	-	-
Due from banks					
AAA	-	-	-	-	-
AA+ to AA-	699	-	-	-	699
A+ to A-	7.341	-	-	-	7.341
BBB+ to BBB-	33	-	-	-	33
Lower than BBB-	168.669	-	-	-	168.669
Unrated	993	-	-	-	993
Carrying amount (before allowance for impairment losses)	177.735	-	-	-	177.735
Expected credit losses	(15)	-	-	-	(15)
Net carrying amount	177.720	-	-	-	177.720
Value of collateral	-	-	-	-	-
Securities measured at fair value through other comprehensive income					
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	12.672	-	-	-	12.672
BBB+ to BBB-	10.401	-	-	-	10.401
Lower than BBB-	250.574	-	-	-	250.574
Unrated	4.229	-	-	-	4.229
Carrying amount (before allowance for impairment losses)	277.875	-	-	-	277.875
Expected credit losses	(432)	-	-	-	(432)
Net carrying amount	277.443	-	-	-	277.443
Value of collateral	-	-	-	-	-

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Trading portfolio - Derivative financial assets - Securities measured at fair value through profit or loss - analysis per rating

The following table presents other financial instruments measured through profit or loss per credit rating.

	2019	2018
	€΄000	€΄000
Derivative financial assets		
AAA		
AA+ to AA-		
A+ to A-		
BBB+ to BBB-		
Lower than BBB-	490	173
Unrated		
Carrying amount (before allowance for impairment losses)	**490**	**173**
Value of collateral	-	-

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

DUE FROM BANKS

The following table presents Due from Banks by IFRS 9 Stage .

	31.12.2019				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 31.12.2019					
Carrying amount (before allowance for impairment losses)	328.198				328.198
Expected credit losses	(232)				(232)
Net carrying amount	**327.966**				**327.966**

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 31.12.2018					
Carrying amount (before allowance for impairment losses)	177.735				177.735
Expected credit losses	(15)				(15)
Net carrying amount	**177.720**				**177.720**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Reconciliation of other financial assets (except loans) before allowance for impairment losses by IFRS 9 Stage

The table below presents the movement of the carrying amount before allowance for impairment losses of due from banks and the movement of the fair value of investment securities measured at fair value through other comprehensive income, including the expected credit losses per IFRS 9 Stage.

	31.12.2019									
	Due from banks					**Investment securities measured at fair value through other comprehensive income**				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired receivables (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired receivables (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2019	**177.735**	-	-	-	**177.735**	**277.875**	-	-	-	**277.875**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
New financial assets originated or purchased	16.853.496	-	-	-	16.853.496	581.872	-	-	-	581.872
Derecognition of financial assets	(16.703.446)	-	-	-	(16.703.446)	-	-	-	-	-
Interest on carrying amount before impairment	413	-	-	-	413	(3.030)	-	-	-	(3.030)
Changes due to modifications that did not result in derecognition	-	-	-	-	-	-	-	-	-	-
Writte-off	-	-	-	-	-	-	-	-	-	-
Repayments foreign exchange and other movements		-	-	-		(405.136)	-	-	-	(405.136)
Balance 31.12.2019	**328.198**	-	-	-	**328.198**	**451.581**	-	-	-	**451.581**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Reconciliation of other financial assets (except loans) before allowance for impairment losses by IFRS 9 Stage (cont.)

	31.12.2018									
	Due from banks					Investment securities measured at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2018	**566.768**	-	-	-	**566.768**	**137.973**	-	-	-	**137.973**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
New financial assets originated or purchased	7.040.733	-	-	-	7.040.733	528.036	-	-	-	528.036
Derecognition of financial assets	(7.431.406)	-	-	-	(7.431.406)	(379.878)	-	-	-	(379.878)
Interest on carrying amount before impairment	1.640	-	-	-	1.640	(1.954)	-	-	-	(1.954)
Changes due to modifications that did not result in derecognition	-	-	-	-	-	-	-	-	-	-
Writte-off	-	-	-	-	-	-	-	-	-	-
Repayments foreign exchange and other movements		-	-	-		(6.302)	-	-	-	(6.302)
Balance 31.12.2018	**177.735**	-	-	-	**177.735**	**277.875**	-	-	-	**277.875**

38. **RISK MANAGEMENT** (cont.)
38.1 **Credit risk** (cont.)

Investment securities measured at fair value through other comprehensive income

The following table presents the analysis by IFRS 9 Stages and issuer's category:

	31.12.2019				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired receivables (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Cyprus Goverment Bonds	200.758	-	-	-	200.758
Expected credit losses	(228)	-	-	-	(228)
Fair value	200.530	-	-	-	200.530
Other Goverments Bonds	11.744	-	-	-	11.744
Expected credit losses	(76)	-	-	-	(76)
Fair value	11.668	-	-	-	11.668
Other bonds	230.824				230.824
Expected credit losses	(220)				(220)
Fair value	230.604				230.604
Other securities	8.255	-	-	-	8.255
Expected credit losses	-	-	-	-	-
Fair value	8.255	-	-	-	8.255
Total securities measured at fair value through other comprehensive income	451.581	-	-	-	451.581
Expected credit losses	**(524)**	-	-	-	**(524)**
Fair value	**451.057**	-	-	-	**451.057**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Investment securities measured at fair value through other comprehensive income

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired receivables (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Cyprus Goverment Bonds	**230.203**	**-**	**-**	**-**	**230.203**
Expected credit losses	(165)	-	-	-	(165)
Fair value	230.038	-	-	-	230.038
Other Goverments Bonds	**41.002**	**-**	**-**	**-**	**41.002**
Expected credit losses	(267)	-	-	-	(267)
Fair value	40.735	-	-	-	40.735
Other securities	**6.670**	**-**	**-**	**-**	**6.670**
Expected credit losses	-	-	-	-	
Fair value	6.670	-	-	-	6.670
Total securities measured at fair value through other comprehensive income	277.875	-	-	-	277.875
Expected credit losses	**(432)**	**-**	**-**	**-**	**(432)**
Fair value	**277.443**	**-**	**-**	**-**	**277.443**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Reconciliation of the accumulated impairment allowance

The table below presents the movement of the accumulated impairment of due from banks and investment securities measured at fair value through other comprehensive income per IFRS 9 Stage.

	31.12.2019									
	Due from banks					Investment securities measured at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2019	**(15)**	-	-	-	**(15)**	**(432)**	-	-	-	**(432)**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-	(414)	-	-	-	(414)
Impairment losses on new receivables/ securities	-	-	-	-	-	-	-	-	-	-
Change in credit risk parameters	-	-	-	-	-	322	-	-	-	322
Derecognition of financial assets	-	-	-	-	-	-	-	-	-	-
Foreign exchange and other movements	(217)	-	-	-	(217)		-	-	-	
Balance 31.12.2019	**(232)**	-	-	-	**(232)**	**(524)**	-	-	-	**(524)**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Reconciliation of the accumulated impairment allowance

	31.12.2018									
	Due from banks					Investment securities measured at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	**(1.235)**	-	-	-	**(1.235)**	**(196)**				**(196)**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-	305	-	-	-	305
Impairment losses on new receivables/ securities	-	-	-	-	-	(602)	-	-	-	(602)
Change in credit risk parameters	-	-	-	-	-		-	-	-	
Derecognition of financial assets	-	-	-	-	-	61	-	-	-	61
Foreign exchange and other movements	1.220	-	-	-	1.220		-	-	-	
Balance 31.12.2018	**(15)**	-	-	-	**(15)**	**(432)**	-	-	-	**(432)**

38. RISK MANAGEMENT (cont.)
38.1 Credit risk (cont.)

Exposure to Cyprus Government

	31.12.2019	
	€΄000	€΄000
Portfolio type	**Nominal value**	**Carrying value**
Investment securities measured at fair value through other comprehensive income	161.453	177.075
Total		

	31.12.2018	
	€΄000	€΄000
Portfolio type	**Nominal value**	**Carrying value**
Investment securities measured at fair value through other comprehensive income	223.333	230.038
Total		

38. RISK MANAGEMENT (cont.)

38.2 Market risk

Market risk is the risk of losses arising from unfavourable changes in the value or volatility of interest rates, foreign exchange rates, stock exchange indices, equity prices and commodities. Losses may also occur either from the trading portfolio or from the Assets-Liabilities management.

The management policy followed for market risk as well as the accepted limits, are set by the Asset and Liability Committee (ALCO), within which the Treasury Division operates. The Asset and Liability Committee acts within the parameters set by the relevant policies of Alpha Bank Group and in particular according to the Policy manuals and Procedures in areas of market risk and the management of assets and liabilities.

38.2.1 Interest rate risk

Interest rate risk is the risk that arises from adverse changes in prices or interest rate volatility and arises from the different revaluation dates of the Bank's interest bearing assets and liabilities.
Interest rate risk management is carried out on a monthly basis and in accordance with policies and procedures for the management of assets and liabilities.

The interest rate risk management framework is defined from the Asset Liability Risk Management Policy. Based on this framework, the Group analyzes interest rate gap analysis for all interest bearing assets, depending on when their interest rate is redefined, for floating rate items, or when they expire, for fixed rate items. In addition, receivables or liabilities that do not have a regular contractual maturity or interest rate redefinition date are broken down into time periods based on a statistical study of the movement of those accounts. Interest rate risk is managed by ALCO. Stressed interest rate scenarios are performed on a monthly basis, calculating their impact on the change on interest income through Earning at Risk (EaR) and on equity through Economic Value of Equity (EVE).

Based on this analysis and the scenarios of interest rate fluctuations applied, the corresponding change in net interest income as well as the equity position for the securities measured at fair value through other comprehensive income posted directly in equity. In the Interest Rate Gap Analysis, the variance, up to the point it's feasible (interest rate equals to zero), is studied.

Interest rate variation scenario (parallel fall or rise in yield curves)	**Sensitivity for net interest income (annual) (€'000)**	**Equity sensitivity (€'000)**
+200 b.p.	15.465	-23.669
-200 b.p.	-2.210	26.198

38. RISK MANAGEMENT (cont.)
38.2 Market risk (cont.)
38.2.1 INTEREST RATE RISK

31.12.2019	1 to 30 days	1 month to 3 months	4 to 6 months	7 to 12 months	1 year 5 years	Over 5 years	Non interest bearing	Total
ASSETS	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	210.244	-	-	-	-	-	20.586	230.830
Due from banks	217.928	110.038	-	-	-	-	-	327.966
Investment securities measured at fair value through other comprehensive income	50.939	95.337	1.995	12.031	204.500	78.000	8.255	451.057
Derivative financial assets	490							490
Loans and advances to corporates	228.218	307.156	60.201	7.768	47.532	1.918	-	652.793
Loans and advances to individuals	227.901	253.752	31.999	47.343	277.585	4.753	-	843.333
Property, plant and equipment, Intangible assets and investment property	-	-	-	-	-	-	49.644	49.644
Deferred tax assets , other assets and repossessed assets	-	-	-	-	-	-	40.711	40.711
Non current assets held for sale	-	-	-	-	-	-	3.739	3.739
Total Assets	**935.720**	**766.283**	**94.195**	**67.142**	**529.617**	**84.671**	**122.935**	**2.600.563**
LIABILITIES								
Due to banks	16.013	3.147	0	0	28.380	7.401	0	54.941
Due to customers	335.172	220.090	308.871	485.544	572.517	247.292	0	2.169.486
Subordinated bonds	0	10.151	0	0	0	0	0	10.151
Derivative financial liabilities	1.099							1.099
Other liabilities and provisions	0	0	0	0	0	0	48.319	48.319
Liabilities related to non current assets held for sale	0	0	0	0	0	0	32	32
Total Liabilities	**352.284**	**233.388**	**308.871**	**485.544**	**600.897**	**254.693**	**48.351**	**2.284.028**
EQUITY								
Share capital							180.694	180.694
Convertible capital securities							64.000	64.000
Share premium							102.661	102.661
Reserves							7.848	7.848
Retained earnings							-38.668	-38.668
Total Equity							**316.535**	**316.535**
Total Liabilities and Equity	**352.284**	**233.388**	**308.871**	**485.544**	**600.897**	**254.693**	**364.886**	**2.600.563**
OPEN EXPOSURE	**583.436**	**532.895**	**-214.676**	**-418.402**	**-71.280**	**-170.022**	**-241.951**	**0**
CUMULATIVE EXPOSURE	**583.436**	**1.116.331**	**901.655**	**483.253**	**411.974**	**241.951**	**0**	**0**

38. RISK MANAGEMENT (cont.)
38.2 Market risk (cont.)
38.2.1 INTEREST RATE RISK

31.12.2018	1 to 30 days	1 month to 3 months	4 to 6 months	7 to 12 months	1 year 5 years	Over 5 years	Non interest bearing	Total
ASSETS	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash and balances with central banks	540.763	-	-	-	-	-	19.150	559.913
Due from banks	177.665	55	-	-	-	-	-	177.720
Investment securities measured at fair value through other comprehensive income	48.612	96.456	11.926	2.912	91.002	15.000	11.535	277.443
Derivative financial assets	173	-	-	-	-	-	-	173
Loans and advances to corporates	360.522	221.733	72.535	9.217	59.570	-	-	723.577
Loans and advances to individuals	480.694	294.180	19.986	5.168	17.174	-	-	817.202
Property, plant and equipment, Intangible assets and investment property	-	-	-	-	-	-	31.316	31.316
Deferred tax assets , other assets and repossessed assets	-	-	-	-	-	-	27.091	27.091
Non current assets held for sale	-	-	-	-	-	-	-	-
Total Assets	**1.608.429**	**612.424**	**104.447**	**17.297**	**167.746**	**15.000**	**89.092**	**2.614.435**
Due to banks	50.828	2.160	2.125	-	-	-	-	55.113
Due to customers	533.344	268.629	312.918	609.696	395.813	92.393	-	2.212.793
Subordinated bonds	24	15.724	-	-	-	-	-	15.748
Derivative financial liabilities	3.394		-	-	-	-	-	3.394
Other liabilities and provisions	-	-	-	-	-	-	29.158	29.158
Liabilities related to non current assets held for sale								
Total Liabilities	**587.590**	**286.513**	**315.043**	**609.696**	**395.813**	**92.393**	**29.158**	**2.316.206**
EQUITY								
Share capital	-	-	-	-	-	-	180.694	180.694
Convertible capital securities	-	-	-	-	-	-	64.000	64.000
Share premium	-	-	-	-	-	-	102.661	102.661
Reserves	-	mega-	-	-	-	-	1.688	1.688
Retained earnings	-	-	-	-	-	-	(50.814)	(50.814)
Total Equity	-	-	-	-	-	-	**298.229**	**298.229**
Total Liabilities and Equity	**587.590**	**286.513**	**315.043**	**609.696**	**395.813**	**92.393**	**327.387**	**2.614.435**
OPEN EXPOSURE	**1.020.839**	**325.911**	**(210.596)**	**(592.399)**	**(228.067)**	**(77.393)**	**238.295**	**-**
CUMULATIVE EXPOSURE	**1.020.839**	**1.346.750**	**1.136.154**	**543.755**	**315.68**	**238.295**	**-**	**-**

38. RISK MANAGEMENT (cont.)

38.2 Market risk (cont.)

38.2.2 Foreign currency risk

Currency risk arises from an open position in one or more foreign currencies. The policy of the Group is the positions to be closed immediately using spot transactions or currency derivatives. In case that positions are still open, they are daily monitored by the competent department and they are subject to limits.

The total position results from the sum of the current position from the balance sheet and the forward position from the derivative products, as listed in the following tables.

The open foreign exchange position during 2019 was low, therefore the impact on the Group 's income from exchange rate fluctuations is negligible and therefore no preparation of alternative exchange rate scenarios is deemed necessary.

Foreign currency position (€'000) 31.12.2019							
	USD	**GBP**	**JPY**	**CHF**	**Other**	**Euro**	**Total**
Total assets	113.154	62.473	22.535	409.140	8.463	1.984.798	2.600.563
Total liabilities and equity	(74.407)	(24.904)	(13.682)	(274.656)	(8.324)	(2.204.590)	(2.600.563)
On balance sheet fx position	38.747	37.569	8.853	134.484	139	(219.792)	
Derivatives forward foreign exchange position	(38.722)	(37.612)	(8.857)	(134.513)	-	219.704	
Total Foreign exchange position	**25**	**(43)**	**(4)**	**(29)**	**139**	**(88)**	

Foreign currency position (€'000) 31.12.2018							
	USD	**GBP**	**JPY**	**CHF**	**Other**	**Euro**	**Total**
Total assets	125.238	60.067	29.802	515.471	1.737	1.882.120	2.614.435
Total liabilities and equity	(74.940)	(23.030)	(12.781)	(253.831)	(1.527)	(2.248.326)	(2.614.435)
On balance sheet fx position	50.298	37.037	17.021	261.640	210	(366.206)	
Derivatives forward foreign exchange position	(50.010)	(36.891)	(17.004)	(261.781)	-	365.686	
Total Foreign exchange position	**288**	**146**	**17**	**(141)**	**210**	**(520)**	

38. RISK MANAGEMENT (cont.)

38.3 Liquidity risk

Liquidity risk relates to Group's ability to maintain sufficient funds to cover its planned or extraordinary obligations. Liquidity Risk comprises both funding liquidity risk and asset liquidity risk though these two dimensions of liquidity risk are closely related. Funding Liquidity risk refers to the inability of a financial institution to raise the cash necessary to roll over its debt, fulfill the cash, margin, or collateral requirements of counterparties; or to meet capital withdrawals. Asset – market liquidity risk, results from the Bank's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity management is done through the timely identification of the needs, the identification of all available sources and the most cost effective way to meet the liquidity needs.

According to Group's Liquidity Risk Management Policy, the Board Risk Management Committee assigns the overall responsibility for overseeing asset and liability management to Asset – Liability Committee (ALCo). ALCo is responsible on one hand to monitor the quantitative and qualitative aspects of liquidity risk and on the other hand to ensure that appropriate policies and procedures are in place to control and limit liquidity risk. In addition to that, ALCo is responsible for approving the guidelines, principles, risk measurement techniques and limits that have been proposed by the Group Market and Operational Risk Division and Asset Liability Management Division.

Executives and senior management are updated daily on current liquidity risk exposure levels to ensure that the Bank's liquidity risk profile remains within the approved limits. In addition, they receive a daily liquidity report detailing cash and deposit changes. Among others, for the purpose of proper management of liquidity risk and in line with supervisory requirements, the Group monitors and manages on a monthly basis, the amount, quality and concentration of counterbalancing capacity, the cash flows arising from assets and liabilities (inflows, outflows – maturity ladder) over time, the concentration and cost of funding, and the roll over of funding.

The reports that are prepared on a periodic basis for the information of the Group's executive and senior management as well as for the decision making of the Assets-Liabilities Management Committee, concern the Static Analysis of Liquidity Maturities, the monitoring of the liquidity supervisory ratios, the monitoring of the change of the customer deposits, the ratio "Loans to Deposits", the monitoring of the limits of the liquidity ratios of the recovery plan, the Risk appetite Framework and the Contingency Funding Plan, the extreme situation simulation exercises that assess the risk of systemic and idiosyncratic emergencies in the Group's liquidity position.

Stress tests are carried out on a monthly basis and / or more frequently, for liquidity purposes, in order to assess potential outflows (contractual or contingent) to determine the level of immediate liquidity available to cover the Bank's needs. These tests are carried out according to the approved, Liquidity Buffer and Liquidity Stress Scenario Policy of the Group and evaluate the risk in idiosyncratic extraordinary events (idiosyncratic stress test) in the Bank's liquidity, in systemic (systemic stress test) as well as combined events (combined stress test).

In addition, the Group monitors the maturity of assets and liabilities and takes measures to manage liquidity risk in the current economic conditions. At the same time, it is ensured that the supervisory liquidity ratios are met.

38. RISK MANAGEMENT (cont.)

38.3 Liquidity risk (cont.)

Based on the Liquidity Gap Analysis, the cash flows arising from balance sheet items are calculated and classified into time periods in accordance with the contractual maturity date or the estimated date based on a statistical analysis (convention). Exceptions to the above are securities portfolios, which can contribute immediately to liquidity raising, and are allocated in the first period provided they have not been used to raise liquidity either by the Central Bank or in interbank repos transactions.

The Group calculates and monitors the Liquidity Coverage Ratio (LCR) in accordance with the relevant instructions of the Central Bank of Cyprus and the European Banking Authority.

The liquidity coverage ratio (LCR) examines the adequacy of cash available as a percentage of net outflows for the next 30 days as calculated under crisis conditions. The cash available should be sufficient to cover the outflows for a minimum period of 30 days.

During 2019 all supervisory liquidity ratios fluctuated beyond the minimum supervisory limit.

2019	31/12/2019 %	Year highest %	Year lowest %	Year average %	Regulatory limit 31.12.2019 %
Liquidity coverage ratio (LCR)	189,61	904,18	189,61	590,16	100,00

2018	31/12/2018 %	Year highest %	Year lowest %	Year average %	Regulatory limit 31.12.2018 %
Liquidity coverage ratio (LCR)	825,36	1294,56	561,14	882,41	100,00

38. RISK MANAGEMENT (cont.)
38.3 Liquidity risk (cont.)

	Balance sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
31.12.2019							
Assets	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	
Cash and balances with Central Banks	230.830	194.847	2.712	3.855	6.388	23.028	
Due from banks	327.966	217.928	110.038	0	0	0	
Investment securities measured at fair value through other comprehensive income	451.057	38.939	47.337	1.995	12.031	350.755	
Derivative financial assets	490	490	-	-	-	-	
Loans and advances to customers net of impairments	1.496.126	42.663	42.236	54.384	116.661	1.240.182	
Investment properties	18.505	6	11	17	34	18.437	
Property, plant and equipment	29.524	82	164	246	492	28.540	
Intangible assets	1.615	4	9	13	27	1.562	
Deferred tax asset	8.250	23	46	69	137	7.975	
Other assets and repossessed assets	32.461	1.353	2.705	4.058	8.116	16.229	
Non current assets held for sale	3.739	-	-	-	3.739	-	
Total Assets	**2.600.563**	**496.335**	**205.258**	**64.637**	**147.625**	**1.686.708**	
Liabilities							
Subordinated bonds	10.151	0	5.381	24	48	5.359	10.812
Due to banks	54.941	16.277	3.147	5	13	35.980	55.422
Due to customers	2.169.486	322.211	220.765	309.993	487.792	829.689	2.170.450
Derivative financial liabilities	1.099						
Inflows		140.045	79.050	0	0	0	219.095
Outflows		(139.847)	(79.856)	0	0	0	(219.703)
Other liabilities	41.108	41.108					41.108
Lease liabilities	7.211	319	214	320	641	6.578	8.072
Liabilities related to non current assets held for sale	32				32		32
Total Liabilities	**2.284.028**	**380.113**	**228.701**	**310.342**	**488.494**	**877.606**	**2.285.288**
Off Balance Sheet items							
Letter of guarantees	84.187	29.199	10.884	26.297	4.931	8.712	80.023
Undrawn Credit facilities	121.252	24.250				97.002	121.252
	205.439	**53.449**	**10.884**	**26.297**	**4.931**	**105.714**	**201.275**

1. Liabilities are presented based on their estimated maturity payment date.

38. RISK MANAGEMENT (cont.)
38.3 Liquidity risk (cont.)

	Balance Sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
31.12.2018							
Assets	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	
Cash and balances with Central Banks	559.913	559.913	-	-	-	-	
Due from banks	177.720	176.774	946	-	-	-	
Investment securities measured at fair value through other comprehensive income	277.443	243.696	-	-	-	33.747	
Derivative financial assets	173	173	-	-	-	-	
Loans and advances to customers net of impairments	1.540.779	36.044	82.673	83.762	136.095	1.202.205	
Investment properties	7.270		-	-	-	7.270	
Property, plant and equipment	22.411	-	-	-	-	22.411	
Intangible assets	1.635	-	-	-	-	1.635	
Deferred tax asset	8.524	-	-	-	-	8.524	
Other assets and repossessed assets	18.567	-	-	-	-	18.567	
Non current assets held for sale	-	-	-	-	-	-	
Total Assets	**2.614.435**	**1.016.600**	**83.619**	**83.762**	**136.095**	**1.294.359**	
Liabilities							
Subordinated bonds	15.748	-	5.410	53	1.406	10.815	17.684
Due to banks	55.113	9.295	5.250	25.607	24	15.412	55.588
Due to customers	2.212.793	282.779	291.503	329.749	643.110	673.060	2.220.201
Derivative financial liabilities	3.394	-	-	-	-	-	-
Inflows		276.281					276.281
Outflows		(272.850)					(272.850)
Other liabilities	29.158	29.158	-	-	-	-	29.158
Liabilities related to non current assets held for sale	-	-	-	-	-	-	-
Total Liabilities	**2.316.206**	**324.663**	**302.163**	**355.409**	**644.540**	**699.287**	**2.326.062**
Off Balance Sheet items							
Letter of guarantees	76.397	27.768	6.789	6.494	30.937	6.210	78.198
Undrawn Credit facilities	120.376	24.075	96.301	-	-	-	120.376
Off Balance Sheet items	**196.773**	**51.843**	**103.090**	**6.494**	**30.937**	**6.210**	**198.574**

1. Liabilities are presented based on their estimated maturity payment date.

38. RISK MANAGEMENT (cont.)

38.4 Operational risk

Operational Risk is defined as the risk of financial or qualitative effects resulting from inadequate or failed internal processes, IT systems, people (intentionally or unintentionally) and external events. Operational Risk includes Legal Risk.

The Group recognizes the need to identify, assess, monitor and reduce the inherent operational risk in its operations, as well as the need to provide sufficient capital to address this risk.

To this end, the Group , in cooperation with the Group of Alpha Bank AE, has established an Operational Risk Management Framework which includes, inter alia, the following issues:

- Operational Risk Governance Structure under which the overall supervision of Operational Risk Management is exercised by the Board of Directors of the Bank
- The Operational Risk Management committee, which oversees the implementation of the Bank's Operational Risk Management Policy and the activities and actions related to the effective management of the operational risk
- Collection and management of operational risk events including the management of bankruptcy proceedings against the Bank
- Set and monitor of operational risk indicators for specific activities of the Bank
- Techniques for identifying and evaluating operational risks, including the process of risk control self-assessment
- Introduction of operational risk mitigation techniques relating to both the implementation of action plans that improve the existing internal control system and the protection against specific risks
- The development and analysis of operational risk scenarios
- Risk assessment of outsourcing
- Creation and submition of reports
- The calculation of the Bank's capital requirements against operational risks

The Framework is reviewed by the Group's competent Division in cooperation with the relevant Division of the Group of Alpha Bank AE if deemed necessary.

In 2019, a number of projects were completed which will contribute to the strengthening of the operational risk management framework. The most important of these are the revision of the Operational Risk Indicators (KRI's) Framework, under which new operational risk indicators were adopted and early warning thresholds were set for existing ones. At the same time, the process of risk assessment related to the outsourced activities was strengthened, which includes provisions for the assessment of the data protection risk to which the Group is exposed by its outsourcing.

38. RISK MANAGEMENT (cont.)
38.4 Operational risk (cont.)

In addition, in 2019 the Operational Risk Department conducted a seminar for the staff of the Group with the aim of strengthening and enhancing the culture on issues related to operational risk.

At the same time, the process of replacing the existing operational risk system with a more advanced, user-friendly and multifunctional infrastructure is underway. The replacement process is expected to be completed within 2020.

38.5 Regulatory compliance

The Group operates an independent Regulatory Compliance Division as required by the provisions of the Central Bank of Cyprus directive "Framework of Principles of Operation and Criteria of Assessment of Bank's Organisational structure, Internal Governance and Internal Control Systems".

The Compliance Division is administratively independent of other units responsible for risk management, or executive duties, or other audit / internal audit duties. The division reports directly to the Managing Director, is supervised by the Alpha Bank Group Compliance Head and reports to the Board of Directors of the Bank through the Audit Committee.

The aim of the Compliance Division is the prevention and effective management of compliance risks deriving from the institutional and regulatory framework (Regulatory Compliance Risk) and may arise from the business activity of the Bank. This can be achieved through the establishment of adequate policies and processes, and the adoption of recognition control, monitoring mechanism of relevant controls, aiming at the preservation of the integrity and reputation of the Bank.

Additionally, through the Compliance officer, as defined in the Central Bank for the "Prevention of money laundering and terrorism financing", it implements appropriate procedures to ensure timely and on-going compliance of the Bank with the supervisory framework, in relation to the prevention of the financial system being used for money laundering and terrorism financing.

38.6 Transfers – Pledge of financial assets

On 31 December 2019, the Group had encumbered "Loans and advances to customers" of net book value €134,6mil. to Alpha Bank A.E. to obtain liquidity. (31.12.2018: €159 mil.). The Group maintains mandatory placements with the Central Bank of Cyprus amounting to €21.889 thous. (2018 : €22.545 thous.) for liquidity purposes.

38.7 Offsetting financial assets / liabilities

At 31 December 2019 there were derivative transactions of receivables of €490thous. (2018: €173 thous.) and payables of €1.099 thous. (2018: €3.394 thous), which are governed by ISDA, of the International Swap and Derivatives Association, signed with Alpha Bank A.E.
Under the contract, the Group may offset claims against its counterparty liabilities in the event of a credit event. In addition to the provisions of the above set-off transaction, the Group has provided a cash collateral covering the exposure for 2019 and 2018.

39. ECONOMIC ENVIRONMENT

Cyprus economy

Achievements

The Cyprus economy recorded, as in 2018, positive performance. GDP growth is estimated for 2019 at 3,2% compared to 3,9% in 2018. Unemployment fell further to 7% compared to 8,7% in 2018. Inflation remained low at 0,5%. According to the forecasts of the Ministry of Finance, the debt will rise to 97% in 2019 with the prospect of reducing by 2022 to 81%. The Republic of Cyprus proceeded with an early repayment of the loan it had received from Russia and plans to make an early repayment of the loan received from the International Monetary Fund in 2020.

The strong performance of the economy is driven by private consumption, tourism and services. Private consumption has benefited from the rapid expansion of employment in all sectors, which has led to a significant reduction in unemployment. Tourism, services and shipping have made a major contribution to growth.

The introduction of the General Health Scheme has created surpluses in the General Government due to the contributions to the health system from 1.3.2019 in contrast to the provision of services that started on 1.6.2019.

The Cyprus economy remains by the international rating agencies Standard and Poor's and Fitch in the investment grade BBB- with a stable horizon. This provides flexibility on public debt management.

The Republic of Cyprus has successfully issued in 2019 five-year, fifteen-year and thirty-year bonds totaling Euro 2,75 billion.

The hydrocarbon deposits discovered in the Exclusive Economic Zone of the Republic of Cyprus are expected to give additional impetus to investments in the field of energy exploitation.

Forecasts

Although according to the macroeconomic and fiscal forecasts of the Ministry of Finance, the fiscal balance in 2020 was projected to be in surplus and reach 2,7%, as a percentage of GDP, while the primary balance surplus was projected to be around 5,1% of GDP, the spread of the COVID-19 epidemic and the announced government measures are projected to negatively affect both GDP growth and the primary balance surplus. It is not yet possible to accurately assess the impact on the Cypriot economy and GDP, from the spread of the COVID-19 virus and the announced government recovery measures.

Based on the above initial forecasts, in 2020 the public debt was expected to be reduced to € 20,4 billion and as a percentage of GDP to be reduced to 91,1%. The declining trend of public debt as a percentage of GDP was expected to continue in the coming years and reach 85,9% and 81,1% at the end of 2021 and 2022, respectively.

According to the European Commission's winter forecasts, the Cypriot economy would continue to be robust and was expected to grow at a slower pace in 2020. The lower expectations for 2020 are affected by the reduced growth of the euro area as well as the uncertainties of important countries that trade with Cyprus. The construction sector may be affected by the program to restrict the issuance of passports to residents of third countries.

39. ECONOMIC ENVIRONMENT (cont.)

Cyprus economy (cont.)

Inflation was expected to reach 0,5% in 2019 while for 2020 it is estimated that there will be an increase that will reach up to 0,8% mainly due to the increase in disposable income.

The existence of the Covid-19 virus, which forced the World Health Organization to announce that it is a pandemic, is certain that it will affect the economies of the world due to the drastic measures taken to restrain it.

Apart from the COVID-19 epidemic, the risks that the Cypriot economy may face concern the international economic environment which is still unstable, due to the continuing tension in trade relations and geopolitical developments in the surrounding area of the Eastern Mediterranean, including the migration problem. The slowdown in global growth, especially in the EU economies and the Eurozone and other important trading partners of Cyprus, which has begun to become apparent, if it continues longer than expected, it will have a negative impact on key growth forecasts. Additional risk is the uncertainty about how the European Union will co-operate with the United Kingdom after its withdrawal.

The international environment of prolonged low interest rates has an impact on the profitability of the banking sector as it reduces the net income of banks

Banking environment

The banking system in Cyprus now enjoys the confidence of depositors. The excess liquidity held by the banks is indicative of the credibility of all banks. This confidence has not changed despite the zero interest rates that apply. In some cases, negative interest rates are imposed.

Confidence in the banking system is enhanced by both the positive returns of the economy and its ranking in the investment grade by international rating agencies.

Banks continue their deleveraging efforts, resulting in a sharp decline in lending in the banking system. The main reasons for the reduction are:

a. the sales of loans to non-performing loan management companies

b. the management of non-performing loans by specialized companies

c. the takeover of the non-performing portfolio of the Cyprus Co-Operative Bank by the State as a result of its absorption by Hellenic Bank

d. the intensive efforts of banks to settle non-performing loans with the method of debt for assets swap

As a result of the actions of the banking system, the non-performing exposures ratio decreased to 29% compared to 45% 2 years ago

Despite the decline in non-performing loans, the challenges of the financial sector remain, as both high non-performing loan rates and high private debt persist.

39. ECONOMIC ENVIRONMENT (cont.)

Banking environment (cont.)

The excess liquidity in an environment with negative interest rates impacts negatively the results of the banks.

The gradual implementation by 2025 of the new European requirement for compliance with the Minimum Requirement for own funds and Eligible Liabilities (MREL) may exert pressure on banks' balance sheets

Greek economy - Operating environment of the parent company.

An environment of high confidence regarding the country's potential, was formed in 2019, which is reflected, on the one hand, in the remarkable improvement of the domestic business and consumer expectations' indices and on the other hand, in the substantial reduction of the risk premium, imposed on the debt securities issued by the Hellenic Republic. In parallel, the country's growth dynamics have been strengthened further, amid the slowdown of the European economy and the maintenance of fiscal discipline.

The recovery of the domestic economic activity maintained its pace in 2019, with real GDP growing by 1.9%, the same as in 2018. The primary surplus under the enhanced surveillance definition stood at 4.16% of GDP in 2018, significantly above the target of 3.5%, mainly due to the under-execution of public expenditure for intermediate consumption and the Public Investment Budget. The 2019 EC Autumn Forecast, published in November 2019, indicated that the primary surplus is expected to reach 3.8% of GDP in 2019, whereas the fiscal targets are likely to be met for both 2020 and 2021.

Inflation, based on the Harmonised Index of Consumer Prices (HICP), reached 1.1% in December 2019. According to the 2019 EC Autumn Economic Forecasts, HICP inflation is expected to increase to 0.6% in 2020 and further to 0.9% in 2021.

The unemployment rate continued to decline in the first ten months of 2019, standing at 16.6% in October 2019 (according to seasonally adjusted data), lower by 1.9percentage points compared to October 2018.

The liquidity conditions in the banking system continued to improve, due to the positive deposit flows from the private sector of the economy, as well as the funding received from the Eurosystem and the interbank market. The dependency of the Greek Banks on the Emergency Liquidity Assistance (ELA) mechanism has been eliminated since March 2019.

As a result of Greece's positive performance, its sovereign credit rating was upgraded in March 2019 (Moody's: B1), October 2019 (S&P: BB-) and January 2020 (Fitch: BB), but still remains below the investment grade threshold.

39. ECONOMIC ENVIRONMENT (cont.)

Greek economy - Operating environment of the parent company (cont.)

The management of non-performing loans (NPLs) further progressed in the first nine months of 2019. NPLs were reduced to Euro 71.2 billion at the end of September 2019, decreasing by Euro 10.6 billion compared to December 2018 and by Euro 36 billion compared to March 2016, when the highest level of NPLs was recorded. The ratio of NPLs to total loans remains high not only overall (42.1% in September2019), but also per loan category (43% for mortgages, 49.7% for consumer loans and 40.4% for the business loans portfolio). The decrease of NPLs stock in the first nine months of 2019, was mostly due to write-offs and loans sales (Euro3.1 billion and Euro 7.1 billion, respectively). It should be noted that, according to the NPL targets submitted to the Single Supervisory Mechanism (SSM) at the end of March 2019, Greek credit institutions aim to reduce the total NPLs ratio, to below 20% by the end of 2021.

Challenges and uncertainties

Non-performing exposures and private debt remain the main factor of instability for banking sector and the economy. High public debt is also a challenge to be addressed.

Debates at European level on review of tax system in Europe may create imbalances that Cyprus will be called to address.

The exit of the United Kingdom (UK) from the European Union (EU) on 31.1.2020 is a serious risk for the economy due to the fact that the terms of future cooperation between the UK and the EU have not yet been agreed. This is expected to be settled during the transitional period until 31.12.2020.

Any developments on political level, will accordingly affect the economic environment.

Serious consequences may result from the rapid spread of Coronavirus disease (COVID-19). For more information on how it is dealt with, are given in note 45.

40. FAIR VALUE

Financial assets and liabilities not measured at fair value

	2019		2018	
	Fair value €΄000	Carrying amount €΄000	Fair value €΄000	Carrying amount €΄000
Cash and balances with central banks	230.714	230.830	559.263	599.913
Due from banks	327.232	327.966	176.735	177.720
Loans and advances to customers	1.609.078	1.501.863	1.610.303	1.540.779
Due to customers	2.149.364	2.169.486	2.179.777	2.212.793
Subordinated bonds	10.096	10.151	15.748	15.748
Due to Banks	55.102	54.941	54.154	55.113

The table above presents the fair value of the financial assets and liabilities measured at amortized cost and their carrying amount.

The fair value of loans to customers measured at amortized cost is estimated using the discount model of contractual future cash flows. The components of the discount rate are the interbank market yield curve, the liquidity premium as well as the expected loss rate.

More specifically, for the loans that for credit risk purposes are considered impaired and are individually assessed for impairment, the model uses the expected future cash flows excluding expected credit losses. In this case, the interbank market yield curve and the liquidity premium serve as the discount rate. However for impaired loans assessed on a collective basis, estimates are made for capital repayment after taking into account the loss due to credit risk.

The fair value of deposits is estimated based on the interbank market yield curve and the liquidity premium until their maturity.

The fair value of bonds is calculated on the basis of market prices as long as there is an active market. In other cases, the cash flow discounting method is applied where all significant variables are based on either observable data or a combination of observable and unobservable market data.

The fair value of all other financial assets and liabilities measured at amortized cost does not materially differ from the respective carrying amount.

40. FAIR VALUE (cont.)

Hierarchy of financial instruments measured at fair value

	2019			
	Level 1	Level 2	Level 3	Total fair value
	€´000	€´000	€´000	€´000
Derivative financial assets		490		490
Securities measured at fair value through other comprehensive income				
-Bonds and treasury bills	413.388	29.414		442.802
-Shares		3.462	4.793	8.255
Derivative financial liabilities		1.099		1.099

	2018			
	Level 1	Level 2	Level 3	Total fair value
	€´000	€´000	€´000	€´000
Derivative financial assets		173		173
Securities measured at fair value through other comprehensive income				
-Bonds and treasury bills	117.027	153.746		270.773
-Shares		2.441	4.229	6.670
Derivative financial liabilities		3.394		3.394

The tables above present the fair value hierarchy of financial instruments which are measured at fair value based on inputs used for the fair value measurement.

The different levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The methodology for the valuation of securities is approved by the Assets Liabilities Committee (ALCO). Especially for securities that are valued at market prices, bid prices are obtained and a change in their valuation is performed on a daily basis.

40. FAIR VALUE (cont.)

Shares whose fair value is calculated are classified to Level 2 or Level 3, depending on the extent of the contribution of unobservable data to calculate final fair value. The fair value of non listed shares, as well as shares not traded in an active market is determined either based on the Group's share on the issuer's equity or by the multiples valuation or the estimations made by the Group which relate to the future profitability of the issuer, taking into account the expected growth rate of its operations, as well as the weighted average rate of capital return which is used as discount rate.

During the period there were no transfers from / to Level 3 of the fair value hierarchy.

For the valuation of over the counter derivatives income approach methodologies are used: discounted cash flow models, option-pricing models or other widely accepted valuation models. The valuation methodology of over the counter derivatives is subject to approval by the Assets – Liabilities Management Committee. Mid prices are considered as both long and short positions may be outstanding. Valuations are checked on a daily basis with the respective prices of the counterparty banks in the context of the daily process of provision of collaterals and settlement of derivatives. If the non observable inputs are significant, the fair value that arises is classified as Level 3 or otherwise as Level 2.

A valuation method based on the Company's equity has been used to determine the fair value of the Bank's investment in JCC Payments Systems Limited at Level 3. In the scenario that the equity of JCC Payments Systems Limited is changed by Euro10mil. the impact on the Group's equity is expected to amount to Euro1 million.

The following table shows the reconciliation from the initial balance to the final balance of the fair values classified in Level 3 of the fair value hierarchy:

31.12.2019	Securities measured at fair value through other comprehensive income
	€΄000
Balance 1.1.2019)	**4.229**
Total gain or loss recognized in Income Statement	564
Balance 31.12.2019	**4.793**

31.12.2018	Securities measured at fair value through other comprehensive income
	€΄000
Balance 1.1.2018 (after the implementation of IFRS9)	**3.860**
Total gain or loss recognized in Income Statement	369
Balance 31.12.2018	**4.229**

41. CAPITAL ADEQUACY

The policy of the Group is to maintain a strong capital base, in order to ensure the Group's development, and the trust of depositors, shareholders, markets and business partners.

The Capital Adequacy Ratio compares the Bank's regulatory capital with the risks that the Bank undertakes (Risk Weighted Assets-RWAs). Regulatory capital includes CET1 capital (share capital, reserves, minority interests), additional Tier 1 capital (hybrid securities) and Tier 2 capital (subordinated debt). The Group uses the standardized method for both credit risk and operational risk to calculate the risk weighted assets. The Group does not currently have exposure to market risk.

The capital adequacy of the Group is supervised by the parent company Alpha Bank A.E, which is considered to be a systemic credit institution by the Single Supervisory Mechanism of the European Central Bank. Supervision is overseen along with the support of local supervisory authorities. The Central Bank of Cyprus within the context of its supervisory role, has adopted the European Guidelines for banking supervision.

The supervision is conducted in accordance with the European Regulation 575/2013 (CRR) and the relevant European Directive 2013/36 (CRD IV), which was incorporated into the Cyprus Law. The framework is broadly known as Basel III. The Central Bank of Cyprus, with a view to harmonize with CRD IV, has proceeded to transfer the provisions of the above Directive by amending the Banking law and by introducing the new Macro-Prudential Oversight Law of 2015, which was amended in early February 2017 with retrospective effect from 1.1.2016, setting the minimum ratios (equity capital, Tier I capital and capital adequacy) that the Group should maintain.

In accordance with the above framework for the calculation of the capital adequacy ratio, the transitional provisions in force are followed.

- Besides the 8% capital adequacy limit, there are applicable limits for Common Equity Ratio and Tier I ratio of 4,5% and 6%, respectively
- The maintenance of capital buffers additional to the Common Equity Capital, from 1.1.2019 of 2,5% is maintained
- Central Bank of Cyprus, set the following capital buffers for 2019:

  Other systemically important institutions' (O-SII) buffer 0,5%.

  Countercyclical capital buffer equal to «zero percent» 0%.

In December 2018, the ECB informed Alpha Bank that for the year 2019 the minimum limit for the Overall Capital Requirement (OCR) is 13,625%. The OCR is composed by the minimum own funds requirements (8%), according to article 92(1) of the CRR, the additional Pillar II own funds requirements (P2R), according to article 16(2) (a) of the Regulation 1024/2013/EU which corresponds to 3%, and the combined buffer requirements (CBR), according to article 128(6) of the Directive 2013/36/EU which correspond to 2,625%. The above minimum ratio should be maintained on a phase-in basis under applicable transitional rules of the CRR / CRD IV, at all times.

41. CAPITAL ADEQUACY (cont.)

Respectively, for the year 2020, the ratios requirements under the ECB's decision are estimated at 13,75%. The increase relates to the addition of 0,125% for the gradual implementation of the O-SII buffer reserve.

As per the recently announced regulatory measures by EBA and ECB, in view of the COVID-19 outbreak, capital regulatory thresholds for European banking institutions have been relaxed. Specifically, the European Central Bank (ECB) and the European Banking Authority (EBA) announced the following relaxation measures for the minimum capital and liquidity requirements for Banks in the Eurozone:

• Banks are temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance, the Capital Conservation Buffer and the Countercyclical Buffer.
• Furthermore, the upcoming change under CRD5 regarding the P2R buffer was brought forward allowing the Pillar 2 Requirement (P2R) to be covered by Additional Tier 1 (AT1) capital and Tier 2 (T2) capital and not only by CET 1.

Taking into consideration the recent announcements that allow the Bank to operate temporarily at levels below the abovementioned ones, the minimum limit for the Overall Capital Requirement (OCR) is set at 11,25%. It is noted that the Countercyclical Buffer is 0% for Cyprus Banks. The above measures increase the Bank’s capital base available to absorb potential losses.

EU-wide stress test is primarily focused on the assessment of the impact of risk drivers on the solvency of banks. Banks are required to stress a common set of risks (credit risk – including securitisations – market risk and counterparty credit risk, operational risk – including conduct risk). The EU – Stress Test is a biannual exercise. However due to the outbreak of COVID – 19 (Coronavirus) and its global spread, EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks’ exposures and asset quality to market participants.

41. CAPITAL ADEQUACY (cont.)

The capital adequacy ratios according to the CRR with transitional provisions set by the Central Bank of Cyprus for 31 December 209 are analyzed below:

	31.12.2019 €΄000	31.12.2018 €΄000
Regulatory Capital		
Transitional Common Equity Tier I	**289.449**	**276.865**
Additional Tier I	64.000	64.000
Total Tier I	**353.449**	**340.865**
Tier II	1.068	3.395
Total transitional capital	**354.517**	**344.260**
Total risk weighted assets	**1.752.681**	**1.672.159**
Transitional Common Equity Tier I ratio	**16,5%**	**16,6%**
Transitional Tier I ratio	**20,2%**	**20,4%**
Transitional total capital adequacy ratio	**20,2%**	**20,6%**

Regarding the impact of the application of IFRS 9, the Group will make use of the transitional provisions under which the impact of the application of the new standard will be absorbed within five years. The Group is adequately capitalised to meet the requirements arising from the application of the new standard as the CET1 ratio stands at 16,5% as of 31.12.2019 according to the transitional provisions. The impact from full implementation is estimated at around 2,3% with the index reaching 14,2% with reference date 31.12.2019.

Under CRR provisions a leverage ratio has been adopted, which is calculated as the relation between total assets plus the off balance sheet assets to the Tier I capital. The leverage ratio for 2019 stands at 13,1% (with transitional provisions) compared to 12,6% for 2018. The minimum leverage ratio of 3%, which becomes effective 1.1.2018, means that the Group does not undertake excessive leverage risk.

42. PARTICIPATION OF DIRECTORS IN THE BANK'S SHARE CAPITAL

The Board of Directors members, their spouses and their children do not hold directly or indirectly any interest in the Bank's share capital in accordance with article 60(4) of the Cyprus Stock Exchange Law at 31 December 2019.

During the period covering from 31 December 2019 and 30 days before the notification for convening the Annual General Meeting, there were no fluctuations on the above.

43. RELATED PARTY TRANSACTIONS

All transactions with the board members, the key management personnel and their related parties are performed at arm's length.

a) Transactions with Directors of the Board

	31.12.2019 €΄000	31.12.2018 €΄000
Loans and advances to Board of Directors members and related parties	40	47
Deposits by Board of Directors members and related parties	471	241

	From 1 January to 31.12.2019	31.12.2018
Non executive Directors		
Board members fees	193	193
Executive Directors		
Salaries and benefits	468	497
Social insurance contributions by employer etc.	29	22
Retirement benefits	12	12
Total remuneration for executive directors	531	531

Credit facilities to executive and non-executive directors, per director, do not exceed 1% of the Bank's net assets.

43. RELATED PARTY TRANSACTIONS (cont.)

b) Transactions with Key Management Personnel

The Bank considers the members of the Executive committee as key management personnel.

	31.12.2019 €´000	31.12.2018 €´000
Loans and advances to key management personnel and related parties	402	419
Deposits by key management personnel and related parties	394	393
	From 1 January to	
	31.12.2019	31.12.2018
Salaries and benefits	366	349
Social insurance contributions by employer etc.	27	21
Retirement benefits	12	12
Total remuneration to key management personnel	405	382

43. RELATED PARTY TRANSACTIONS (cont.)

(c) Transactions with parent company

During the year, the parent company Alpha Bank A.E. has granted guarantees totaling €22.631 thous. (2018: €22.468 thous.) in relation to loans and advances granted to specific clients.

	31.12.2019 €΄000	31.12.2018 €΄000
Assets		
Due from banks	124.903	120.361
Reverse Repos	193.995	-
Derivative financial assets	490	173
	319.388	120.534
Liabilities		
Due to banks (Note 23)	29.159	26.995
Derivative financial liabilities	1.099	3.394
Subordinated bonds	-	1.199
Convertible capital securities	64.000	64.000
Other liabilities	700	309
	94.958	95.897

	From 1 January to	
	31.12.2019 €΄000	31.12.2018 €΄000
Income		
Interest and similar income	168	1.719
Gain on financial transactions	1.328	712
Reversal of impairment losses on due from banks	-	1.220
	1.496	3.651
Expenses		
Interest expense and similar income	813	226
Staff costs	369	515
Other expenses	2	5
Provision for other financial assets	217	-
	1.401	746

On 14.5.2015 the Group pledged in favor of Alpha Bank A.E, “Loans and advances to customers” as collateral for liquidity obtained. On 31.12.2019, the book value of the collateral amounted to €134,6 mil.

43. RELATED PARTY TRANSACTIONS (cont.)

(d) Transactions with Alpha Bank Group companies

	31.12.2019	31.12.20187
	€΄000	€΄000
Assets		
Due from banks	32	15
Loan and advances to customers	2	-
Property , plant and equipment	3.874	-
Other assets	1.646	1.625
	5.554	1.640
Liabilities		
Due to customers	28.379	4.640
Subordinate bonds	10.151	14.549
Other liabilities	1.530	2.727
Lease liabilities	4.179	-
	44.239	21.916

	From 1 January to	
	31.12.2019	31.12.2018
	€΄000	€΄000
Income		
Interest and similar income	2	-
Fees and commission income	453	306
Other income	6.873	5.008
	7.328	5.314
Expenses		
Interest expense and similar charges	273	125
Fees and commission expense	-	6
Depreciation and amortisation	198	-
Other expenses	1.540	1.237
	2.011	1.368

In 2018, “Loans and advances to customers”, of € 381mil. and fair value of € 202mil. were sold to a company of Alpha Bank AE Group. For these loans all risks and rewards of ownership have been transferred and therefore their recognition in the Balance Sheet has been terminated.

In calculating the fair value of the loans sold, the expected cash flows from the loans have been taken into account, discounted at market rates that take into account cost of capital, liquidity cost and management costs. The methodology to set the market interest rate was determined with the contribution of an independent accounting firm.

43. RELATED PARTY TRANSACTIONS (cont.)

(e) Transactions with the Hellenic Financial Stability Fund (HFSF) and its subsidiaries

The Group did not have any transactions with the HFSF or its subsidiaries during the year 2019 and 2018.

44. GROUP CONSOLIDATED COMPANIES

The consolidated financial statements, apart from the parent company Alpha Bank Cyprus Ltd include the following entities.

		Group's ownership interest %	
Company name	**Country**	**31.12.2019**	**31.12.2018**
Real estate			
ABC RE L1 LTD	Cyprus	100	100
ABC RE P1 LTD	Cyprus	100	100
ABC RE P2 LTD	Cyprus	100	100
ABC RE P3 LTD	Cyprus	100	100
ABC RE P4 LTD	Cyprus	100	100
ABC RE L2 LTD	Cyprus	100	100
ABC RE P5 LTD	Cyprus	-	100
ABC RE P&F LIMASSOL LTD	Cyprus	100	100
ABC RE L3 LTD	Cyprus	100	100
ABC RE COM PAFOS LTD	Cyprus	100	-
ABC RE RES LARNACA LTD	Cyprus	100	-
ABC RE L4 LTD	Cyprus	100	-
ABC RE L5 LTD	Cyprus	100	-
ABC RE P&F PAFOS LTD	Cyprus	100	-
ABC RE P&F NICOSIA LTD	Cyprus	100	-
ABC RE RES NICOSIA LTD	Cyprus	100	-
ABC RE RES P6 LTD	Cyprus	100	-
ABC RE RES P7 LTD	Cyprus	100	-
ABC RE P&F LARNACA LTD	Cyprus	100	-

The Bank and its subsidiaries have an obligation to dispose properties acquired through the debt for assets swap process, within three years of the date of recovery. The period of three years may be extended with the approval of the Central Bank of Cyprus.
The subsidiary ABC RE P5 LTD was disposed in November 2019.

44. GROUP CONSOLIDATED COMPANIES (cont.)

The balances of the Bank's transactions with its subsidiaries and the results of those transactions are set out in the table below:

	2019			
Company name	Assets	Liabilities	Income	Expense
Real estate	€΄000	€΄000	€΄000	€΄000
ABC RE L1 LTD	11	-	-	-
ABC RE P1 LTD	16	7	-	-
ABC RE P2 LTD	2	19	-	-
ABC RE P3 LTD	2	43	-	-
ABC RE P4 LTD	-	9	-	-
ABC RE L2 LTD	22	-	-	-
ABC RE P5 LTD	-	-	-	-
ABC RE P&F LIMASSOL LTD	8	41	-	-
ABC RE L3 LTD	11	-	-	-
ABC RE COM PAFOS LTD	10	-	-	-
ABC RE RES LARNACA LTD	6	-	-	-
ABC RE L4 LTD	5	-	-	-
ABC RE L5 LTD	5	-	-	-
ABC RE P&F PAFOS LTD	-	-	-	-
ABC RE P&F NICOSIA LTD	-	-	-	-
ABC RE RES NICOSIA LTD	-	45	-	-
ABC RE RES P6 LTD	1	-	-	-
ABC RE RES P7 LTD	-	-	-	-
ABC RE P&F LARNACA LTD	-	-	-	-

	2018			
Company name	Assets	Liabilities	Income	Expense
Real estate	€΄000	€΄000	€΄000	€΄000
ABC RE L1 LTD	1	(4)	-	-
ABC RE P1 LTD	1	(2)	-	-
ABC RE P2 LTD	1	(2)	-	-
ABC RE P3 LTD	1	(2)	-	-
ABC RE P4 LTD	1	(2)	-	-
ABC RE L2 LTD	1	(2)	-	-
ABC RE P5 LTD	1	-	-	-
ABC RE P&F LIMASSOL LTD	1	-	-	-
ABC RE L3 LTD	1	-	-	-

44. GROUP CONSOLIDATED COMPANIES (cont.)

The following table presents the profit / (loss) per subsidiary consolidated in these financial statements

	2019 Profit / (loss)	2018 Profit / (loss) €΄000
Real estate		
ABC RE L1 LTD	(15)	(4)
ABC RE P1 LTD	(65)	(2)
ABC RE P2 LTD	(254)	(2)
ABC RE P3 LTD	(32)	(2)
ABC RE P4 LTD	(252)	(2)
ABC RE L2 LTD	(149)	(2)
ABC RE P5 LTD	-	(1)
ABC RE P&F LIMASSOL LTD	(14)	(1)
ABC RE L3 LTD	(17)	(1)
ABC RE COM PAFOS LTD	(78)	-
ABC RE RES LARNACA LTD	(11)	-
ABC RE L4 LTD	(15)	-
ABC RE L5 LTD	(10)	-
ABC RE P&F PAFOS LTD	(5)	-
ABC RE P&F NICOSIA LTD	(5)	-
ABC RE RES NICOSIA LTD	(5)	-
ABC RE RES P6 LTD	(12)	-
ABC RE RES P7 LTD	(3)	-
ABC RE P&F LARNACA LTD	(1)	-
Total	**(943)**	**(17)**

45. EVENTS AFTER THE BALANCE SHEET DATE

The emergence of coronavirus in Europe in the first quarter of 2020, which soon received pandemic features, is adding a major uncertainty in terms of both macroeconomic developments and the ability of businesses to operate under the regime of the restrictive measures imposed. This development is expected to adversely affect the ability of borrowers to repay their liabilities and, consequently, the amount of expected credit risk losses. The financial implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. In the context of efforts to relieve individuals and businesses most affected by the coronavirus and its associated restrictive measures, the Cyprus government has announced a package of tax and other relief measures. Given the above, there may be negative consequences in the global and Cypriot economy which may affect the Group which is not possible to identify and quantify at this stage.

Given the uncertainties and recent developments, the Bank cannot accurately and reliably estimate the qualitative and quantitative impact on business activities, financial situation and economic results.

Alpha Bank and the Group monitors the current situation regarding the rapid transmission of COVID-19 and assesses the impact on the asset quality, the risk model sensitivity in macroeconomic perimeters, as well as the implementation of the Business Plan. We also reassessed the business continuity plan as well as the ability to retain our business operations, in order to support our customers in these harsh times.

The Bank activated early its Business Continuity Plan, adapted for the case of a Pandemic, to ensure a coordinated response to events that could potentially disrupt our business. In order to address an extraordinary situation as the current COVID-19 outbreak, a series of predefined actions were activated but standard BCP procedures had to be exceeded.

In order to mitigate risk, staff for critical functions were immediately split between physical location and BCP sites. Moreover, to ensure continuity of business and to prevent staff with the same skillset from being fully impacted, the majority of our employees in the central units are working from home, while this will be increased gradually to the maximum ratio possible without endangering critical functions or lowering appreciably the service standards of the Bank. Branch staff were divided into teams, with one team working while the other stays at home, alternating at set periods of time.

Existing Remote access capability has been significantly upgraded and additional hardware was provided to Bank’s staff, allowing the successful and timely implementation of remote work, and ensuring that all operations can be performed from alternate locations without interruption. At the same time, the Bank confirmed that BCP capabilities of a similar nature are in place with our suppliers / vendors covering people, process and technology, to ensure the continued flow of services and goods to the Bank.

The above efforts are carried in parallel with the actions of the Republic of Cyprus to address the economic consequences of the coronavirus (COVID-19) and to support the economy and entrepreneurship.

45. EVENTS AFTER THE BALANCE SHEET DATE (cont.)

Indicatively, the measures processed by the Republic of Cyprus to deal with the consequences of Covid - 19 disease are, among others, the channelling by banks into the market , loans amounting to a total of 2 billion that will have a state guarantee on the condition of securing jobs, the temporary suspension of tax liability for two months, financial support to affected companies as well as the provision of special purpose compensation for employees of the above companies.

In this context and in order to assist households and businesses, the Republic of Cyprus, by legislation, has imposed a mandatory suspension of installments and interest on all loans that until 28.2.2020 had no delay of more than thirty days. The plan will be valid for the period April - December 2020 to all individuals and companies wishing to apply for participation.
By decision through the Association of Banks of Cyprus, the Cypriot Banks have agreed that during the period of suspension of loans repayment that fall under the provisions of the Decree, interest will not be applied.
This decision is not estimated to have a material impact on the capital adequacy or profitability of the Group. Finally, the Cypriot financial institutions will be able to draw liquidity from the Eurosystem on significantly favorable terms.

At the same time, coordinated actions are taking place at a pan-European level, most importantly the decisions of the European Central Bank, which announced measures to stimulate liquidity such as additional long-term refinancing operations (LTROs), more favorable terms for TLTRO III refinancing operations, additional bond purchases of € 120 billion by the end of the year, combined with existing program, which are expected to help maintaining favorable liquidity conditions that may have a positive effect on borrowing costs. It also announced a new emergency program due to a pandemic totalling 750 billion euros for the purchase of assets, lasting until the end of the year. In addition, reductions in capital adequacy ratios have been announced, on the basis of which banks are temporarily able to operate below the equity reserve set by Pillar II (P2G), the Capital Conservation Buffer (CCB), the Counter Cyclical Buffer (CCyB) and the Liquidity Index (LCR).

In addition, it was decided to implement the change in the adoption of the CRDV on the supervisory requirements for Pillar II (P2R) early, allowing it to be covered by additional Category 1 (AT1) and Category 2 (Tier 2) funds and not only from category 1 common stock funds.
It is noted that due to the turmoil in the world since the spread of coronavirus (Covid-19), the values of financial instruments that are held at fair value have been adversely affected. The relative impact does not significantly affect capital adequacy ratios. The Bank monitors the valuations daily and evaluates the effects.

The Annual Financial Report was approved for issue by the Board of Directors of the Bank on 8 April 2020.

Additional Risk Disclosures 2019
(Unaudited)

Additional Risk Disclosures
(Unaudited)

According to the Central Bank of Cyprus Directive which came into force on 21 February 2014, "Loan Impairment and Provisioning Procedures" financial institutions should disclose specific information regarding the quality of their loan portfolio. Tables A and B below depict non performing loans according to the reporting standards of European Banking Authority (EBA) as these have been adopted by Central Bank of Cyprus since February 2015.

Tables A and B for 31.12.2019 and 31.12.2018 have been prepared using different definitions to those used for the preparation of note 38 "Risk Management" and therefore these figures are not comparable.

According to the EBA technical standards on Forbearance and Non Performing exposures the following definitions were used:

Definition of non-performing exposure

An exposure is considered non-performing when one of the following criteria is satisfied:

- The exposure is more than 90 days past due
- An exposure against which legal actions have been undertaken by the bank
- The debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral
- The exposure has been impaired
- The exposure is classified as forborne non-performing exposure, as defined in the Implementing Regulation (EU) 2015/227 of January 9, 2015.

A non-performing exposure with forbearance measures include the following:

- Exposures which were non-performing prior to the extension of forbearance measures; and
- Forborne exposures which have been reclassified from the performing exposures category, including exposures under probation (forborne performing having been reclassified out of the Forborne Non Performing Loan (FNPL) status) having been re-forborne or that are more than 30 days past-due.

Exposures include all on and off balance sheet exposures without the use of collaterals, excluding held for trading exposures

Definition of forborne exposure

An exposure is considered forborne when:

- the forbearance measure includes concessions towards a debtor facing or about to face financial difficulties.

Additional risks disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS – TABLE A

31 December 2019

	Total Credit Facilities				Provision for impairment			
	Gross Loans and advances[1]	of which non performing	of which exposures with forbearance measures		Total provision for impairment[2]	of which non performing	of which exposures with forbearance measures	
			Exposures with forbearance measures	of which non performing			Exposures with forbearance measures	of which non performing
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
General Governments	**17**	**-**	**0**	**0**	**0**	**-**	**0**	**0**
Other financial corporations	**40.321**	**2.913**	**1.659**	**532**	**2.524**	**2.050**	**555**	**181**
Non-financial corporations	**863.683**	**395.666**	**74.137**	**68.064**	**245.942**	**241.437**	**21.483**	**21.326**
of which: Small and medium-sized enterprises	751.013	395.666	74.137	68.064	244.572	241.437	21.483	21.326
of which: Commercial real estate	613.503	366.755	68.775	63.513	219.085	217.759	18.276	18.185
Non-financial corporations per sector	**863.684**	**395.666**			**245.942**			
Construction	333.459	210.062			151.987			
Wholesale and retail trade	100.821	47.848			31.097			
Hotel and restaurants	84.820	13.438			10.086			
Real estate	76.013	34.444			13.801			
Manufacturing	57.342	17.503			12.774			
Other	211.229	72.370			26.197			
Households	**1.202.668**	**740.769**	**441.685**	**352.355**	**362.098**	**356.224**	**132.666**	**129.919**
of which: Residential mortgage loans	1.046.690	657.288	408.166	325.442	303.280	299.310	116.933	114.995
of which: credit for consumption	129.475	85.553	28.288	20.865	45.209	44.682	5.735	5.607
Total	**2.106.690**	**1.139.348**	**517.480**	**420.951**	**610.564**	**599.711**	**154.703**	**151.426**

1. Excluding loans and advances to central banks and credit institutions.

2. For the purposes of the presentation of above disclosures , the accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 18 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional risks disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS – TABLE A

31 December 2018

	Total Credit Facilities				Provision for impairment			
			of which exposures with forbearance measures				of which exposures with forbearance measures	
	Gross Loans and advances[1]	of which non performing	Exposures with forbearance measures	of which non performing	Total provision for impairment[2]	of which non performing	Exposures with forbearance measures	of which non performing
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
General Governments	**28**	**0**	**0**	**-**	**-**	**-**	**-**	**-**
Other financial corporations	**46.109**	**13.320**	**11.062**	**11.062**	**2.085**	**2.081**	**279**	**279**
Non-financial corporations	**967.512**	**468.724**	**108.874**	**72.445**	**282.399**	**278.677**	**25.299**	**24.321**
of which: Small and medium-sized enterprises	908.145	468.724	108.874	72.458	281.756	278.679	25.299	24.321
of which: Commercial real estate	614.671	363.916	83.334	54.331	223.833	222.207	20.087	19.449
Non-financial corporations per sector	**967.512**	**468.724**			**282.399**			
Construction	423.085	264.352			167.683			
Wholesale and retail trade	115.068	63.368			35.612			
Hotel and restaurants	99.120	15.090			9.278			
Real estate	91.406	46.991			20.647			
Manufacturing	72.073	34.382			22.844			
Other	166.760	44.541			26.335			
Households	**1.240.823**	**803.890**	**476.754**	**379.394**	**429.209**	**419.318**	**170.716**	**164.209**
of which: Residential mortgage loans	1.071.333	694.773	434.455	343.700	347.924	339.317	146.320	140.435
of which: credit for consumption	136.091	95.350	28.226	24.143	54.355	53.807	9.407	9.247
Total	**2.254.472**	**1.285.934**	**596.690**	**462.901**	**713.693**	**700.076**	**196.294**	**188.809**

1. Excluding loans and advances to central banks and credit institutions.

2. For the purposes of the presentation of above disclosures , the accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 18 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS PER LOAN ORIGINATION DATE – TABLE B

31 December 2019

Loan origination date	Total loans portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	103.909	544	928	36.430	244	490	5.042	-	98	62.437	300	340
1 - 2 years	197.029	3.498	4.675	162.628	2.874	4.253	77	-	0	34.324	624	422
2 - 3 years	90.552	33.855	17.293	48.213	10.888	5.683	2	-	0	42.337	22.967	11.610
3 - 5 years	243.757	165.404	97.469	58.583	47.128	31.713	31.582	1.371	1.064	153.592	116.905	64.692
5 - 7 years	178.903	91.859	50.118	28.373	21.081	12.807	1.914	788	1.069	148.616	69.990	36.242
7 - 10 years	312.529	207.343	114.896	133.584	89.392	51.968	16	-	-	178.929	117.951	62.928
Over 10 years	979.994	636.844	325.185	395.871	224.058	139.029	1.688	754	292	582.435	412.032	185.864
Total	**2.106.673**	**1.139.347**	**610.564**	**863.682**	**395.665**	**245.943**	**40.321**	**2.913**	**2.523**	**1.202.670**	**740.769**	**362.098**
General Governments	17	-	-									
Total	**2.106.690**	**1.139.348**	**610.564**									

For the purposes of the presentation of above disclosures, accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 18 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS PER LOAN ORIGINATION DATE – TABLE B

31 December 2018

	Total Loans Portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Loan origination date	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Loan origination date	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Loan origination date	Gross loans and advances	Non performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	198.502	117	1.295	162.194	70	1.119	88	-	-	36.220	47	176
1 - 2 years	64.015	667	451	53.857	356	280	1	-	-	10.157	311	171
2 - 3 years	46.283	7.166	4.098	10.129	5.685	3.570	31.646	-	-	4.508	1.481	528
3 - 5 years	81.359	50.377	26.200	19.698	7.196	3.587	171	153	129	61.490	43.028	22.484
5 - 7 years	200.091	131.345	79.469	70.009	35.143	19.542	1.802	1.802	512	128.280	94.400	59.415
7 - 10 years	380.269	273.177	154.127	148.135	116.823	70.094	49	34	2	232.085	156.320	84.031
Over 10 years	1.283.925	823.085	448.053	503.490	303.451	184.207	12.352	11.331	1.442	768.083	508.303	262.404
Total	2.254.444	1.285.934	713.693	967.512	468.724	282.399	46.109	13.320	2.085	1.240.823	803.890	429.209
General Governments	28	-	-									
Total	**2.254.472**	**1.285.934**	**713.693**									

For the purposes of the presentation of above disclosures, accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 18 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)
(Unaudited)

The table below presents the encumbered and unencumbered assets of the Group to the extent that these assets are pledged for the financial needs of the Group.

An asset is considered as encumbered if it has been pledged as collateral, either to obtain funding or in any transaction that requests collateral. Such asset is no longer available for the bank to be pledged as collateral to obtain funding.

CARRYING AND FAIR VALUE OF ENCUMBERED AND UNENCUMBERED ASSETS

31 December 2019	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'000
Assets				
Equity instruments	-	-	8.255	8.255
Debt securities	-	-	442.802	442.802
Other assets	134.600	134.600	2.014.906	2.122.121
Total	134.600		2.465.963	

31 December 2018	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'000
Assets				
Equity instruments	-	-	6.670	6.670
Debt securities	-	-	270.773	270.773
Other assets	159.223	159.223	2.177.779	2.247.303
Total	159.223		2.455.222	

Additional Risk Disclosures (cont.)
(Unaudited)

FAIR VALUE OF ENCUMBERED AND UNENCUMBERED COLLATERALS

31 December 2019	Fair value of encumbered collateral received or own debt securities issued	Fair value of un encumbered collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	185.081
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	-

31 December 2018	Fair value of encumbered collateral received or own debt securities issued	Fair value of un encumbered collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	404.829
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	404.829

Additional Risk Disclosures (cont.)
(Unaudited)

ENCUMBERED ASSETS AND COLLATERALS RECEIVED BY THE GROUP AND ASSOCIATED COMPANIES

31 December 2019	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	-	-
Total	-	-

31 December 2018	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	-	-
Total	-	-