ALPHA BANK CYPRUS LTD

# ANNUAL REPORT 2010

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# BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| Board of Directors | **Sp. N. Filaretos**<br>Chairman |
| | **K. M. Kokkinos**<br>Managing Director |
| | **Gr. Th. Timplalexis**<br>General Manager |
| | **Ch. C. Giampanas** |
| | **G. M. Michaelides** |
| | **L. A. Papagaryfallou** |
| | **Dr. A. K. Kritiotis**<br>(appointed on 7 April 2010) |
| | **I. S. Monastiriotis**<br>(appointed on 7 April 2010) |
| | **M. S. Yiannopoulos**<br>(retired on 7 April 2010) |
| Secretary | **L. A. Papalambrianou** |
| Legal Advisers | **Chrysafinis and Polyviou** |
| Independent Auditors | **KPMG Limited** |
| Registered Office | **Corner of Chilonos & Gladstonos Street,**<br>**Stylianos Lena Square, Nicosia** |
| Head Office | **Alpha Bank Building**<br>**3, Lemesos Avenue,**<br>**Nicosia** |

# STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE RESPONSIBLE PERSON OF THE COMPANY FOR THE FINANCIAL STATEMENTS

In accordance with Article 9, sections (3)(c) and (7) of the Transparency Requirements (Securities for Trading on Regulated Market) Law of 2007 ("Law"), we the members of the Board of Directors and the responsible person for the financial statements of Alpha Bank Cyprus Limited for the year ended 31 December 2010 we confirm that, to the best of our knowledge:

(a) The annual financial statements that are presented on pages 10 to 53:

(i) were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, and in accordance with the provisions of Article 9, section (4) of the Law, and

(ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of Alpha Bank Cyprus Limited, and

(b) the directors' report gives a fair review of the developments and the performance of the business as well as the financial position of Alpha Bank Cyprus Limited, together with a description of the principal risks and uncertainties that they are facing.

**Members of the Board of Directors and the responsible person of the Company for the financial statements**

Sp. N. Filaretos – Chairman

K. M. Kokkinos – Managing Director

Gr. Th. Timplalexis – General Manager

Ch. C. Giampanas – Board Member

G. M. Michaelides – Board Member

L. A. Papagaryfallou – Board Member

Dr. A. K. Kritiotis – Board Member

I. S. Monastiriotis – Board Member

L. Skaliotis – Head of Financial Control Division

Nicosia, 24 February 2011

# BOARD OF DIRECTORS' REPORT

The Board of Directors of Alpha Bank Cyprus Limited (the "Company") presents to the members its annual report together with the audited financial statements of the Company for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

During the year 2010, the Company continued its full banking operations by offering a wide range of banking and financial services.

The Company is a wholly owned subsidiary company of Alpha Bank S.A., registered in Greece. The Company is the holding company of the Group of Alpha Bank Cyprus Limited.

## REVIEW OF THE COMPANY'S POSITION, DEVELOPMENT AND PERFORMANCE

| Key Financial Data | Change | 2010 | 2009 |
|---|---|---|---|
| | % | € | € |
| Profits from operations | 9,18 | 177. 514.503 | 162.595.094 |
| Profits before taxation | (14,99) | 61.808.514 | 72.707.995 |
| Profits after taxation | (13,78) | 55.253.716 | 64.086.183 |
| Earnings per share | (13,78) | 39,61 cent | 45,94 cent |

| | Change | 2010 | 2009 |
|---|---|---|---|
| | % | € | € |
| Loans and advances | 3,47 | 4.512.864.908 | 4.361.477.224 |
| Customer deposits | 9,02 | 3.570.924.647 | 3.275.464.608 |
| Own Funds | 11,48 | 526.908.772 | 472.642.093 |

Alpha Bank Cyprus Limited, presents profits before tax for the year 2010 amounting to €61.8m compared to €72,7m in the year 2009. Taking into consideration that the current year was extremely difficult year because of the global economic crisis which has belatedly affected Cyprus, the results appear to be satisfactory.

Profits from operations were up by 9,2% compared to 2009, because of improvement in the net income from interest but also due to the effective management of the operation cost. The increase in net income from interest is a result of the strengthening of the population and improvement of marginal interests. The decrease in operation costs had as a result a particular low ratio of expenses to income 30,2%.

During the process of a rational management policy for credit risk, the provisions for impairment of receivables raised, and as a result the profits before tax present a decrease of 15% compared to 2009.

The Bank has a market share between commercial banks to loans 11,2% and to deposits 7,2% in December 2010, compared to 11,6% and 8,2% in December 2009, respectively.

# BOARD OF DIRECTORS' REPORT

**FINANCIAL RESULTS**
The results of the Company are set out in the statement of comprehensive income on page 10 of the financial statements.

The profits for the year attributable to the owners amounted to €55.253.716 (2009: €64.086.183) which the Board of Directors recommends to be transferred to the revenue reserve.

**DIVIDENDS**
The Board of Directors does not recommend the payment of a dividend for the year (2009: €nil).

**RISK MANAGEMENT**
Risk is considered any financial or other factor that creates a possibility of future decreases in the profitability of the Company.

The most important risks that the Company is exposed due to its operations are credit risk, market risk (mainly interest rate risk and foreign exchange risk), liquidity risk, operational risk and compliance risk.

Details as to how these risks are managed are disclosed in note 35 of the financial statements.

**FUTURE DEVELOPMENT**
The financial crisis is affecting negatively both the financial markets as well as the economy in general.

Under this economic environment and the challenges posed by the market the Company is expected to continue to develop its business activities by adopting a conservative business plan based on the following priorities:

- Attracting new deposits in the local market as well as through its international business network,
- Selective growth in advances based on predefined credit criteria,
- Controlling of loans in arrears and loan impairments,
- Controlling of operating costs and improvement in productivity and,
- Continuous improvement in the quality of services offered to clients.

**SHARE CAPITAL**
There was no change in the share capital of the Company during the year.

**BRANCHES**
The Company is currently comprised of a technologically advanced network of 36 branches and other specialised units which are effectively supported by ATM and Internet Banking.

**BOARD OF DIRECTORS**
The members of the Board of Directors as at the date of this report are set out below:

**Sp. N. Filaretos, Chairman**
**K. M. Kokkinos, Managing Director**
**Gr. Th. Timplalexis, General Manager**
**Ch. C. Giampanas**
**G. M. Michaelides**
**L. A. Papagaryfallou**
**Dr. A. K. Kritiotis**
**I. S. Monastiriotis**

Mr. Marinos Yiannopoulos has retired as a member of the Board of Directors on 7 April 2010.

On 7 April 2010, the Board of Directors appointed Dr. Andreas Kritiotis and Mr. Ioannis Monastiriotis as new Members of the Board. Dr. Andreas Kritiotis and Mr. Ioannis Monastiriotis were re-elected as Members of the Board of Directors during the Annual General Meeting on 21 April 2010.

Dr. Andreas Kritiotis and Mr. George Michaelides are non executive independent members of the Board.

In accordance with Article 89 of the Company's Articles of Association, Messrs Christos Giampanas and Lazaros Papagaryfallou retire and being eligible, offer themselves for re-election.

**EVENTS AFTER THE REPORTING PERIOD**
The events after the reporting period are presented in note 40 of the financial statements.

**INDEPENDENT AUDITORS**
The independent auditors of the Company, KPMG Limited, 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

L. A. Papalambrianou
Secretary

Nicosia, 24 February 2011

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALPHA BANK CYPRUS LIMITED

## Report on the Financial Statements

We have audited the accompanying financial statements of the parent company Alpha Bank Cyprus Limited (the "Company") on pages 10 to 53 which comprise of the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Board of Directors' Responsibility for the Financial Statements**

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Alpha Bank Cyprus Limited as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

## Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 6 to 7 is consistent with the financial statements.

## Other matter

This report, including the opinion has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 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.

Chartered Accountants

Nicosia, 24 February 2011

# STATEMENT OF COMPREHENSIVE INCOME
## For the year ended 31 December 2010

| | Note | 2010<br>€ | 2009<br>€ |
|---|---|---|---|
| Interest income | 5 | 276.902.626 | 277.754.050 |
| Interest expense | 5 | (132.230.127) | (147.627.853) |
| **Net interest income** | | 144.672.499 | 130.126.197 |
| Fees and commissions income | 6 | 28.077.450 | 25.735.364 |
| Fees and commissions expenses | 6 | (662.298) | (458.722) |
| **Net income from fees and commissions** | | 27.415.152 | 25.276.642 |
| Net income/(loss) from the change in the fair value of the financial instruments | 7 | 380.785 | (215.608) |
| Other income from operations | 8 | 5.046.067 | 7.407.863 |
| | | 5.426.852 | 7.192.255 |
| **Results from operating activities** | | 177.514.503 | 162.595.094 |
| Provision for impairment of bad and doubtful debts | 16 | (62.028.849) | (34.751.155) |
| Staff costs | 9 | (39.883.557) | (39.246.338) |
| Depreciation and amortisation | 19 & 20 | (2.945.793) | (2.894.128) |
| Other expenses | 10 | (10.847.790) | (12.995.478) |
| **Profits for the year before taxation** | 11 | 61.808.514 | 72.707.995 |
| Taxation | 12 | (6.554.798) | (8.621.812) |
| **Profits for the year** | | 55.253.716 | 64.086.183 |
| **Other comprehensive income** | | | |
| (Deficit)/Surplus on revaluation of investments | 17 | (987.037) | 631.252 |
| **Other comprehensive (cost)/income for the year** | | (987.037) | 631.252 |
| **Total comprehensive income for the year attributable to the owners of the Company** | | 54.266.679 | 64.717.435 |
| **Profits attributable to the owners of the Company** | | 55.253.716 | 64.086.183 |
| **Earnings per share** (€cent) | 13 | 39,61 | 45,94 |

The notes on pages 14 to 53 form an integral part of the financial statements.

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

| | | 2010<br>€ | 2009<br>€ |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the Central Bank of Cyprus | 14 | 71.816.178 | 75.959.371 |
| Loans and advances to financial institutions | 15 | 3.724.507.122 | 3.758.423.134 |
| Loans and advances to customers | 16 | 4.512.864.908 | 4.361.477.224 |
| Investments available for sale | 17 | 31.043.391 | 17.062.225 |
| Investments in subsidiary companies | 18 | 16.428.979 | 16.428.909 |
| Property, plant and equipment | 19 | 32.727.954 | 34.086.426 |
| Intangible assets | 20 | 399.955 | 364.705 |
| Deferred taxation | 22 | 2.765.965 | 700.459 |
| Taxation | 26 | 636.028 | - |
| Other assets | 21 | 7.331.736 | 3.598.648 |
| **Total assets** | | 8.400.522.216 | 8.268.101.101 |
| **Liabilities** | | | |
| Bonds | 23 | 100.000.000 | 100.000.000 |
| Amounts due to banks | 24 | 4.142.405.256 | 4.358.936.231 |
| Customer deposits | 25 | 3.570.924.647 | 3.275.464.608 |
| Taxation | 26 | - | 927.821 |
| Other liabilities | 27 | 60.283.541 | 60.130.348 |
| **Total liabilities** | | 7.873.613.444 | 7.795.459.008 |
| **Equity** | | | |
| Share capital | 28 | 118.575.000 | 118.575.000 |
| Reserves | 29 | 408.333.772 | 354.067.093 |
| **Total equity** | | 526.908.772 | 472.642.093 |
| **Total equity and liabilities** | | 8.400.522.216 | 8.268.101.101 |
| **Items off the statement of financial position** | 30 | 376.995.842 | 487.694.855 |

The financial statements were approved by the Board of Directors on 24 February 2011.

| Sp. N. Filaretos | K. M. Kokkinos | Gr. Th. Timplalexis | L. Skaliotis |
|---|---|---|---|
| Chairman | Managing Director | General Manager | Head Financial Control Division |

The notes on pages 14 to 53 form an integral part of the financial statements.

# STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2010

| | Share capital € | Share premium € | Investment revaluation reserve € | Difference from the conversion of share capital into euro reserve € | Retained earnings € | Total reserves € | Total equity € |
|---|---|---|---|---|---|---|---|
| **1 January 2010** | 118.575.000 | 15.334.698 | 631.252 | 599.951 | 337.501.192 | 354.067.093 | 472.642.093 |
| **Total comprehensive income for the year** | | | | | | | |
| Profits for the year | - | - | - | - | 55.253.716 | 55.253.716 | 55.253.716 |
| Loss from revaluation of investment | - | - | (987.037) | - | - | (987.037) | (987.037) |
| **31 December 2010** | 118.575.000 | 15.334.698 | (355.785) | 599.951 | 392.754.908 | 408.333.772 | 526.908.772 |

| | Share capital € | Share premium € | Investment revaluation reserve € | Difference from the conversion of share capital into euro reserve € | Retained earnings € | Total reserves € | Total equity € |
|---|---|---|---|---|---|---|---|
| **1 January 2009** | 118.575.000 | 15.334.698 | - | 599.951 | 273.415.009 | 289.349.658 | 407.924.658 |
| **Total comprehensive income for the year** | | | | | | | |
| Profits for the year | - | - | - | - | 64.086.183 | 64.086.183 | 64.086.183 |
| Gain on revaluation of investments | - | - | 631.252 | - | - | 631.252 | 631.252 |
| **31 December 2009** | 118.575.000 | 15.334.698 | 631.252 | 599.951 | 337.501.192 | 354.067.093 | 472.642.093 |

Share premium reserve is not available for distribution as dividend.

The notes on pages 14 to 53 form an integral part of the financial statements.

# STATEMENT OF CASH FLOWS
## For the year ended 31 December 2010

| | Note | 2010 € | 2009 € |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profits for the year | | 55.253.716 | 64.086.183 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 2. 718.145 | 2.639.040 |
| Amortisation of intangible assets | | 227.648 | 255.088 |
| Gain on disposal of shares | | (203.334) | (81.112) |
| Loss on disposal of property, plant and equipment | | - | 20.393 |
| Dividends received | | (1.361.866) | (1.416.113) |
| Revaluation of foreign exchange derivatives | | (243.964) | (7.036.499) |
| Write off of property plant and equipment | | 169.929 | 3.308 |
| (Surplus)/deficit on revaluation of derivatives | | (380.785) | 215.608 |
| Provision for impairment of bad doubtful debts | | 62.028.849 | 34. 751.155 |
| Taxation | | 6.554.798 | 8. 621.812 |
| **Profit from operations before changes in working capital** | | 124.763.136 | 102.058.863 |
| Decrease/(increase) in loans and advances to financial institutions | | 203.420.520 | (1.340.049.544) |
| (Increase)/decrease in loans and advances to customers | | (171.692.654) | 140.670. 101 |
| Decrease in provisions for bad and doubtful debts | | (41.723.879) | (19.403.800) |
| (Increase)/decrease in other receivables | | (3.733.088) | 2.934.287 |
| Increase in other liabilities | | 777.942 | 2.270.877 |
| (Decrease)/increase in amounts due to banks | | (435.333.972) | 1.570.366.994 |
| Increase/(decrease) in customer deposits | | 295.460.039 | (144.667.043) |
| **Cash flows (used in)/from operating activities** | | (28.061.956) | 314.180.735 |
| Taxation paid | | (10.184.154) | (9.194.773) |
| **Net cash flows (used in)/from operating activities** | | (38.246.110) | 304.985.962 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments less proceeds from investments available for sale | | (14.764.938) | (11.066.339) |
| Proceeds from disposal of property, plant and equipment | | - | 16.911 |
| Payments for the acquisition of property, plant and equipment | | (1.529.602) | (2.797.913) |
| Payments for the acquisition of intangible assets | | (262.898) | (300.811) |
| Dividends received | | 1. 361.866 | 1. 416.113 |
| **Net cash flows used in investing activities** | | (15. 195.572) | (12.732.039) |
| | | | |
| **Net increase in cash and cash equivalents** | | (53. 441.682) | 292.253.923 |
| **Cash and cash equivalents at the beginning of the year** | | 2.049.102.449 | 1.756.848.526 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 34 | 1.995.660.767 | 2.049.102.449 |

The notes on pages 14 to 53 form an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2010

**1. INCORPORATION AND PRINCIPAL ACTIVITY**

Alpha Bank Cyprus Limited (the "Company") 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 Company converted its status to a Public Liability Company according to the Companies Law, Cap. 113. On 21 January 2003, the Company was converted from a public to a private company according to the Companies Law, Cap. 113.

On 27 of December 2006, the Company 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".

The Company is the parent company of the Group of Alpha Bank Cyprus Limited. The Company considers its ultimate parent company to be Alpha Bank S.A., registered in Greece.

The Company continued its full banking operations by offering a wide range of banking and financial services.

**2. BASIS OF PRESENTATION**

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

The financial statements of the Company are for the year ended 31 December 2010 and are presented in Euro ("€") which as from 1 January 2008 is the official currency of the Republic of Cyprus and in the case of the Company is also its functional currency.

The Company prepared these parent's separate financial statements for compliance with the requirements of the Cyprus Income Tax Law.

The Company will prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU for the Company and its subsidiary companies which together are referred to as the "Group". The consolidated financial statements can be obtained from the registered office of the Company.

The users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as of and for the year ended 31 December 2010 in order to obtain a proper understanding of the financial position, the financial performance and the cash flows of the Company and the Group.

**3. SIGNIFICANT ACCOUNTING POLICIES**

### Basis of preparation

The financial statements have been prepared under the historical cost convention as amended to include the fair values of leasehold premises, the investments available for sale, the derivatives and the investments in subsidiary companies.

The preparation of financial statements in compliance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

### Adoption of new and revised International Financial Reporting Standards and Interpretations

In the current year the Company adopted all of the IFRSs and International Accounting Standards (IAS), which are relevant to its operations. The adoption of these Standards did not have a significant effect on the financial statements of the Company.

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the year ended 31 December 2010:

**(i) Standards and Interpretations adopted by the EU**

- Improvements to IFRSs issued in May 2010 (Effective for annual periods beginning on or after 1 July 2010 and 1 January 2010 as applicable).
- IFRS1 (amendment): Limited exemption from comparative IFRS7 disclosures for first time adopters (effective for annual periods beginning on or after 1 July 2010)
- IAS 24 ''Related Party Disclosures'' (revised) (effective for annual periods beginning on or after 1 January 2011).
- IAS 32 ''Classification of rights issues'' (amendments) (effective for annual periods beginning on or after 1 February 2010).
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendments) (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19: ''Extinguishing Financial Liabilities with Equity Instruments'' (effective for annual periods beginning on or after 1 July 2010).

**(ii) Standards and Interpretations not adopted by the EU**

- IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (amendments) (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 Financial Instruments (amendments): Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 ''Financial Instruments'' (effective for annual periods beginning on or after 1 January 2013).
- IAS 12 - ''Deferred tax'': Recovery of Underlying Assets (amendments) (effective for annual periods beginning on or after 1 January 2012).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the financial statements of the Company except for:

- The adoption of IFRS9 could change the classification and measurement of financial assets. The extent of the impact has not been determined.

### Foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Company using the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency 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 using the currency rate at the date of the transaction.

### Interest receivable

Interest receivable is recognised on an accruals basis. Interest receivable includes interest receivable from loans and advances and from investments available for sale.

According to the Regulations of the Central Bank of Cyprus interest receivable on non-performing credit facilities is suspended and is not recognised in the statement of comprehensive income.

"Non-performing credit facilities" are considered to be loans and advances that exceed their limit or are in arrear in the settlement of capital or interest or other income for a period more that 3 months. A loan or an advance is not classified as a non-performing credit facility in cases of fully secured credit facilities.

Income is not recognised in cases of "non-performing credit facilities". In these cases the recognition of income is suspended until the amounts involved are received and consequently it is not shown in the income statement, but is transferred to a provisional account of suspension of income.

Interest receivable is recognised in the statement of comprehensive income when the income is collected.

### Interest expense

Interest expense is recognised on an accrual basis.

### Income and expenses from fees and commission

Income from fees and expenses are recognised according the completion of the transaction in order to correlate with the cost of the service provided.

Fees and commissions are recognised on accrual basis in the accounting period when the income is collected.

### Dividend income

Dividend income is recognised in the statement of comprehensive income when it is received.

### Expenses on improvements, repairs and maintenance

The expenses on the alteration or improvement of buildings or improvements on leasehold premises are capitalised and depreciated based on the number of years indicated on the note of property, plant and equipment.

The cost on repairs and maintenance of buildings and other plant and equipment is charged in the statement of comprehensive income of the year in which it is incurred.

### Segment analysis

An operating segment is a component of the Company 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 Company. All operating segments' results are reviewed regularly by the Board of Directors of the Company to take decisions about resources to be allocated to the segment and assess its performance viability, and for which discrete financial information is available. Following this, it is not feasible to disclose any other information relating to operating segments of the Company beyond that which is already disclosed since the Company provides only banking operations.

### Loans and advances

Loans and advances, originated by providing cash directly to the borrowers are measured initially at fair value including arrangement costs. Loans and advances are subsequently measured at amortised cost using the effective yield method. Loans and advances to customers are stated net of provisions for bad and doubtful debts. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from any creditworthy guarantors and the realisable value of any collateral.

A loan is considered impaired when management determines that it is possible that the Company will not be able to collect all amounts due according to the original contractual terms, unless such loans are secured or other factors exist where the Company expects that all amounts due will be received.

When a loan has been classified as impaired, the carrying amount of the loan is reduced to the estimated recoverable amount, being the present value of expected future cash flows including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loan.

For certain homogeneous loan portfolios, such as consumer loans, provisions are calculated based on a collective assessment of the whole portfolio. During the assessment of the portfolio a number of factors, such as the level of watch list or potential problem debts, the time period for which amounts are overdue, the prevailing economic conditions and prior period loss rates are taken into consideration.

Non-performing loans are monitored continuously and are reviewed for provision purposes every three months. Any subsequent changes to the estimated recoverable amounts and timing of the expected future cash flows, are compared to the prior estimates and any difference arising results in a corresponding charge/credit in the statement of comprehensive income. A provision for an impaired loan is reversed only when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all principal and interest according to the original terms of the loan will be collected timely.

## Financial Instruments

**Recognition date**

Acquisitions and disposals of financial assets required to be delivered within the time limit as prescribed in the regulations and standard rules of the relevant market, is recognised at the date of transaction thus the date when the Company is bound to acquire or dispose such assets. Derivatives are recognised on the date of the commercial transaction. Amounts due to credit institutions, customers deposits, placements with credit institutions and loans and advances to customers are recognised as soon as the Company has received or granted funds to the contracting parties, unless a financial asset or liability is not measured at fair value through profit and loss.

**Initial recognition of financial instruments**

The classification of the financial instruments during the initial recognition depends on the acquisition purpose and their characteristics. All financial instruments are initially measured at fair value plus transaction expenses directly incurred during the acquisition or the issuance of such financial assets or liability, unless a financial asset or liability is measured at fair value through profit and loss.

**Derivatives to be classified at fair value through profit or loss**

The Company uses derivative financial instruments such as currency and interest rate swaps and forward rate agreements to compensate for the market price risks arising from its operating financial and investment activities. Derivatives not fulfilling the requirements for hedging purposes are considered to be trading instruments.

Derivatives are initially recognised at their acquisition price. Subsequently the derivatives are restated at their fair value. The fair value of a currency and interest rate swap is considered to be the estimated price to be received or paid by the Company which would pay to terminate the currency and interest rate swap at the end of the 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 the fair value are recognised in the statement of comprehensive income. Derivatives are stated as other assets in case of positive fair values and as other liabilities in case of negative fair values.

Hedging

For derivates fulfilling the relevant hedging criteria, the surplus or deficit from the instrument is recognised in the net loss or profit from the change in fair value of the financial instrument in the statement of comprehensive income. The accounting value of the hedged asset or liability is adjusted with profit or loss that relates to the risk being hedged. When the hedged asset or liability is sold, terminated or exercised, then the hedged asset or liability is sold, terminated or exercised, then the hedging no longer fulfills the relevant criteria and hedge accounting is terminated.

**Loans**

Loans and advances are financial assets with constant and prescribed payments not having a stock exchange price in an active market. Such financial assets have not been acquired for the direct sale thereof and they are not classified as investments available for sale. This accounting policy relates to the categories classified in the statement of financial position as placements with credit institutions and loans and advances to customers. Following the initial recognition, loans and advances are recognised at depreciated cost using the effective interest rate method less provisions for impairment. Loss from the impairment of such loans and advances is recognised in the provision for impairment of loans and advances in the statement of comprehensive income.

**Investments available for sale**

Investments available for sale are investments which may be sold for liquidity purposes or because of market risk changes and include shares, treasury bonds and government bonds.

Available for sale investments are measured at estimated fair value, based on current market price for securities listed on stock exchanges. Investments in unlisted securities are presented at fair value estimated using recognised valuation models and indicators adjusted on the specific circumstances of the issuer or based on the financial results, the current financial situation and the prospects of the issuer compared with those of similar companies listed on stock exchange where current market prices exist.

Profit or loss from the change in fair value is recognised directly in equity, in the investments revaluation reserve. When the investment is disposed the overall profit or loss previously recognised in the investments revaluation reserve is transferred to the statement of comprehensive income. When the Company holds more than one investment with the same security, it is considered that such investments are sold on the basis of the weighted average cost of capital method. Interest on government bonds which are held as available for sale is recognised as interest receivable using the effective interest rate method.

Dividends received from available for sale shares are recognised in the income from operations in the statement of comprehensive income as soon as the right to receive is deemed final. Losses incurred from the impairment of such investments are recognised in the net loss from the change in fair value of financial instruments in the statement of comprehensive income.

In the case of disposal of investments, the difference between the net proceeds and the carrying amount stated in the financial statements is transferred to the statement of comprehensive income along with any amount from the investments revaluation reserve in relation to the investment being disposed.

## Impairment of assets

The Company assesses at each reporting period the carrying value of its assets in order to find out whether there is any objective evidence that an asset may be impaired. If any such evidence exists, the Company estimates the recoverable amount of that asset. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value is use. Fair value less costs to sell is defined as the higher value between the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, and value in use as the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. The impairment is recognised in the statement of comprehensive income as an expense.

## Investments in subsidiary companies

Investments in subsidiary companies are initially recognised at cost and subsequently re-measured at fair value. Any surplus arising from changes in net assets is transferred to the revaluation reserve of the Company, while deficits are charged directly to the statement of comprehensive income to the extent that they are not covered by previous surplus on revaluation.

### Property, plant and equipment

Land and buildings are stated at historic cost less depreciation on buildings. Property, 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 costs of material renovations and other expenses are included in the carrying value of the asset or is recognised as separate asset when it is probable that the Company will result in future economic benefits 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 | 5-50 years |
| Leasehold premises | 10 years |
| Installations and equipment | 3-10 years |

No depreciation is calculated on land.

Amortisation on leasehold premises is estimated in such a way so as to write off the revalued amount of the leasehold by equal annual instalments over the period of the lease.

The residual value and the remaining useful economic life is reserved at each reporting period date if it is 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. In the case of disposal of revalued assets, the amounts included in the revaluation reserve are transferred through revenue reserve.

### 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. The annual amortisation rate for computer application software is 33,3% with exception the Company's main system whose annual amortisation rate is 20%.

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

### Employees' retirement benefits

The Company operates a defined benefit retirement plan for staff as described in note 9 of the financial statements. The defined benefit retirement plan is a plan which sets a lump sum payable on retirement, or a pension amount paid during retirement, taking into account factors such as years of service and salary of employee.

Contributions to these plans are made on a yearly basis in order to create adequate reserves or capital during the working life of employees so that they may receive their related benefits upon their retirement.

The cost of defined benefit retirement benefits is charged to the statement of comprehensive income during the years of service of staff in accordance with the assessment of independent professional actuaries who provide actuarial assessments every two years.

The obligation for the retirement benefits scheme for its employees is calculated according to the present value of expected future payments that is required for the settlement of the obligation that arises from the services of employees for the current and past periods.

Actuarial profits or losses that exceed the 10% of the current value of the obligation or the fair value of the assets whichever is the highest, are amortised over the remaining average working life of the employees that participate in the scheme.

### Taxation

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

### Deferred taxation

Provision for deferred taxation is made on all temporary differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base. Deferred tax is calculated at the tax rates applying at the year end. Any deferred tax assets arising from deductible temporary differences are recognised to the extent that it is expected that taxable profits will be available in the future.

Any adjustment in deferred taxation, which is due to changes of tax rates, is presented in the statement of comprehensive income or in the reserves according to where the original debit or credit for the deferred tax was initially recorded.

### Financial guarantee contracts

Financial guarantee contracts (except for those considered to be insurance contracts) are contracts that require the issuer to make specified payments to reimburse the holder for a loss that is incurred because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other organisations on behalf of customers for the granting of loans and other bank facilities.

Financial guarantees are initially recognised at fair value on the date of the granting thereof and subsequently they are evaluated on the basis of the highest amount out of:

(a) The amount of initial recognition less, if any, the amount of accumulated amortisation recognised; and

(b) The best cost estimation required for the settlement of the relevant commitment at the end of the reporting period. These estimations are based on the experience with similar transactions and previous loss reports and they are supplemented by the evaluations of the Management.

Any increase of the liability related to such guarantees is recognised in the statement of comprehensive income. The Company has not recognised any amounts relating to financial guarantee contracts in the statement of comprehensive income.

### Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and of loans and advances to financial institutions and other securities, the maturity of which does not exceed three months from their acquisition date. In this category, balances with the Central Bank of Cyprus as part of the minimum reserve requirement on deposits are included.

### Loan capital

The loan capital consists of bonds that are recognised at fair value and represent the proceeds from the issue. The bonds are classified as secondary capital (Tier 2 Capital) for the purposes of calculating the capital adequacy ratio.

### Share capital

The ordinary shares are classified as equity.

### Provisions

Provisions are recognised in the statement of financial position when the Company has legal or commercial commitment as a result of an event that happened in the past and is likely to require an outflow of economic benefits to repay the obligation. Provisions are assessed by the Members of the Board at their best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

### Operating leases

Leases on assets arising where the Company does not undertake substantially all the risks and rewards arising from ownership are classified as operating leases.

The rent paid on a monthly basis on the operating leases is debited in the statement of comprehensive income based on the straight line method over the life of the lease.

## Comparative amounts

The comparative amounts included in the financial statements are adjusted when it is considered necessary in order to comply with the current year's presentation.

### 4. SEGMENT REPORTING

The Company's key business segment is that of banking and financial services and all its activities are conducted in Cyprus.

### 5. NET INTEREST INCOME

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| **Interest income** | | |
| Loans and advances to banks | 40.624.353 | 36. 371.139 |
| Loans and advances to customers – (Note (i)) | 235.385.056 | 235.469.075 |
| Derivatives held for risk management | - | 1.757.526 |
| Government bonds | 893.217 | 4.109.703 |
| Corporate bonds | - | 46.607 |
| Total interest income | 276.902.626 | 277.754.050 |
| **Interest expense** | | |
| Amounts due to banks | (27.914.119) | (35.738.130) |
| Customer deposits | (98.986.482) | (107.651.227) |
| Derivatives held for risk management | (592.740) | (627.571) |
| Bonds | (2.603.786) | (3.522.050) |
| Government bonds | (2.133.000) | (88.875) |
| Total interest expense | (132.230.127) | (147.627.853) |
| Net interest income | 144.672.499 | 130.126.197 |

**Explanatory note:**

(i) Loans and advances to customers are disclosed after the unwinding of interest as analysed below:

| | Note | 2010<br>€ | 2009<br>€ |
|---|---|---|---|
| Loans and advances to customers | | 248.129.331 | 246.780.421 |
| Unwinding of Interest | 16 | (12.744.275) | (11. 311.346) |
| | | 235.385.056 | 235.469.075 |

## 6. NET INCOME FROM FEES AND COMMISSIONS

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| **Fees and commissions income** | | |
| Commissions receivable | 18.126.051 | 18.231.949 |
| Income from fees | 7.584.913 | 5.335.437 |
| Study fees | 2.366.486 | 2.167.978 |
| Total income from fees and commissions | 28.077.450 | 25.735.364 |
| **Fees and commissions expenses** | | |
| Expenses from fees | (605.482) | (440.041) |
| Commissions payable | (56.816) | (18.681) |
| Total expense from fees and commissions | (662.298) | (458.722) |
| Net income from fees and commissions | 27.415.152 | 25.276.642 |

## 7. NET PROFIT/(LOSS) FROM THE CHANGE IN THE FAIR VALUE OF THE FINANCIAL ASSETS

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Deficit on revaluation of derivatives held for risk management | - | (1.021.294) |
| Surplus on revaluation of hedged financial instruments | - | 869.421 |
| Surplus/(deficit) from revaluation of derivatives held for trading purposes | 380.785 | (63.735) |
| | 380.785 | (215.608) |

## 8. OTHER INCOME FROM OPERATIONS

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Income from foreign exchange transactions | 3.236.903 | 6.014.491 |
| Unrealised profit/(loss) from foreign exchange transactions | 243.964 | (103.853) |
| Profit on disposal of investments | 203.334 | 81.112 |
| Dividends received | 1.361.866 | 1.416.113 |
| | 5.046.067 | 7.407.863 |

**9. STAFF COSTS**

| | Note | 2010 € | 2009 € |
|---|---|---|---|
| Salaries and employer's contributions | | 32.023.655 | 31.934.494 |
| Other staff costs | | 543.738 | 722.933 |
| Cost of retirement benefits | 27 | 7. 316.164 | 6.588.911 |
| | | 39.883.557 | 39.246.338 |

The number of staff of the Company as at 31 December 2010 amounted to 758 persons (2009: 763 persons).

The Company operates a non – contributory, defined benefits scheme for which provisions are made in the financial statements in order to accumulate sufficient reserves to meet the entitlement payment at retirement of employees. The amount of the provision is determined in accordance with valuation by independent professional actuaries which takes into account, inter alia, the employees' remuneration, age and years of service, and after making assumptions as to future salary increases and the annual return on the relevant funds.

Full actuarial valuation of the Company's liabilities for the provision of retirement benefits is carried out at least every two years by independent professional actuaries. The latest independent actuarial valuation was carried out in 2009.

**10. OTHER EXPENSES**

| | 2010 € | 2009 € |
|---|---|---|
| Advertising and promotion | 1.770.648 | 2.574.720 |
| Rent payable | 1.620.472 | 1. 781.635 |
| Maintenance and repairs | 630.719 | 682.909 |
| Loss on disposal of property, plant and equipment | - | 20.393 |
| Write off of property, plant and equipment | 169.929 | 3.308 |
| Other expenses | 6.656.022 | 7.932.513 |
| | 10.847.790 | 12.995.478 |

**11. PROFITS FOR THE YEAR BEFORE TAXATION**

Profits for the year before taxation are stated after charging the following:

| | Note | 2010 € | 2009 € |
|---|---|---|---|
| Directors' emoluments: | | | |
| As Executive Directors | 39 | 777.633 | 1.400.034 |
| As Directors | 39 | 48.749 | 25.630 |
| Independent auditors' remuneration | | 72.738 | 73.478 |
| Depreciation of property, plant and equipment | 19 | 2. 718.145 | 2.639.040 |
| Amortisation of intangible assets | 20 | 227.648 | 255.088 |
| Rents payable | 10 | 1.620.472 | 1.781.635 |
| Loss on disposal of property, plant and equipment | 10 | - | 20.393 |

## 12. TAXATION

| | 2010 € | 2009 € |
|---|---|---|
| Corporation tax for the year | 7.827.868 | 7.645.829 |
| Corporation tax for previous years | 792.437 | 1.474.652 |
| Special contribution to the defence fund on dividends | - | 246 |
| Deferred taxation - credit | (2.065.507) | (498.915) |
| Charge for the year | 6.554.798 | 8.621.812 |

The Company is subject to corporation tax at the rate of 10% on taxable profits of the year.

Furthermore, tax losses from the year 1997 and onwards, can be carried forward to subsequent years until such losses are eliminated. Companies of the same group can set off tax losses with taxable profits arising in the current year.

**Reconciliation of taxation based on taxable income and taxation based on the accounting profits of the Company**

| | 2010 € | 2009 € |
|---|---|---|
| Accounting profits before taxation | 61.808.514 | 72.707.995 |
| Taxation based on tax rates | 6.180.851 | 7.270.800 |
| Tax effect of non-allowable expenses | 123.981 | 144.111 |
| Tax effect of deductions and non-taxable income | (542.471) | (267.996) |
| Previous years taxes | 792.437 | 1.474.651 |
| Special contribution to the defence fund | - | 246 |
| Taxation as per statement of comprehensive income | 6.554.798 | 8.621.812 |

## 13. EARNINGS PER SHARE

| | 2010 | 2009 |
|---|---|---|
| Profits attributable to the owners (€) | 55.253.716 | 64.086.183 |
| Weighted average number of shares in issue during the year | 139.500.000 | 139.500.000 |
| Earnings per share (€cent) | 39,61 | 45,94 |

**14. CASH AND BALANCES WITH THE CENTRAL BANK OF CYPRUS**

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| Cash and cash equivalents | 20.698.183 | 23.189.041 |
| Deposits with the Central Bank of Cyprus | 51.117.995 | 52.770.330 |
| | 71.816.178 | 75.959.371 |

Balances with the Central Bank of Cyprus include the minimum reserve requirement on deposits amounting to €51.117.995 (2009: €47.770.330).

The analysis of the above assets by maturity date and by currency are presented in note 35 of the financial statements. The deposits carry interest based on the interbank rate of the relevant time period and currency.

**15. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS**

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| Investments classified as loans and advances | 912.541.500 | 1.110.115.502 |
| Placements with Alpha Bank Group companies | 2.796.693.135 | 2.617.116.990 |
| Placements with other financial institutions | 15.272.487 | 31.190.642 |
| | 3.724.507.122 | 3.758.423.134 |

During the year 2009 the Company acquired bonds that were issued by companies of the Alpha Bank S.A. Group. The Board Members are of the opinion that the substance of these bonds should be classified as loans and advances.

Analysis of the above deposits by maturity date is presented in note 35 of these financial statements.

**16. LOANS AND ADVANCES TO CUSTOMERS**

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| Loans and advances to customers | 4.689.183.277 | 4.517.490.623 |
| Provision for impairment of doubtful debts | (176.318.369) | (156.013.399) |
| | 4.512.864.908 | 4.361.477.224 |

The fair value of loans and advances to customers is about equal to the carrying amount presented in the statement of financial position after the deduction of the provision for impairment of doubtful debts.

**By economic sector**

| | 2010 € | 2009 € |
|---|---|---|
| Industry | 71.269.605 | 90.131.984 |
| Tourism | 120.787.240 | 159.317.784 |
| Trade | 155.469.655 | 144.045.701 |
| Building and construction | 1.757.968.245 | 1.796.052.474 |
| Personal and professional | 2.372.030.925 | 2.219.461.927 |
| Other sectors | 211.657.607 | 108.480.753 |
| | 4.689.183.277 | 4.517.490.623 |

Analysis of loans and advances to customers based on maturity date is presented in note 35 of these financial statements.

**Provision for Impairment**

| | Impairment reserve € | Suspension of interest account € | Total € |
|---|---|---|---|
| **2010** | | | |
| 1 January | 156.013.399 | - | 156.013.399 |
| Debit in the statement of comprehensive income | 62.028.849 | - | 62.028.849 |
| Reversals and write offs | (59.546.713) | - | (59.546.713) |
| Exchange difference | 5.078.559 | - | 5.078.559 |
| Unwinding of interest | 12.744.275 | - | 12.744.275 |
| 31 December | 176.318.369 | - | 176.318.369 |
| **2009** | | | |
| 1 January | 110.596.305 | 30.069.741 | 140.666.046 |
| Debit in the statement of comprehensive income | 34.751.155 | - | 34.751.155 |
| Reversals and write offs | (30.715.148) | - | (30.715.148) |
| Transfer | 30.069.741 | (30.069.741) | - |
| Unwinding of interest | 11.311.346 | - | 11.311.346 |
| 31 December | 156.013.399 | - | 156.013.399 |

## 17. INVESTMENTS AVAILABLE FOR SALE

| | | 2010<br>€ | 2009<br>€ |
|---|---|---|---|
| Items available for sale | | | |
| Cyprus listed government bonds and debentures | | 29.375.588 | 15.260.630 |
| Shares in companies | | 1.667.803 | 1.801.595 |
| | | 31.043.391 | 17.062.225 |
| Listed in Stock Exchange | | 29.392.820 | 15. 411.654 |
| Unlisted | | 1.650.571 | 1.650.571 |
| | | 31.043.391 | 17.062.225 |
| Geographical analysis based on issuer's place: | | | |
| | - Cyprus | 31.026.159 | 16. 911.201 |
| | - USA | 17.232 | 151.024 |
| | | 31.043.391 | 17.062.225 |

The unlisted securities include the participation interest of the Company in JCC Payments Systems Limited and VISA Inc.

The movement of the items available for sale is analysed as follows:

| | Government bonds and debentures<br>€ | Shares in companies<br>€ | Cyprus listed corporate bonds<br>€ | Total<br>€ |
|---|---|---|---|---|
| **2010** | | | | |
| 1 January | 15.260.630 | 1.801.595 | - | 17.062.225 |
| Disposals | - | (133.792) | - | (133.792) |
| Acquisitions | 14.919.442 | - | - | 14.919.442 |
| Accrued interest | 856.001 | - | - | 856.001 |
| Interest received | (673.448) | - | - | (673.448) |
| Revaluation | (987.037) | - | - | (987.037) |
| 31 December | 29.375.588 | 1.667.803 | - | 31.043.391 |
| **2009** | | | | |
| 1 January | - | 1.866.319 | 3.417.203 | 5.283.522 |
| Disposals | - | (64.724) | (3.417.203) | (3.481.927) |
| Acquisitions | 13.955.930 | - | - | 13.955.930 |
| Accrued interest | 673.448 | - | - | 673.448 |
| Revaluation | 631.252 | - | - | 631.252 |
| 31 December | 15.260.630 | 1.801.595 | - | 17.062.225 |

Analysis of the above assets by maturity date is presented in note 35 of the financial statements.

| | Government bonds € | Shares in companies € | Total € |
|---|---|---|---|
| **2010** | | | |
| Level 1 | 29.375.588 | - | 29.375.588 |
| Level 2 | - | - | - |
| Level 3 | - | 1.667.803 | 1.667.803 |
| Total | 29.375.588 | 1.667.803 | 31.043.391 |
| **2009** | | | |
| Level 1 | 15.260.630 | - | 15.260.630 |
| Level 2 | - | - | - |
| Level 3 | - | 1.801.595 | 1.801.595 |
| Total | 15.260.630 | 1.801.595 | 17.062.225 |

## 18. INVESTMENTS IN SUBSIDIARY COMPANIES

| | 2010 € | 2009 € |
|---|---|---|
| Cost of investment | | |
| Alpha Trustees Limited | 85.500 | 85.430 |
| Alpha Insurance Limited | 16.343.479 | 16.343.479 |
| | 16.428.979 | 16.428.909 |

The subsidiary companies and their business activities are the following:

| | Shareholding 2010 % | Shareholding 2009 % | Activities |
|---|---|---|---|
| Alpha Trustees Limited | 100 | 100 | Trustees services |
| Alpha Insurance Limited | 82,05 | 82,05 | Provision of insurance services of life and general insurance |

The Company and the subsidiary companies are registered and operate in Cyprus.

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and improvements on leasehold buildings | Lease premium | Plant and equipment | Total |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| **Cost** | | | | | |
| 1 January 2010 | 5.671.333 | 33.862.454 | 219.555 | 18.464.621 | 58. 217.963 |
| Additions | - | 658.380 | - | 871.222 | 1.529.602 |
| Write offs | - | (215.350) | - | (293.502) | (508.852) |
| 31 December 2010 | 5.671.333 | 34.305.484 | 219.555 | 19.042.341 | 59.238.713 |
| | | | | | |
| 1 January 2009 | 5.671.333 | 32.129.471 | 219.555 | 17.558.568 | 55.578.927 |
| Additions | - | 1.732.983 | - | 1.064.930 | 2.797.913 |
| Write offs | - | - | - | (75.290) | (75.290) |
| Disposals | - | - | - | (83.587) | (83.587) |
| 31 December 2009 | 5.671.333 | 33.862.454 | 219.555 | 18.464.621 | 58. 217.963 |
| | | | | | |
| **Depreciation** | | | | | |
| 1 January 2010 | - | 9.497.527 | 210.558 | 14.423.452 | 24. 131.537 |
| Charge for the year | - | 1.428.546 | 4.955 | 1.284.644 | 2. 718.145 |
| Write offs | - | (67.770) | - | (271.153) | (338.923) |
| 31 December 2010 | - | 10.858.303 | 215.513 | 15.436.943 | 26.510.759 |
| | | | | | |
| 1 January 2009 | - | 8. 171.692 | 205.603 | 13.233.467 | 21. 610.762 |
| Charge for the year | - | 1.325.835 | 4.955 | 1.308.250 | 2.639.040 |
| Write offs | - | - | - | (71.982) | (71.982) |
| Disposals | - | - | - | (46.283) | (46.283) |
| 31 December 2009 | - | 9.497.527 | 210.558 | 14.423.452 | 24. 131.537 |
| | | | | | |
| **Net book value** | | | | | |
| 1 January 2009 | 5.671.333 | 23.957.779 | 13.952 | 4.325.101 | 33.968.165 |
| | | | | | |
| 31 December 2009 | 5.671.333 | 24.364.927 | 8.997 | 4.041.169 | 34.086.426 |
| | | | | | |
| 31 December 2010 | 5.671.333 | 23.447.181 | 4.042 | 3.605.398 | 32.727.954 |

## 20. INTANGIBLE ASSETS

| | Application software € |
|---|---|
| **Cost** | |
| 1 January 2010 | 5. 714.992 |
| Additions | 262.898 |
| 31 December 2010 | 5. 977.890 |
| | |
| 1 January 2009 | 5. 414.181 |
| Additions | 300. 811 |
| 31 December 2009 | 5. 714.992 |
| | |
| **Amortization** | |
| 1 January 2010 | 5.350.287 |
| Charge for the year | 227.648 |
| 31 December 2010 | 5. 577.935 |
| | |
| 1 January 2009 | 5.095.199 |
| Charge for the year | 255.088 |
| 31 December 2009 | 5.350.287 |
| | |
| **Net book value** | |
| 1 January 2009 | 318.982 |
| 31 December 2009 | 364.705 |
| 31 December 2010 | 399.955 |

## 21. OTHER ASSETS

| | Note | 2010 € | 2009 € |
|---|---|---|---|
| Other receivables and prepayments | | 1.782.853 | 1.498.949 |
| Prepayments of interest | | 5.548.883 | 1.972.806 |
| Derivatives held for trading | 27 | - | 126.893 |
| | | 7.331.736 | 3.598.648 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Nominal value € | Fair value € | Nominal value € | Fair value € |
| **Derivatives held for trading** | | | | |
| Foreign exchange derivatives | | | | |
| Forward contracts | - | - | 32.512.993 | 126.893 |

**22. DEFERRED TAXATION**

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| 1 January | 700.459 | 201.544 |
| Credit in the statement of comprehensive income | 2.065.506 | 498.915 |
| 31 December | 2.765.965 | 700.459 |

Deferred tax arose as a result of the following:

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| **Deferred tax assets** | | |
| Provision for impairment of loans and advances | 3.458.631 | 1.309.057 |
| **Deferred tax liabilities** | | |
| Differences between depreciation and capital allowances | (692.666) | (608.598) |
| Deferred tax asset | 2.765.965 | 700.459 |

Deferred tax was calculated based on current tax rates (10%).

**23. BONDS**

| | 2010<br>€ | 2009<br>€ |
|---|---:|---:|
| 1 January and 31 December | 100.000.000 | 100.000.000 |

The Board of Directors of the Company has approved the issue of €1m. bonds with 10 years duration with a nominal value of €100 each and which have been offered to a limited number of investors in Cyprus and abroad. The bonds were issued on 30 May 2008 and have been placed to the Cyprus Stock Exchange on 31 December 2008 where they are tradeable.

The bonds may be redeemed in whole at the option of the Company at their principal amount together with any outstanding interest, five years after their issue date, or on any interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus.

The bonds bear a floating interest which will be set at the beginning of each period and will apply to the specific interest period.

The floating interest rate is equal to the 3-month Euribor in force at the beginning of each interest period plus 1,80%. The Bonds are not secured and in the event of liquidation of the Company, their repayment shall follow in priority the repayment of the obligations of the Company to its depositors and any other creditors, but they will have priority over the repayment of the rights of the shareholders of the Company.

**24. AMOUNTS DUE TO BANKS**

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Amounts due to Alpha Bank Group companies | 3.825.872.212 | 3.989.275.118 |
| Amounts due to other financial institutions | 78.479.878 | 132.562.363 |
| Repurchase agreements with the European Central Bank | 238.053.166 | 237.098.750 |
| | 4.142.405.256 | 4.358.936.231 |

Analysis of the above deposits by maturity date is presented in note 35 of these financial statements.

The repurchase agreements with the European Central Bank were used as part of financing the operations of the Company.

**25. CUSTOMER DEPOSITS**

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| On demand | 264.285.089 | 338.865.087 |
| On savings | 3.940.240 | 4.721.709 |
| Fixed term or notice deposits | 3.302.699.318 | 2.931.877.812 |
| | 3.570.924.647 | 3.275.464.608 |

**26. TAXATION**

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Corporation tax (receivable)/payable | (645.467) | 918.382 |
| Special contribution to the defence fund | 9.439 | 9.439 |
| | (636.028) | 927.821 |

The above amounts are payable within one year.

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| 1 January | 927.821 | 1.001.868 |
| Charge for the year | 7.827.868 | 7.645.829 |
| Charge for prior years | 792.437 | 1.474.652 |
| Payments | (10.184.154) | (9.194.528) |
| 31 December | (636.028) | 927.821 |

## 27. OTHER LIABILITIES

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Accrued interest on bonds, allowances and commissions | 251.378 | 223.733 |
| Defined benefit scheme liability (note (i)) | 48.001.587 | 43.137.001 |
| Accrued expenses | 4.991.302 | 4.564.355 |
| Provisions for legal claims (note (ii)) | 361.394 | 1.642.715 |
| Other payables | 5.239.516 | 8.224.607 |
| Taxes payable on behalf of clients | 1.146.642 | 1.294.573 |
| Derivatives held for trading (note (iii)) | 291.722 | 1.043.364 |
| | 60.283.541 | 60.130.348 |

**(i) Defined Benefit Scheme Liability**

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Present value of obligations | 56.257.309 | 52.960.990 |
| Unrecognized actuarial deficit | (8.255.722) | (9.823.989) |
| | 48.001.587 | 43.137.001 |

The movement in the defined benefit scheme liability is analysed as follows:

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| 1 January | 43.137.001 | 37.673.278 |
| Debit in the statement of comprehensive income | 7.316.164 | 6.588.911 |
| Payments to members who retired | (2.451.578) | (1.125.188) |
| 31 December | 48.001.587 | 43.137.001 |

The movement of the liability as shown in the statement of financial position of the Company is analysed as follows:

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Present value of obligations 1 January | 52.960.990 | 44.860.212 |
| Current service cost | 4.419.795 | 3.917.583 |
| Interest on liabilities | 2.683.984 | 2.550.038 |
| Payments to members who retired | (2.451.578) | (1.125.189) |
| Actuarial (gain)/loss | (1.355.882) | 2.758.346 |
| | 56.257.309 | 52.960.990 |

The charge in the statement of comprehensive income is analysed as follows:

| | 2010 € | 2009 € |
|---|---|---|
| Current service cost | 4.419.795 | 3.917.583 |
| Interest on liabilities | 2.683.984 | 2.550.038 |
| Amortisation – unrecognized loss | 212.385 | 121.290 |
| | 7.316.164 | 6.588.911 |

The main assumptions used for the actuarial valuation, expressed as weighted average, were:

| | 2010 % | 2009 % |
|---|---|---|
| Discount rate | 5,44 | 5,21 |
| Future salary increase | 6,25 | 6,75 |
| Future rate of inflation | 2,00 | 2,00 |

**(ii) Provisions of legal claims**

| | 2010 € | 2009 € |
|---|---|---|
| 1 January | 1.642.715 | 2.109.269 |
| Release for the year | (1.281.321) | (404.076) |
| Utilised during the period | - | (62.478) |
| 31 December | 361.394 | 1.642.715 |

**(iii) Derivatives held for trading**

| | Nominal amount 2010 € | Nominal amount 2009 € | Fair value 2010 € | Fair value 2009 € |
|---|---|---|---|---|
| Interest rate derivatives | | | | |
| Interest rate swaps | 5.175.944 | 12.474.843 | 291.145 | 671.930 |
| Foreign exchange derivatives | | | | |
| Forward contracts | 26.770 | 32.817.534 | 577 | 371.434 |
| **Total of Derivatives** | 5.202.714 | 45.292.377 | 291.722 | 1.043.364 |

| | Derivatives (assets) € | Derivatives (liabilities) € |
|---|---|---|
| **2010** | | |
| Level 1 | - | - |
| Level 2 | - | 291.722 |
| Level 3 | - | - |
| Total | - | 291.722 |
| **2009** | | |
| Level 1 | - | - |
| Level 2 | 126.893 | 1.043.364 |
| Level 3 | - | - |
| Total | 126.893 | 1.043.364 |

**28. SHARE CAPITAL**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of shares | € | Number of shares | € |
| **Authorised** | | | | |
| (Ordinary shares of €0,85 each) | 600.000.000 | 510.000.000 | 600.000.000 | 510.000.000 |
| **Issued and fully paid** | | | | |
| 1 January and 31 December | | | | |
| (Ordinary shares of €0,85 each) | 139.500.000 | 118.575.000 | 139.500.000 | 118.575.000 |

During the year 2010 there has been no change in the share capital of the Company.

**29. RESERVES**

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

The investments revaluation reserve arose from the revaluation of investments available for sale. The investments revaluation reserve is not distributable but in case of disposal of revalued investments, any balance of the surplus on revaluation which belongs to the disposed investments which is included in the investments revaluation reserve, is transferred to the revenue reserve.

As from 1 January 2003, companies which do not distribute 70% of their profits after taxation, 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 15% will be payable on the 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 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 company for the owners account.

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

## 30. ITEMS OFF THE STATEMENT OF FINANCIAL POSITION

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| **Contingent liabilities** | | |
| Bank guarantees | 91.076.593 | 111.494.543 |
| | | |
| **Commitments** | | |
| Import letters of credit and confirmed export letters of credit | 41.145.088 | 64.705.515 |
| Loan and facility limits already approved but not utilized | 244.774.161 | 311.494.797 |
| | 285.919.249 | 376.200.312 |
| | | |
| Total Items Off the Statement of Financial Position | 376.995.842 | 487.694.855 |

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 Company 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. These limits are granted for a specific time period and may be cancelled by the Company at any time by giving notice to the customer.

Credit risk exposure relating to items off the statement of financial position:

| | Financial Services Sector<br>€ | Industry<br>€ | Buildings & Construction<br>€ | Trading<br>€ | Tourism Industry<br>€ | Other<br>€ | Individual<br>€ | Total<br>€ |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Letters of Guarantee and Documentary Credits | 1.620.962 | 26.274.073 | 46.783.711 | 20.367.251 | 4.048.660 | 29.035.294 | 4.091.731 | 132.221.682 |
| Loan and facility limits already approved but not utilized | 4.212.155 | 11.184.937 | 60.370.743 | 13.609.186 | 2.673.921 | 59.775.784 | 92.947.434 | 244.774.160 |
| **Total** | 5.833.117 | 37.459.010 | 107.154.454 | 33.976.437 | 6.722.581 | 88.811.078 | 97.039.165 | 376.995.842 |
| **2009** | | | | | | | | |
| Letters of Guarantee and Documentary Credits | 1.740.351 | 1.684.096 | 116.071.787 | 19.515.549 | 2.869.811 | 30.182.456 | 4.136.008 | 176.200.058 |
| Loan and facility limits already approved but not utilized | 28.497.770 | 10.302.772 | 125.200.213 | 13.266.952 | 9.116.949 | 8.997.500 | 116.112.641 | 311.494.797 |
| **Total** | 30.238.121 | 11.986.868 | 241.272.000 | 32.782.501 | 11.986.760 | 39.179.956 | 120.248.649 | 487.694.855 |

**31. OTHER COMMITMENTS**

Due to the proceedings of the Law 118 (1)/2009 of the Republic of Cyprus, the Company was provided through a bilateral agreement, special titles issued by the Government of Cyprus amounting to €237m. (2009: €237m). These titles were pledged to the European Central Bank with the aim of raising liquidity.

In accordance with the Law 118(1)/2009, loans amounting to €245m. (2009:€256m.) were granted as a guarantee to the Government of Cyprus, in order to provide these special titles to the Company.

**32. OTHER CONTINGENT LIABILITIES**

**Lease commitments**
The minimum future liabilities for lease agreements that expire at various dates up to 2032 are analysed as follows:

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| Within one year | 1.190.218 | 1.367.931 |
| Between one to five years | 4.636.099 | 5.182.773 |
| More than five years | 4.939.799 | 8.775.474 |
| | 10.766.116 | 15.326.178 |

**Litigation**
As at 31 December 2010, there were pending litigations against the Company in relation to its activities. Following legal advise, the Board of Directors proceeded to a provision for some cases in the financial statements, where the Company expected to anticipate financial loss.

Apart from the above there are no pending litigations, claims or assessments against the Group or court decisions where the outcome of which would have a material effect on the financial statements apart from those already provided for (note 27 of these financial statements).

**33. CAPITAL COMMITMENTS**

As at 31 December 2010, the Company's commitments for capital expenditure for which no provision has been made in the financial statements amounted to €1.099.835 (2009: €1.636.905) and related to additional work performed to the new Head Office buildings and cost of refurbishment of new branches.

**34. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents that appear in the statement of cash flows consist of the following elements of the statement of financial position:

| | Note | 2010<br>€ | 2009<br>€ |
|---|---|---|---|
| Cash and balances with the Central Bank of Cyprus | 14 | 71.816.178 | 75.959.371 |
| Loans and advances to financial institutions | | 2.560.034.434 | 2.390.529.926 |
| Amounts due to banks | | (636.189.845) | (417.386.848) |
| | | 1.995.660.767 | 2.049.102.449 |

**35. RISK MANAGEMENT**

Alpha Bank Cyprus Limited, as a member of the Alpha Bank Group is adhering to the provisions of Basel II, as these are adopted in the "Capital Requirements Directive" of the Central Bank of Cyprus as well as the provisions of the "Corporate Governance Directive" of the Central Bank of Cyprus. The Company being a member of the Alpha Bank A.E. Group, operates within the framework and procedures of risks management of the Alpha Bank A.E. Group.

The structure of the Risk Management function is based on the Risk Management Policy framework that the Group has developed and aims at:

- Compliance with the instructions of the supervisory bodies with regards to setting a policy for the acceptance, follow up and management of every risk.
- Improvement in the handling of the action taken to prevent and minimize risks.
- Effective capital planning in order to cover the risks undertaken.

Within the above framework, the Group has established Manuals with Policies and Procedures in various areas relating to risk management such as:

- credit risk
- loan impairment
- market risk
- management of assets – liabilities
- operational risk
- regulatory compliance
- capital management

The above policies are specific and are incorporated into the procedures of the Company, taking into account the requirements of the supervisory framework.

The Risk Management Committee is responsible for the assessment of risks and the coordination of activities required for their correct administration, through supervision of the strategy and procedures of risk management.

The Company follows the "Internal assessment of Capital Adequacy" (ICCAP) and prepares a relevant report in accordance with the Instructions of the Central Bank of Cyprus and the Pillar II of the Second Treaty of Basel (Basel II). During the assessment, strategies and procedures are being reviewed in order to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the Company, as well as the maintaining on a continued basis the amount, composition and allocation of internal funds that are considered appropriate to cover the nature and level of risks that the Company has adopted or is likely to undertake.

The Company undertakes a series of stress tests to measure possible impacts caused in extraordinary situations for all significant risks.

The Company operates an independent Risk Management Unit, whose main responsibility is to implement effective methods of recognizing, quantifying and managing the risks that the Company undertakes.

The Unit has the following departments:

- Credit Risk
- Market Risk and Liquidity Risk
- Operational Risk

## Credit risk

Credit Risk refers to the potential risk that the Company may face from the inability of a creditor or contracting parties to meet their repayment obligations on time, or even to fully repay their debts as according to agreed terms of each contract.

The Company minimizes credit risk with the diversification of the lending portfolio to different sectors of the economy and categories of clients. It is noted that the diversification between different sectors of the economy is limited due to the small size and the special characteristics of the Cyprus economy (ie. focus on service sectors). Diversification between different categories of clients is achieved following the setting of upper credit limits to individuals and groups. Through compliance with the internal procedures of the Company and through the adoption of systems for the approval and control of the loans, the losses arising from credit risk are minimized to the greatest extent possible.

The procedures followed include among others, the grading and the evaluation of the customers' repayment ability, the laying out of the stages that have to be followed from the preparation and submission of the customer's application to the appropriate approval authority and to the stage of final approval and implementation. The close following up of the customer accounts after the loan, is drawn is also laid out in the above procedures. The procedures are evaluated on a regular basis aiming at greater standardization and better measurement and monitoring of credit risk.

The loan approvals are sactioned only from loan committees, whose authority is determined based on the amount, the type and grade of the customer, the particular product and the collateral being offered. The credit policy of the Company is within the Group policy and the Regulations of the Central Bank of Cyprus.

Important tools that are being used for the loan approval process as well as the credit quality classification of the loan portfolio are the credit grading and scoring systems. The Company has replaced various evaluation techniques with new systems which are used by the Group. The Company has also developed scoring cards for assessing requests, which have been incorporated to the approval procedures.

The mitigation of credit risk is enhanced through the securing of collateral from customers against their loans.

In addition to the above, the Company monitors continuously loans in default as well as non performing loans and takes all the necessary measures for their minimisation. The recovery procedures are revised frequently aiming on their flexibility and effectiveness to mitigate credit risk.

Additionally, the Company maintains impairment allowances so as to meet losses from bad debts. In the context of this policy, the impairment reserves are created at both individual and group level.

## I. LOANS AND ADVANCES WITH REPAYMENT

**Loans and advances to individuals**

| | Neither past due nor impaired € | Past due but not impaired € | Individually impaired € | Collectively impaired € | Total € |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Not past due | 1.732.331.245 | - | 5.850.404 | 1.068.435 | 1.739.250.084 |
| Past due up to 30 days | - | 209.676.827 | 1.052.142 | 566.144 | 211.295.113 |
| Past due 30 – 60 days | - | 126.476.903 | - | 191.547 | 126.668.450 |
| Past due 60 – 90 days | - | 62.152.132 | 463.664 | - | 62.615.796 |
| Past due 90 – 180 days | - | 105.157 | - | 61.889.229 | 61.994.386 |
| Past due 180 – 270 days | - | 1.339 | - | 36.300.178 | 36.301.517 |
| Past due 270 – 360 days | - | 468 | - | 21.529.803 | 21.530.271 |
| Past due over 360 days | - | 1.819 | 605.093 | 28.425.285 | 29.032.197 |
| Legal Action | - | 134 | 11.719.772 | 71.623.204 | 83.343.110 |
| **Total before impairment (A)** | 1.732.331.245 | 398.414.779 | 19.691.075 | 221.593.825 | 2.372.030.924 |

**Loans and advances to companies**

| | Neither past due nor impaired € | Past due but not impaired € | Individually impaired € | Collectively impaired € | Total € |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Not past due | 1.946.307.356 | - | 55.739.548 | 130.494 | 2.002.177.398 |
| Past due up to 30 days | - | 114.401.896 | 454.458 | - | 114.856.354 |
| Past due 30 – 60 days | - | 82.065.143 | 80.189 | 604.792 | 82.750.124 |
| Past due 60 – 90 days | - | 36.449.810 | 247.439 | 227.785 | 36.925.034 |
| Past due 90 – 180 days | - | 15.534.747 | 4.027.530 | 2.343.654 | 21.905.931 |
| Past due 180 – 270 days | - | 605 | 13.351.301 | 1.282.220 | 14.634.126 |
| Past due 270 – 360 days | - | 117 | 1.528.866 | 434.441 | 1.963.424 |
| Past due over 360 days | - | 257 | - | 887.630 | 887.887 |
| Legal Action | - | 2.003.524 | 37.465.088 | 1.583.463 | 41.052.075 |
| **Total before impairment (B)** | 1.946.307.356 | 250.456.099 | 112.894.419 | 7.494.479 | 2.317.152.353 |
| **Total (A + B)** | 3.678.638.601 | 648.870.878 | 132.585.494 | 229.088.304 | 4.689.183.277 |

**Loans and advances to individuals**

| | Neither past due nor impaired € | Past due but not impaired € | Individually impaired € | Collectively impaired € | Total € |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Not past due | 1.808.444.213 | - | 9.642.058 | 652.244 | 1.818.738.515 |
| Past due up to 30 days | - | 146.393.934 | 315.574 | 255.217 | 146.964.725 |
| Past due 30 – 60 days | - | 79.751.716 | - | 252.644 | 80.004.360 |
| Past due 60 – 90 days | - | 34.871.301 | - | 70.228 | 34.941.529 |
| Past due 90 – 180 days | - | 18.305 | 11.718 | 30.492.839 | 30.522.862 |
| Past due 180 – 270 days | - | 931 | - | 14.785.705 | 14.786.636 |
| Past due 270 – 360 days | - | 411 | 1.151.972 | 6.011.811 | 7.164.194 |
| Past due over 360 days | - | 919 | 32.429 | 7.206.105 | 7.239.453 |
| Legal Action | - | 121 | 20.618.907 | 58.480.625 | 79.099.653 |
| **Total before impairment (A)** | 1.808.444.213 | 261.037.638 | 31.772.658 | 118.207.418 | 2.219.461.927 |

**Loans and advances to companies**

| | Neither past due nor impaired € | Past due but not impaired € | Individually impaired € | Collectively impaired € | Total € |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Not past due | 1.954.410.509 | - | 47.042.024 | 1.109.427 | 2.002.561.960 |
| Past due up to 30 days | - | 127.245.715 | 718.243 | - | 127.963.958 |
| Past due 30 – 60 days | - | 53.446.690 | 679.376 | 283.464 | 54.409.530 |
| Past due 60 – 90 days | - | 45.328.622 | 868.889 | - | 46.197.511 |
| Past due 90 – 180 days | - | 1.270.614 | - | 1.032.911 | 2.303.525 |
| Past due 180 – 270 days | - | - | - | 175.109 | 175.109 |
| Past due 270 – 360 days | - | 156 | - | 198.227 | 198.383 |
| Past due over 360 days | - | 11 | 4.123 | 79.016 | 83.150 |
| Legal Action | - | 11 | 51.124.561 | 13.010.998 | 64.135.570 |
| **Total before impairment (B)** | 1.954.410.509 | 227.291.819 | 100.437.216 | 15.889.152 | 2.298.028.696 |
| **Total (A + B)** | 3.762.854.722 | 488.329.457 | 132.209.874 | 134.096.570 | 4.517.490.623 |

## II. LOANS AND ADVANCES THAT ARE PAST DUE BUT NOT IMPAIRED

| | Housing Loans € | Consumer Loans and Credit Cards € | Loans to companies € | Total € |
|---|---|---|---|---|
| **2010** | | | | |
| Past due up to 90 days | 353.064.704 | 45.241.158 | 232.916.849 | 631.222.711 |
| Past due over 90 days | - | 108.917 | 17.539.250 | 17.648.167 |
| **Total before impairment** | 353.064.704 | 45.350.075 | 250.456.099 | 648.870.878 |
| **Fair value of collaterals** | 288.673.759 | 27.482.832 | 202.290.551 | 518.447.142 |
| **2009** | | | | |
| Past due up to 90 days | 218.736.957 | 42.279.995 | 226.021.028 | 487.037.980 |
| Past due over 90 days | - | 20.686 | 1.270.791 | 1.291.477 |
| **Total before impairment** | 218.736.957 | 42.300.681 | 227.291.819 | 488.329.457 |
| **Fair value of collaterals** | 196.852.956 | 29.366.271 | 216.978.603 | 443.197.830 |

## III. LOANS AND ADVANCES – IMPAIRMENT ON AN INDIVIDUAL BASIS IN RELATION TO COLLATERALS

**Loans and advances to individuals**

| | Housing Loans € | Consumer Loans € | Credit Cards € | Other € | Total € |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Balances** | - | 19.691.075 | - | - | 19.691.075 |
| **Provision for impairment** | - | (9.699.238) | - | - | (9.699.238) |
| **Book value** | - | 9.991.837 | - | - | 9.991.837 |
| **Fair value of collaterals** | | | | | |
| Residential property | - | 1.679.293 | - | - | 1.679.293 |
| Commercial property | - | 474.991 | - | - | 474.991 |
| Other real estate | - | 3.106.803 | - | - | 3.106.803 |
| **Total collaterals** | - | 5.261.087 | - | - | 5.261.087 |

**Loans and advances to companies**

| | Other € | Total € |
|---|---|---|
| **2010** | | |
| **Balances** | 112.894.418 | 112.894.418 |
| **Provision for impairment** | (42. 811.645) | (42. 811.645) |
| **Book value** | 70.082.773 | 70.082.773 |
| **Fair value of collaterals** | | |
| Cash | 66.094 | 66.094 |
| Residential property | 58.642.926 | 58.642.926 |
| Commercial property | 1.692.265 | 1.692.265 |
| Other real estate | 22.869.952 | 22.869.952 |
| **Total collaterals** | 83. 271.237 | 83. 271.237 |

**Loans and advances to individuals**

| | Housing Loans € | Consumer Loans € | Credit Cards € | Other € | Total € |
|---|---|---|---|---|---|
| **2009** | | | | | |
| **Balances** | 426.458 | 31.330.687 | 15.513 | - | 31. 772.658 |
| **Provision for impairment** | (14.657) | (19.302.114) | (14.177) | - | (19.330.948) |
| **Book value** | 411.801 | 12.028.573 | 1.336 | - | 12. 441.710 |
| **Fair value of collaterals** | | | | | |
| Residential property | - | 9.254.779 | 8.954 | - | 9.263.733 |
| Commercial property | - | 1.424.254 | - | - | 1.424.254 |
| Other real estate | - | 5.299.826 | 3.400 | - | 5.303.226 |
| **Total collaterals** | - | 15.978.859 | 12.354 | - | 15. 991.213 |

**Loans and advances to companies**

| | Other € | Total € |
|---|---|---|
| **2009** | | |
| **Balances** | 100.437.216 | 100.437.216 |
| **Provision for impairment** | (53.443.612) | (53.443.612) |
| **Book value** | 46.993.604 | 46.993.604 |
| **Fair value of collaterals** | | |
| Cash | 129.300 | 129.300 |
| Residential property | 25.469.143 | 25.469.143 |
| Commercial property | 2.796.522 | 2.796.522 |
| Other real estate | 15.236.203 | 15.236.203 |
| **Total collaterals** | 43.631.168 | 43.631.168 |

## IV. LOANS AND ADVANCES WITH CREDIT RISK RATING

**Loans neither past due nor impaired**

| | 2010 € | 2009 € |
|---|---|---|
| **Loans and advances to individuals** | | |
| With no grade | 1.732.331.245 | 1.808.444.213 |
| | 1.732.331.245 | 1.808.444.213 |
| **Loans and advances to companies** | | |
| AA | - | 1.613.291 |
| A+ | - | 343.164 |
| A | 79.960 | 5.760.005 |
| A- | 2.038.854 | 7.367.111 |
| BB+ | 75.914.131 | 60.443.221 |
| BB | 86.603.800 | 181.429.300 |
| BB- | 79.378.751 | 73.739.969 |
| B+ | 109.046.939 | 286.175.687 |
| B | 156.324.956 | 512.062.583 |
| B- | 402.662.957 | 451.065.234 |
| CC+ | 213.814.432 | 129.533.160 |
| CC | 286.015.471 | 107.577.400 |
| CC- | 120.167.999 | 72.235.716 |
| C | 399.513.049 | 58.491.594 |
| D0 | 10.182.386 | 1.663.874 |
| D1 | 41.900 | 1.103.443 |
| E | - | - |
| With no grade | 4.521.770 | 3.805.758 |
| | 1.946.307.355 | 1.954.410.510 |
| **Total** | 3.678.638.600 | 3.762.854.723 |

**V. OTHER CLAIMS**

| | Loans and advances with financial institutions € | Derivatives € | Investments available for sale € | Total € |
|---|---|---|---|---|
| **2010** | | | | |
| AA- to AA+ | 620.242 | - | - | 620.242 |
| A- to A+ | 8.346.035 | - | 29.375.588 | 37. 721.623 |
| Below A- | 3.715.540.845 | - | - | 3.715.540.845 |
| With no grade | - | - | 1.667.803 | 1.667.803 |
| **Neither past due nor impaired** | 3.724.507.122 | - | 31.043.391 | 3.755.550.513 |
| **2009** | | | | |
| AA- to AA+ | 1.110.886.464 | - | 15.260.629 | 1.126. 147.093 |
| A- to A+ | 10.503.487 | - | - | 10.503.487 |
| Below A- | 2.626.347.721 | 126.893 | - | 2.626.474.614 |
| With no grade | 10.685.462 | - | 1.801.595 | 12.487.057 |
| **Neither past due nor impaired** | 3.758.423.134 | 126.893 | 17.062.224 | 3.775. 612.251 |

## Market risk

Market risk is the risk of loss of the economic value or of income that arises from unfavourable impact in the price or volatility that is observed in interest rates, exchange rates, shares, bonds or commodities.

The management policy to be followed for Market risk as well as the accepted limits which are defined 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 the Group and in particular according to the Manuals of the Policies and Procedures in areas of market risk and the management of assets and liabilities.

**Interest rate risk**

Interest rate risk arises from the different readjustment dates in the interest bearing assets and liabilities of the Company. The Company analyses the interest rate gaps for each time period for each currency (interest rate gap analysis) for all the interest bearing elements and uses this analysis for measuring the effects of a change in interest rates in its revenues. The above analysis enables the Company to measure the effects of an interest rate change to its Economic value, enabling the Company to monitor effectively interest rate risk.

| Currency | Case of changes in interest rates (parallel shift in yield curve) | Sensitivity of net interest income (for a period of one year) €000 |
|---|---|---|
| EUR | +50 b.p | 5.064 |
| | -50 b.p | (5.064) |
| USD | +50 b.p | 69 |
| | -50 b.p | (69) |
| CHF | +50 b.p | 531 |
| | -50 b.p | (531) |

**Exchange rate risk**

Exchange rate risk arises from maintaining an open position in one or more foreign currencies. The Company maintains a small position in foreign currencies which in each case is much lower than the approved limits set by the Central Bank and the Assets and Liabilities Committee. Due to this, the result on the income of the Company is not materially affected by foreign currency changes and consequently no sensitivity analysis is required in respect to this issue.

## Liquidity risk

Liquidity risk arises from the potential difficulty in finding adequate liquid funds to cover the obligations of the Company; that is the replacement of the existing funds as they come due or withdrawn, or to meet customer needs for further advances.

The Company monitors closely the maturity of the assets and liabilities and in particular those with a short-term duration and it takes the necessary measures for the minimization of liquidity risk while at the same time ensures that the liquidity ratios set by the Central Bank of Cyprus are met.

**SENSITIVITY ANALYSIS RELATING TO INTEREST RATE RISK ON 31 DECEMBER 2010**

| CURRENCY – USD ($) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 416 | - | - | - | - | - | - | - | 416 |
| Loans and advances to financial institutions | 829.634 | 126.518 | 337.457 | 365.659 | - | - | - | - | - |
| Bonds | 251 | - | - | 251 | - | - | - | - | - |
| Investments available for sale | - | - | - | - | - | - | - | - | - |
| Other investments | - | - | - | - | - | - | - | - | - |
| Loans and advances to companies | 27.414 | 13.730 | 7.014 | 4.747 | 1.091 | - | - | - | 832 |
| Loans and advances to individuals | 12.134 | 202 | 5.216 | 4.563 | 1.592 | 456 | - | - | 105 |
| Property, plant and equipment | - | - | - | - | - | - | - | - | - |
| Other assets | 7 | - | - | - | - | - | - | - | 7 |
| **TOTAL ASSETS** | 869.856 | 140.450 | 349.687 | 375.220 | 2.683 | 456 | - | - | 1.360 |
| Amounts due to financial institutions | 50.864 | 31.435 | 18.231 | 1.198 | - | - | - | - | - |
| Customer deposits | 818.723 | 332.818 | 259.767 | 196.142 | 13.754 | 16.242 | - | - | - |
| Other liabilities | 314 | - | - | - | - | - | - | - | 314 |
| Derivatives | 27 | 27 | - | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES** | (869.928) | (364.280) | (277.998) | (197.340) | (13.754) | (16.242) | - | - | (314) |
| **NET POSITION IN USD** | (72) | (223.830) | 71.689 | 177.880 | (11.071) | (15.786) | - | - | 1.046 |

| CURRENCY – EURO (€) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 70.972 | 51.118 | - | - | - | - | - | - | 19.854 |
| Loans and advances to financial institutions | 2.864.980 | 872.478 | 718.003 | 1.022.568 | - | 251.931 | - | - | - |
| Investments available for sale | 31.044 | - | 856 | - | - | 4.876 | 23.644 | - | 1.668 |
| Other securities | 16.429 | - | - | - | - | - | - | - | 16.429 |
| Loans and advances to companies | 1.616.015 | 940.125 | 250.745 | 288.028 | 88.315 | 3.066 | 1.562 | - | 44.174 |
| Loans and advances to individuals | 805.343 | 572.029 | 143.948 | 53.667 | 13.024 | 2.587 | - | - | 20.088 |
| Property, plant and equipment | 33.128 | - | - | - | - | - | - | - | 33.128 |
| Other assets | 11.878 | - | - | - | - | - | - | - | 11.878 |
| Derivatives | 5.027 | 27 | - | - | - | 5.000 | - | - | - |
| **TOTAL ASSETS** | 5.454.816 | 2.435.777 | 1.113.552 | 1.364.263 | 101.339 | 267.460 | 25.206 | - | 147.219 |
| Amounts due to banks | 2.093.935 | 121.731 | 587.730 | 1.129.420 | - | 255.054 | - | - | - |
| Customers deposits | 2. 671.775 | 741.307 | 386.739 | 542.840 | 415.827 | 514.345 | 67.059 | - | 3.658 |
| Bonds | 100.000 | - | - | 100.000 | - | - | - | - | - |
| Other liabilities | 57.437 | - | - | - | - | - | - | - | 57.437 |
| Equity | 526.909 | - | - | - | - | - | - | - | 526.909 |
| Derivatives | 5.291 | - | - | - | - | - | 5.000 | - | 291 |
| **TOTAL LIABILITIES** | (5.455.347) | (863.038) | (974.469) | (1. 772.260) | (415.827) | (769.399) | (72.059) | - | (588.295) |
| **NET POSITION IN EURO** | (531) | 1.572.739 | 139.083 | (407.997) | (314.488) | (501.939) | (46.853) | - | (441.076) |

| CURRENCY – SWISS FRANCS (CHF) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 25 | - | - | - | - | - | - | - | 25 |
| Loans and advances to financial institutions | 2.516 | 2.516 | - | - | - | - | - | - | - |
| Bonds | 251 | - | - | 251 | - | - | - | - | - |
| Investments available for sale | - | - | - | - | - | - | - | - | - |
| Other investments | - | - | - | - | - | - | - | - | - |
| Loans and advances to companies | 614. 117 | 130.622 | 222.534 | 182.162 | 74.322 | 202 | - | - | 4.275 |
| Loans and advances to individuals | 1. 361.368 | 110.148 | 784.016 | 283.031 | 55.165 | 5.130 | - | - | 123.879 |
| Property, plant and equipment | - | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - | - |
| Derivatives | 176 | - | - | - | - | 176 | - | - | - |
| **TOTAL ASSETS** | 1.978.453 | 243.286 | 1.006.550 | 465.444 | 129.487 | 5.508 | - | - | 128.179 |
| Amounts due to banks | 1.976.699 | - | 1.324.646 | 512.013 | 136.031 | 4.009 | - | - | - |
| Customers deposits | 1.198 | 1.198 | - | - | - | - | - | - | - |
| Other liabilities | 251 | - | - | - | - | - | - | - | 251 |
| Equity | - | - | - | - | - | - | - | - | - |
| Derivatives | 176 | - | - | - | - | 176 | - | - | - |
| **TOTAL LIABILITIES** | (1.978.324) | (1.198) | (1.324.646) | (512.013) | (136.031) | (4.185) | - | - | (251) |
| **NET POSITION IN SWISS FRANCS** | 129 | 242.088 | (318.096) | (46.569) | (6.544) | 1.323 | - | - | 127.928 |

## SENSITIVITY ANALYSIS RELATING TO INTEREST RATE RISK ON 31 DECEMBER 2009

| CURRENCY – USD ($) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 423 | - | - | - | - | - | - | - | 423 |
| Loans and advances to financial institutions | 641.335 | 58.309 | 267.741 | 314.591 | 694 | - | - | - | - |
| Loans and advances to companies | 19.258 | 1.054 | 12.728 | 291 | 1.020 | 4.165 | - | - | - |
| Loans and advances to individuals | 9.054 | 150 | 3.365 | 3.436 | 1.603 | 500 | - | - | - |
| Other assets | 687 | - | - | - | - | - | - | - | 687 |
| **TOTAL ASSETS** | 670.757 | 59.513 | 283.834 | 318.318 | 3.317 | 4.665 | - | - | 1.110 |
| Amounts due to banks | 51.393 | 9.718 | 24.877 | 16.104 | 694 | - | - | - | - |
| Customer deposits | 631.855 | 117.636 | 93.494 | 117.473 | 46.414 | 43.487 | 213.351 | - | - |
| Other liabilities | 1.139 | - | - | - | - | - | - | - | 1.139 |
| **TOTAL LIABILITIES** | (684.387) | (127.354) | (118.371) | (133.577) | (47.108) | (43.487) | (213.351) | - | (1.139) |
| **NET POSITION IN USD** | (13.630) | (67.841) | 165.463 | 184.741 | (43.791) | (38.822) | (213.351) | - | (29) |

| CURRENCY – EURO (€) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 74.978 | 52.770 | - | - | - | - | - | - | 22.208 |
| Loans and advances to financial institutions | 3.009.747 | 480.244 | 1.383.831 | 1.126.707 | 1.445 | 17.520 | - | - | - |
| Investments available for sale | 14.587 | - | - | - | - | - | 14.587 | - | - |
| Other securities | 18.231 | - | - | - | - | - | | - | 18.231 |
| Loans and advances to companies | 1.641.349 | 833.961 | 535.837 | 217.479 | 46.195 | 4.475 | 3.402 | - | - |
| Loans and advances to individuals | 871.726 | 565.030 | 225.446 | 63.235 | 15.089 | 2.903 | 23 | - | - |
| Property, plant and equipment | 34.451 | - | - | - | - | - | - | - | 34.451 |
| Other assets | 15.447 | - | - | - | - | - | - | - | 15.447 |
| Derivatives | 127 | - | - | - | - | - | - | - | 127 |
| **TOTAL ASSETS** | 5.680.643 | 1.932.005 | 2.145.114 | 1.407.421 | 62.729 | 24.898 | 18.012 | - | 90.464 |
| Amounts due to banks | 2.522.608 | 300.281 | 568.708 | 1.627.154 | 1.445 | 25.020 | - | - | - |
| Customers deposits | 2.491.478 | 573.220 | 314.068 | 491.394 | 447.889 | 442.393 | 222.514 | - | - |
| Bonds | 100.000 | - | - | 100.000 | - | - | - | - | - |
| Other liabilities | 93.621 | - | - | - | - | - | - | - | 93.621 |
| Equity | 472.687 | - | - | - | - | - | - | - | 472.687 |
| Derivatives | 1.043 | - | - | - | - | - | - | - | 1.043 |
| **TOTAL LIABILITIES** | (5.681.437) | (873.501) | (882.776) | (2.218.548) | (449.334) | (467.413) | (222.514) | - | (567.351) |
| **NET POSITION IN EURO** | (794) | 1.058.504 | 1.262.338 | (811.127) | (386.605) | (442.515) | (204.502) | - | (476.887) |

| CURRENCY – SWISS FRANCS (CHF) | Total €000 | Up to 7 days €000 | 8 to 30 days €000 | 1 up to 3 months €000 | 4 up to 6 months €000 | 7 up to 12 months €000 | 1 up to 5 years €000 | Up to 5 years €000 | Non-interest bearing position €000 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 44 | - | - | - | - | - | - | - | 44 |
| Loans and advances to financial institutions | 2.963 | - | 2.963 | - | - | - | - | - | - |
| Loans and advances to companies | 582.600 | 119.009 | 211.782 | 177.916 | 73.719 | 174 | - | - | - |
| Loans and advances to individuals | 1.190.455 | 141.466 | 718.473 | 271.159 | 53.667 | 5.287 | 152 | 251 | - |
| Other assets | 1.181 | - | - | - | - | - | - | - | 1.181 |
| Derivatives | - | - | - | - | - | - | - | - | - |
| **TOTAL ASSETS** | 1.777.243 | 260.475 | 933.218 | 449.075 | 127.386 | 5.461 | 152 | 251 | 1.225 |
| Amounts due to banks | 1.760.583 | - | 1.164.061 | 458.345 | 134.807 | 3.370 | - | - | - |
| Customers deposits | 1.650 | - | - | 18 | - | - | 1.632 | - | - |
| Other liabilities | 680 | - | - | - | - | - | - | - | 680 |
| Derivatives | - | - | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES** | (1.762.913) | - | (1.164.061) | (458.363) | (134.807) | (3.370) | (1.632) | - | (680) |
| **NET POSITION IN SWISS FRANCS** | 14.330 | 260.475 | (230.843) | (9.288) | (7.421) | 2.091 | (1.480) | 251 | 545 |

**LIQUIDITY RISK**

| | Without expiration € | On demand € | Within 3 months € | Between 3 months and 1 year € | More than 1 year € | Total € |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with the Central Bank of Cyprus | - | 20.698.183 | 51. 117.995 | - | - | 71.816.178 |
| Loans and advances to financial institutions | - | 1.011.919.656 | 1.548.656.279 | 251.931.187 | 912.000.000 | 3.724.507.122 |
| Loans and advances to customers | 484.877.870 | 72.858.062 | 116.737.353 | 375.430.808 | 3.462.960.815 | 4.512.864.908 |
| Investments available for sale | 1.667.803 | 5.933.791 | 20.748.038 | - | 2.693.759 | 31.043.391 |
| Investments in subsidiary companies | 16.428.979 | - | - | - | - | 16.428.979 |
| Property, plant and equipment | 32.727.954 | - | - | - | - | 32.727.954 |
| Intangible assets | 399.955 | - | - | - | - | 399.955 |
| Deferred taxation | 2.765.965 | - | - | - | - | 2.765.965 |
| Taxation | 636.028 | - | - | - | - | 636.028 |
| Other assets | 7.331.736 | - | - | - | - | 7.331.736 |
| **Total assets** | 546.836.290 | 1.111.409.692 | 1.737.259.665 | 627.361.995 | 4.377.654.574 | 8.400.522.216 |
| **Liabilities** | | | | | | |
| Bonds | - | - | - | - | 100.000.000 | 100.000.000 |
| Amounts due to banks | - | 134.294.382 | 740.677.866 | 221.568.838 | 3.045.864.170 | 4.142.405.256 |
| Customer deposits | - | 712.123.445 | 1.484.637.611 | 1.079.142.358 | 295.021.233 | 3.570.924.647 |
| Other liabilities | 12.030.573 | - | 251.379 | - | 48.001.589 | 60.283.541 |
| **Total liabilities** | (12.030.573) | (846.417.827) | (2.225.566.856) | (1.300.711.196) | (3.488.886.992) | (7.873.613.444) |
| **Net position** | 534.805.717 | 264.991.865 | (488.307.191) | (673.349.201) | 888.767.582 | 526.908.772 |

| | Without expiration € | On demand € | Within 3 months € | Between 3 months and 1 year € | More than 1 year € | Total € |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with the Central Bank of Cyprus | - | 75.959.371 | - | - | - | 75.959.371 |
| Loans and advances to financial institutions | - | 28.853.087 | 2.600.178.492 | 19.791.555 | 1.109.600.000 | 3.758.423.134 |
| Loans and advances to customers | 638.809.616 | 11.821.756 | 155.264.991 | 380.892.642 | 3.330.701.618 | 4.517.490.623 |
| Provision for impairment of doubtful debts | (156.013.399) | - | - | - | - | (156.013.399) |
| Investments available for sale | 1.801.595 | - | 673.447 | - | 14.587.183 | 17.062.225 |
| Investments in subsidiary companies | 16.428.909 | - | - | - | - | 16.428.909 |
| Property, plant and equipment | 34.086.426 | - | - | - | - | 34.086.426 |
| Intangible assets | 364.705 | - | - | - | - | 364.705 |
| Deferred taxation | 700.459 | - | - | - | - | 700.459 |
| Other assets | 3.598.648 | - | - | - | - | 3.598.648 |
| **Total assets** | 539.776.959 | 116.634.214 | 2.756.116.930 | 400.684.197 | 4.454.888.801 | 8.268.101.101 |
| **Liabilities** | | | | | | |
| Bonds | - | - | - | - | 100.000.000 | 100.000.000 |
| Amounts due to banks | - | 51.414.557 | 620.466.467 | 239.246.560 | 3.447.808.647 | 4.358.936.231 |
| Customer deposits | - | 820.375.723 | 1.321.738.239 | 941.155.420 | 192.195.226 | 3.275.464.608 |
| Taxation | 927.821 | - | - | - | - | 927.821 |
| **Other liabilities** | 16.769.612 | - | 223.733 | - | 43.137.003 | 60.130.348 |
| **Total liabilities** | (17.697.433) | (871.790.280) | (1.942.428.439) | (1.180.401.980) | (3.783.140.876) | (7.795.459.008) |
| **Net position** | 522.076.526 | (755.156.066) | 813.688.491 | (779.717.783) | 671.747.925 | 472.642.093 |

## Operational risk

Operational risk is defined as the risk of direct or indirect losses arising either from internal inadequate procedures and systems, human behaviour, or other external factors, including legal risk.

The Company has implemented the Operational Risk Management Framework as analysed in the Group Policy. The basic pillars of this policy are listed below:

- The organisational structure of managing operational risk
- The collecting and collating of data relating to operational risk events
- The evaluation of the risk and the determination of risk mitigation action

Under the Framework, the Company operates an Operational Risk Management Committee which is overseeing the implementation of the operational risk management policy of the Group and its activities and actions related to the effective management of operational risk.

Within the above framework, a specialised system is being used which is located at the parent company Alpha Bank S.A. It is a system that accepts data on operational risk that will be classified in the relevant banking activity category as well as in the relevant operational risk category outlined in Basel II.

At the same time, the Company in cooperation with the Group, has set-up Key Risk indicators and collects data to this end. These indicators assist in monitoring operational risk.

Under the framework of operational risk management, structured self assessments are conducted by business and infrastructure and support units, with the aim of identifying, recording and assessing the operational risks which could be potentially faced and that courses of action could be adopted so as to be restricted.

**REGULATORY COMPLIANCE**

The Company enacts and implements suitable procedures in order to achieve the timely and continuous compliance with the Regulatory and Supervisory framework that may exist from time to time. The above procedures include a computerized system for the continuous and effective monitoring of customer accounts and transactions for the purpose of preventing money laundering.

The Company operates an independent Regulatory Compliance Department as required by the provisions of the Central Bank of Cyprus directives which at the same time ensures the implementation of the Information Security Policy of the Group.

The aim of the Regulatory Compliance Department is the prevention and effective management of compliance risks, according to the relevant compliance framework (Regulatory Compliance Risk) that may arise from the business activity of the financial institution. 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.

**INFORMATION SECURITY**

The Company has adopted the Information Security Framework of the Group.

The Information Security Framework refers to the administrative, technical and physical measures which ensure the protection of data and information systems of the Company.

Specifically, with the above framework the safeguarding of the following attributes that characterise all the kinds of data or information systems is ensured.

- Confidentiality – it ensures that only entitled entities can have access on specific data or information systems.
- Integrity – it protects data and information systems from non authorized or negligent modification.
- Availability – it ensures the availability of data and information systems to authorized entities whenever they need them.

## 36. FAIR VALUE

Fair value represents the amount at which an asset could be exchanged or a liability settled in an arm's length transaction. The fair value of most of the financial assets and liabilities are similar to the amounts disclosed in the statement of financial position.

The fair value of loans and advances to customers is approximately equal to their book value as disclosed in the statement of financial position, net of the provisions for bad and doubtful debts.

The investments in subsidiary companies are presented at the acquisition price as modified by periodical reassessments, based on the Company's share of net assets of these companies. This is considered the best practice method for valuation of their fair value.

The Management is of the opinion that the fair value of the assets and liabilities of the Company that are not stated at their calculated fair value, approximates their carrying value.

## 37. ANALYSIS OF ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

| | 2010<br>€ | 2009<br>€ |
|---|---|---|
| **ASSETS** | | |
| Euro | 5.448.619.765 | 5.678.858.761 |
| Foreign currencies | 2.951.902.451 | 2.589.242.340 |
| | 8.400.522.216 | 8.268.101.101 |
| **LIABILITIES** | | |
| Euro | 5.449.180.603 | 5.689.180.703 |
| Foreign currencies | 2.951.341.613 | 2.578.920.398 |
| | 8.400.522.216 | 8.268.101.101 |

## 38. CAPITAL ADEQUACY

Capital protects from unpredictable/unexpected losses since the predicted or expected losses are covered by provisions eg. impairment for bad and doubtful debts. In order to cover these unexpected losses, the supervisory authorities require the maintenance of adequate capital by defining what is capital, a minimum capital ratio and how to measure it.

The system "SUNGARD" which is installed at the parent company Alpha Bank S.A., is used to calculate capital under the requirements of Pillar I of Basel II.

In 2010, the Company undertook «internal procedure for assessing capital adequacy ("ICAAP")» and submitted the related report in accordance with the relevant directives of the Central Bank of Cyprus and of Basel II.

During 2010, the Company fully complied with the regulations of the Central Bank of Cyprus while maintaining adequate capital in accordance to its nature, scale and complexity of its activities and the related risk undertaken.

## 39. RELATED PARTY TRANSACTIONS

### (i) Transactions with members of the Board of Directors

Connected persons include spouses, minor children and companies in which the Director holds directly or indirectly, at least 20% of the voting rights in a General Meeting. All transactions with members of the Board of Directors and their connected persons are taking place under normal trading terms. Credit facilities granted to key management are under the same terms as those applicable to the rest of the Company's staff.

Loan balances and other advances to Members of the Board of Directors and connected persons:

| | Number of Directors | Total €000 |
|---|---|---|
| Less than 1% of the net assets of the Company, per Director | 1 | 19 |

| | 2010 € | 2009 € |
|---|---|---|
| **Non-executive Directors** | | |
| Fees as members of the Board | 48.749 | 25.630 |
| **Executive Directors** | | |
| Salaries and benefits | 777.633 | 1.400.034 |

### (ii) Transactions with the parent company

During the year, the parent company Alpha Bank S.A. has granted bank guarantees totalling €280.400.000 (2009: €345.095.736) in relation to loans and advances granted to specific clients.

## 40. EVENTS AFTER THE REPORTING PERIOD

There were no material events after the reporting period which affects the position of the Company as at 31 December 2010.

The financial statements were approved and authorised for issue by the Board of Directors of the Company on 24 February 2011.

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