ALPHA BANK CYPRUS LIMITED

ANNUAL REPORT
For the period from 1 January to 31 December 2016

Nicosia,
15 March 2017

ANNUAL REPORT FOR THE YEAR 2016

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	Sp. N. Filaretos, Chairman (Resigned on 29 March2016)
	A. M. Michaelides Chairman (Appointed on 29March 2016)
	Ch. C. Giampanas, Vice-Chairman
	G. A. Georgiou, Managing Director
	Dr. A. K. Kritiotis
	C. N. Papadopoulos
	N. Mavrogenis
	L. Georgiadou (Appointed on 31 January 2017)
	I. Rouvitha Panou (Resigned on 27August 2016)
Secretary	M. Malahtou Pampalli (Resigned on 26.4.2016)
	N.Alkiviades (Appointed on 26.4.2016)
Legal Advisers	Chryssafinis & Polyviou LLC
Independent Auditors	KPMG Limited
Registered Office	Corner of Chilonos & Gladstonos Street Stylianou Lena Square, Nicosia
Head Office	Alpha Bank Building 3, Limassol Avenue Nicosia

STATEMENT BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE PERSON RESPONSIBLE FOR THE PREPARATION OF THE ANNUAL FINANCIAL REPORT

In accordance with Article 9 sections (3)(c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law of 2007 ("Law") we, the members of the Board of Directors and the Bank's person responsible for the financial statements of Alpha Bank Cyprus Limited for the year ended 31 December 2016, confirm that, to the best of our knowledge:

a) the annual financial statements which are presented on pages 40 - 157:

   (i) were prepared in accordance with 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 which they face.

Members of the Board of Directors and person responsible of the Bank's financial statements

A. M. Michaelides – Chairman

Ch. C. Giampannas – Vice-Chairman

G. A. Georgiou – Managing Director

Dr. A. K. Kritiotis – Board Member

C. N. Papadopoulos – Board member

L. Georgiadou – Board member

N. Mavrogenis – Board Member

Y. Tofarides – Head of Financial Services Division

Nicosia, 15 March 2017

DIRECTORS' REPORT

The Board of Directors of Alpha Bank Cyprus Limited (the "Bank") presents to the members, its annual report and the audited financial statements of the Bank for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

During 2016, the Bank continued to conduct full banking operations by providing a wide range of banking and financial services.

The Bank is a subsidiary of Alpha Bank S.A., which is registered in Greece, and member of Alpha Bank Group (the "Alpha Bank Group")

REVIEW OF THE DEVELOPMENTS, POSITION AND PERFORMANCE OF ACTIVITIES

Key financial data		**From 1 January to**	
	Change	**31.12.2016**	**31.12.2015**
In Euro mil.			
Net interest income	-16,5%	88,5	106,0
Total income	-3,9%	108,2	112,6
Total expenses	42,4%	82,2	57,7
Profit before impairment	-52,6%	26,0	54,9
Impairment losses and provisions to cover credit risk	-41,2%	58,6	99,6
Loss after income tax	-31,3%	-30,7	-44,7
Loss per share		-17,6 cent	-26,2 cent
In Euro mil.		**31.12.2016**	**31.12.2015**
Loans and advances to customers	-4,4%	1.946,4	2.036,5
Due to customers	4,8%	1.940,6	1.851,8
Transitional common equity tier I ratio (CET I)	-100 basis points	16,5%	17,5%

Net Interest income in 2016 amounted to Euro 88,5 million, presenting a decrease of 16,5% compared to Euro 106,0 million in 2015. The decrease is attributed mainly to the transfer of loans to a company of Alpha Bank Group in 2015 and the decrease of loans and deposits interest rates.

Total income of the Bank amounted to Euro 108,2 million in 2016, presenting a decrease of 3,9%, compared to Euro 112,6 million in 2015, mainly attributed to the decrease of loans' portfolio and the decrease of interest rates of loans and deposits. Total income of 2016 was positively impacted from the recognition of a non recurring income of Euro 6,6 million from the sale of Visa Europe shares.

Total expenses of the Bank in 2016, amounted to Euro 82,2 million compared to Euro 57,7 million in 2015. The increase is attributed to the compensation cost of Euro 31,6 million of a voluntary retirement programme offered to Employees. Excluding the non-recurring compensation cost of the program, total expenses present a decrease of 12,3% compared to 2015.

Cost to income ratio, excluding non-recurring items, (income from sale of Visa Europe shares and the voluntary retirement compensation cost), stands for 2016 at 49,8% compared to 51,2% in 2015.

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

Impairment loss and provisions to cover credit risk amounted to Euro 58,6 million in 2016 compared to Euro 99,6 million in 2015. The decrease of 41,2% reflects the deleveraging efforts of the bank as well as collections from loans previously written off.

Accumulated impairment to cover credit risk amounted to Euro 856,5 million on 31 December 2016, representing 30,6% of gross loans and an increase of 7,3% compared to 31 December 2015. Accumulated impairments include the fair value adjustment of Emporiki Bank Cyprus Ltd loan portfolio, which was acquired at fair value.

Net loans on 31 December, 2016 amounted to Euro 1.946,4 million compared to Euro 2.036,5 million on 31 December 2015 presenting a decrease of 4,4%.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood on 31 December 2016 at Euro 1.802,1 million representing 64,3% of gross loans, compared to 61,2% on 31 December 2015. On 31 December 2016, the coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 47,5% compared to 46,0% on 31 December 2015.

Loans over 90 days past due stood on 31 December 2016 at Euro 1.468,0 million representing 52,4% of gross loans. On 31 December 2015, they stood at Euro 1.444,3 million representing 50,9% of gross loans.

Amounts due to customers on 31 December 2016 amounted to Euro 1.940,6 million, compared to Euro 1.851,8 million on 31 December 2015, presenting an increase of 4,8%, reflecting the efforts of the Bank to improve its deposit base. The net loans to deposits ratio was improved from 110,0% on 31 December 2015 to 100,3% on 31 December 2016.

On 31 December 2016, common equity tier I ratio (CET I) stood at 16,5%, total tier I ratio at 19,7% and total capital adequacy ratio at 21,5%. The capital adequacy ratios are in accordance with the transitional provisions for the year.

FINANCIAL REULTS

The results of the Bank are presented in the Statement of Comprehensive Income on page 40 of the financial statements.

The losses for the year attributable to the owners amounted to €30.773 thous. (2015: losses €44.729 thous.)

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year 2016 (2015: €nil).

BOARD OF DIRECTORS' REPORT (cont.)

RISK MANAGEMENT

Risk is considered any financial or other factor that creates a possibility of future decreases in profitability.

Alpha Bank Group has implemented a comprehensive framework for the prudent management of risk based on the foremost supervisory practices and which, based on common European legislations and prevailing system common banking rules, principles and standards, is continuously evolving with the passage of time in order to be applied in a coherent and effective way in the daily operations of the activities of the Bank.

The main objective of Alpha Bank Group is to maintain the high standards of internal corporate governance and compliance with risk regulations and directives in order to enhance confidence in its operational activities via the provision of the appropriate financial services.

As of November 2014, Alpha Bank Group falls within the scope of the Single Supervisory Mechanism (SSM) – the new financial supervisory system which includes the European Central Bank (ECB) and the Bank of Greece and, being systemic banking institution, is supervised directly by the European Central Bank (ECB).

The Single Supervisory Mechanism operates in conjunction with the European Banking Authority, the European Parliament, the Eurogroup, the European Commission and the European Systemic Risk Board within the framework of their respective competencies.

Also, as of 1 January 2014 Directive 2013/36/EE of the European Parliament and Council, of 26 June 2013 and Regulation 575/2013 of the European Parliament and Council of 26 June 2013 («CRD IV») came into force, which gradually introduce the new capital adequacy framework for credit institutions, in accordance with Basel III standards.

In light of the new supervisory and regulatory framework for risk management, Alpha Bank Group has strengthened its internal governance and strategy for the undertaking and management of risk and adjusted its business model in order to fully comply with the more stringent regulatory requirements and extensive guidelines which concern the monitoring of data on all types of risk, the collection of such data and its integration into the required submission of reports and accounts to management and the supervisory authorities.

The Alpha Bank Group's new approach, constitute of a solid foundation for the continuous redefinition of Risk Management strategy through (a) the determination of the extent to which the Bank is willing to undertake risks (risk appetite), (b) the assessment of potential impacts of activities in the development strategy by defining the risk management limits, so that the relevant decisions to combine the anticipated profitability with the potential losses and (c) the development of appropriate monitoring procedures for the implementation of this strategy through a mechanism which allocates the risk management responsibilities between the Bank units.

It is noted that for Alpha Bank Cyprus Ltd, the Central Bank of Cyprus as the competent authority for the designation of a credit institution as "Other Systemically Important Institution (O-SII)" through its letter to the Bank dated 1.2.2016, described it as O-SII.

A detailed description of risk management is presented in note 35 of the financial statements.

CAPITAL ADEQUACY

Capital adequacy – Ratios

On December 31, 2016, Common Equity Tier I (CETI) ratio of the Bank was 16,5% ,Tier I ratio was 19,7% and total Capital Adequacy ratio was 21,5%.

The capital adequacy of the Bank on December 31, 2016, exceeds the minimum capital requirements for Pillar I and Pillar II, allowing the Bank to have a capital buffer.

The above-mentioned ratios are 16,4%, 19,5% and 21,4% with the Basel III fully loaded definition.

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

In June 2016, the European Central Bank (ECB) notified the Bank of its final decision on the minimum common equity ratio (CET I) that it is required to maintain on a continuous basis for the year 2016. The required ratio is set at 4,5% based on Pillar I requirements, 0,625% according to the Capital Conservation Buffer as applied for 2016 and 6,875% based on Pillar II prudential requirements.

According to the European Central Bank's decision, notified to the Bank in December 2016, for the year 2017 the Total Supervisory Capital Ratio (TSCR) is set at 8% for Pillar I, 1,25% for security buffer and 3,0% according to Pillar II prudential requirements (maintained in the form of common equity tier I).

The Bank issued capital in 2013 and 2015 in order to increase both its capital base and to absorb Emporiki Bank Cyprus Ltd. The Bank's Minimum Common Equity Tier I (CET I) Share Capital ratio on 31.12.2016 was 16,5% with transitional provisions.

Pursuant to the CRR Regulation and the CRD IV Directive as adopted and amended in early February 2017 in Cyprus legislation with retroactive effect, the minimum CET I ratio for the year 2016 was set at 5,125% for Pillar I and for Pillar I Security buffer. The Bank is also subject to additional capital requirements for risks that are not covered by the requirements of Pillar I (Pillar II). The Bank's capital adequacy on 31 December 2016 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Bank with significant capital buffers. The Pillar II capital requirement assessment is made annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

BOARD OF DIRECTORS' REPORT (cont.)

SIGNIFICANT FACTS

In 2016, the Bank, in order to decrease its operating costs, has announced Voluntary Retirement Program. Overall, 249 employees benefited from the program. The cost of the compensation and other benefits amounted to Euro 31,6 million. The annual estimated benefit amounts to Euro 12,7 million.

On 21.6.2016 the acquisition of Visa Europe by Visa Inc. was completed. Under the agreement on the date of the transaction, Visa Inc. acquired Visa Europe members the shares they held as a member. As a result of the transaction, the Bank recognized in the Income Statement a profit of EUR 6,6 million on financial transactions.

The Bank continues to participate in the project of SMEs lending with the support of the European Investment Bank, aiming to assist the growth of the Cyprus economy.

The Bank intensified its efforts to contain Non Performing Exposures by offering restructuring products under the provisions of the Regulations and Directives of the Central Bank of Cyprus. In this context, the Bank offers Debt to Assets swap solutions. As a result, the bank in 2016 repossessed properties worth Euro 5,3 million.

DEVELOPMENTS AND PROSPECTS

Prospects

Cyprus economy

Achievements
In March 2016, Cyprus managed to successfully complete the adjustment program under the three-year Memorandum of Understanding agreed with the European Commission, the European Central Bank and the International Monetary Fund (collectively the "Troika") by which the Republic of Cyprus ensured the financing of its financial needs for the three-year period 2013-2015 up to the sum of 10 billion, from which only 7 million were withdrawn.

The economy recorded remarkable performance in 2016. GDP grew by 2,8% in 2016 compared to 1,7% in 2015. Inflation still remains negative at -1,4% while unemployment fell to 13% compared to 15% in 2015. Growth is driven mainly from the private consumption, the reduction of unemployment, the increase in households' disposable income, but above all the growth of the services sector, especially tourism. Compared to 2015, tourism increased by 19,8% in 2016.

Forecasts
According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 2,5% in 2017 and 2,3% in 2018. At the same time, unemployment is projected to fall to 12% in 2017 and 11% in 2018. Inflation is expected to record a positive sign on a yearly basis. It is estimated that in 2017 it will rise to 1,2% and to 1,1% in 201,8 mainly due to the expected increase in oil prices internationally and to the increase in local consumption.

DEVELOPMENTS AND PROSPECTS (cont.)

Prospects (cont.)

Cyprus economy (cont.)

Due to the performance of the Cyprus economy, it is expected that the international rating agencies will upgrade the Republic of Cyprus to an investment grade, which will bring positive results both to borrowing from international markets and to its lending costs. Today, Cyprus remains two levels below the investment grade.

Moody's rating agency predicts growth for the Cyprus economy of 2,7% for 2017 and 2,5% for 2018.

Banking environment

The banking system in Cyprus seems to recover its confidence that deteriorated in the period 2013-2015 when it lost a large part of its customer deposits, through the bail in process. In 2016 deposits grew by 6,2% compared to 2015 despite the low deposit interest rates. The increased confidence in the banking system is the result of positive performance of the economy, and the credit upgrade by international rating agencies.

Banks continue the deleveraging efforts, which resulted in an 11% decrease in lending compared to 2015. A large percentage of the decline is due to the Debt to Asset swap solutions.

Systemic banks maintain high capital adequacy ratios (CET1).

In its latest assessment of the banking system in Cyprus (February 2017), the Moody's rating agency assessed the banking system with a positive outlook, based on the assessment that further improvement is expected on the bank's financial base and loan portfolio.

The challenges of the financial sector are mainly related to high non-performing exposures and the high private debt. Intensified efforts to restructure non-performing loans are being pursued with a view to consolidating bank portfolios. At the same time, attempts are being made to de-leverage and reduce the banking sector by selling assets and withdrawing from other markets.

New challenges are anticipated from the implementation of the new standard IFRS9, which will replace IAS 39 from 1.1.2018, which differentiates the way in which financial assets are classified, measured and impaired.

Greek economy - Operating environment of the parent company

The completion of the negotiations of the Hellenic Republic with the European Commission and the International Monetary Fund in the third quarter of 2015 to meet the financing needs of the Greek economy, led to an agreement on granting new financial support from the European Stability Mechanism.

This agreement provides for the financing of the Hellenic Republic's medium-term financing needs, subject to the implementation of economic reforms, and the provision of funds to cover the recapitalization needs of credit institutions as a result of their assessment by the European Supervisory Mechanism. In particular, with regard to the Alpha Bank Group, the recapitalization, totaling € 2.563 million, was made in the fourth quarter of 2015, exclusively from private funds.

BOARD OF DIRECTORS' REPORT (cont.)

DEVELOPMENTS AND PROSPECTS (cont.)

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

In June 2016 the first evaluation of the Hellenic Republic financial support program was completed and the partial disbursement of the second installment of the program, amounting to €10,3 billion, was approved. The first disbursement of € 7,5 billion took place in June and covered the short-term public debt servicing needs as well as the clearance of part of amounts overdue by the Hellenic Republic to individuals. The remaining amount of € 2,8 billion was disbursed in October 2016 after the completion of the prerequisite actions that had been set. The completion of the first evaluation and the disbursement of installments contributed to the enhancement of the real economy and the improvement of the economic environment. Meanwhile, in the fourth quarter of 2016 the second evaluation of the financial support program begun and is expected to be completed in the near time. The above, combined with the continuation of reforms and the measures described in the Eurogroup statement for the enhancement of the sustainability of the Greek debt, are expected to contribute to the gradual improvement of the economic environment in Greece and to the return of the economy to positive growth rates, noting however, the negative consequences that would have in these sectors any further delay in the completion of the second evaluation of the program.

Challenges and uncertainties

Non-performing exposures and private debt remain the main factor of instability for banking sector and the economy.

The economic reforms are necessary to continue irrespective of the completion of the Adjustment Program of the Cyprus economy, as any complacency conditions would have a negative impact on the ratings of international agencies, undermining the efforts of the Cypriot Republic for further recovery improvements.

The United Kingdom's exit from the European Union, which is the largest trading partner of Cyprus, is expected to affect the Cyprus economy, however the impact cannot be determined with certainty since currently the agreement between the European Union and the United Kingdom remains unknown.

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

Prospects

Despite the risks faced by the Cyprus economy and the challenges of the Banking System, it is estimated that forecasts for growth by both the European Commission and the Moody's credit rating agency can be achieved if there are no significant adverse events related to the geopolitical stability in the region of Cyprus and its economic stability in Greece and the Eurozone.

The Bank monitors capital adequacy ratios, the liquidity of its assets and liabilities and is in constant co-operation with the supervisory authorities to take the necessary preventive measures to manage the capital adequacy and liquidity, under the prevailing circumstances.

DEVELOPMENTS AND PROSPECTS (cont.)

Prospects (cont.)

The Bank continues to follow a conservative business plan with priority to the following actions:

- ensure capital adequacy,
- monitor liquidity,
- deleverage and loan portfolio clean up,
- effective monitoring of non performing exposures which is a key factor to generate satisfactory profitability,
- improve deposits base,
- contain operating expenses,
- increase productivity,
- introduce new technologies to improve the quality of services offered to customers.

European Securities and Markets Authority (ESMA)

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July, 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15.7.2016 the Bank publishes additional information. The Bank believes that certain Alternative Performance Measures (APMs) provide additional information that is useful both for assessing performance and for taking strategic decisions.

Alternative Performance Measures

Ratio	Definition	Formula	31.12.2016	31.12.2015
			€'000	€'000
Cost to Income	Cost to Income ratio gives the relation between total expenses and generated income.	Total expenses minus non recurring expenses / Total income minus non recurring income	82.207-31.655 108.216-6.625 Ratio 49,8%	57.659 112.562 Ratio 51,2%
			31.12.2016	**31.12.2015**
Net customer loans to customer deposits	The ratio gives the relation between net loans and advances to customers and customer deposits.	Gross loans and advances to customers minus provisions minus fair value of loans acquired / Customer deposits.	2.802.889-667.320-189.209 1.940.628 Ratio 100,3%	2.834.793-583.282-214.964 1.851.788 Ratio 110,0%
Loans over 90 days past due	The ratio gives the loans which are more than 90 days past due to the gross loans and advances to customers	Loans with more than 90 days past due / Gross loans and advances to customers	1.467.964 2.802.889 Ratio 52,4%	1.443.338 2.834.793 Ratio 50,9%
Non performing exposures (NPE – **E**uropean **B**anking **A**uthority definition)	The ratio gives the relation of non-performing exposures according to EBA definition to the Gross loans and advances to customers.	Non performing exposures according to EBA definition / Gross loans and advances to customers	1.802.103 2.802.889 Ratio 64,3%	1.735.265 2.834.793 Ratio 61,2%
Gross loans coverage	The ratio gives the coverage of Gross loans and advances to customers with provisions.	Provisions plus fair value of loans acquired / Gross loans and advances to customers	667.320 + 189.209 2.802.889 Ratio 30,6%	583.282+214.964 2.834.793 Ratio 28,2%
NPEs coverage	The ration states how much of non performing exposures are covered with provisions.	Provisions plus fair value of loans acquired / Non Performing exposures according to EBA definition	667.320 + 189.209 1.802.103 Ratio 47,5%	583.282+214.964 1.735.265 Ratio 46,0%

SHARE CAPITAL

The share capital of the Bank amounts to 174.474.178 common shares of nominal value Euro 0.85 each, totaling Euro 148.303.051. All shares are held by Alpha Bank Group companies. As a result, Alpha Bank SA holds indirectly 100% of the share capital of Alpha Bank Cyprus Ltd.

BRANCHES

The Bank is currently comprised of a modern network of 22 branches (2015:24) and other specialized units which are effectively supported by ATMs, internet banking and mobile banking. The number of branches has decreased by 2 (two) during the year as part of the strategy to contain operating expenses and increase productivity.

BOARD OF DIRECTORS

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

A. M. Michaelides, Chairman (as of 29 March 2016)
Ch. C. Giampanas, Vice-Chairman
G. A. Georgiou, Managing Director
Dr. A. K. Kritiotis
C. N. Papadopoulos
N. Mavrogenis
L. Georgiadou (as of 31 January 2017)

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT - 2016

1. Introduction

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

Direct stake	98,73%
Indirect stake through other companies of the Group	1,27%
Total	100,00%

The corporate governance framework ensures that the Bank is operating correctly and efficiently. For the implementation of the Corporate Governance Framework, the Bank follows the provisions of a relative Directive issued by the Central Bank of Cyprus. The operations of the Bank, as a member of Alpha Bank Group, are also closely supervised by the parent company.

2. Code of Conduct

The Bank applies the best business practices in its activities, management, and code of conduct for Management and Employees between each other and towards clientele, the shareholders and other relevant stakeholders.

2.1. Commitments

The Bank undertakes the following commitments with regard to its business activities:

- Towards its clientele, the Bank undertakes to provide them with full priority in services and a continued improvement in the quality of reception, information and provided services.

- Towards its shareholders, the Bank commits to increase goodwill and to secure a reasonable return for its investments.

- Towards its personnel, the Bank undertakes to secure fair reward, excellent working conditions and the potential to progress based on merit and equal treatment without discrimination.

- Towards society as a whole, the Bank undertakes to actively contribute towards progress and to improve the basic elements of its cohesion with society, such as culture, education, health and the environment.

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

2.2. Principles

Every activity of the Bank, whose ultimate purpose is the development and good standing of the Group, is governed by principles imposed by Law or Ethics, such as:

- integrity and honesty,
- objectivity and independence,
- confidentiality and discretion,
- conscious, disciplined and reasonable risk taking,
- complete, accurate and truthful information,
- corporate social responsibility.

2.3. Obligations

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

The staff manual contains the provisions which cover the general duties of employees, the required confidentiality, the expected behavior outside the Bank, the prohibition of discussion and publication of topics of political nature, the creation of debt, the prohibition of gambling, unauthorized duties, the prohibition of accepting gifts whilst providing a service as a director or employee of the bank and the avoidance of conflicts of interest whilst performing transactions.

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

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

3. Board of Directors

3.1. Overall purpose/objectives

The Board of Directors is the management body of the Bank and at all times has the primary responsibility for the internal governance. It defines, oversees and is accountable for the implementation of the governance arrangements that ensure the effective and prudent management of the Bank, including the separation of duties and prevention of the conflict of interests.

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

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

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

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

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

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

3.2. Main duties of the Board of Directors

The main duties of the Board of Directors in accordance with the provisions of the Internal Governance Manual for the Board of Directors and its Committees are the following:

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

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

3.3. Composition of the Board of Directors

The following provisions apply regarding the structure of the Board :

- The Board consists of not less than seven (7) members and not more than thirteen (13).
- The Board is comprised by the Chairman, the Vice Chairman and the members, who are distinguished between executive and non executive.
- At least fifty percent (50%) of the members are independent. The non-executive independent members of the Board of Directors need to fulfill independence criteria which are set by the provisions of 2014 Central Bank of Cyprus Directive in relation to the fitness and probity of the members of the Board.
- The executive members must be at least two (2) and not more than twenty five percent (25%), one (1) of which must be the Managing Director.
- The Board is sufficiently diverse as regards age, gender and educational and professional background to reflect an adequately broad range of experiences and facilitate a variety of independent opinions and critical challenge.
- The Board possesses adequate collective knowledge, skills and experience to be able to understand the institution's activities, including the main risks.
- For the appointment of new Board members, the approval of Central Bank of Cyprus and the European Central Bank is obtained.

From 1 January 2016 to 29 March 2016, the composition of the Board of Directors was as follow:

	Full name	Gategory	Profession
Chairman	Spyros Filaretos	Non-executive	Bank Employee
Vice Chairman	Christos Giampanas	Non-executive	Business Consultant
Members	George Georgiou	Managing Director	Bank Employee
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee
	Andreas Michaelides	Senior Independent non-executive	Accountant/Business Consultant
	Andreas Kritiotis	Independent non-executive	CEO of an Insurance Company
	Constantinos Papadopoulos	Independent non-executive	Accountant/Business Consultant
	Irene Rouvitha Panou	Independent non-executive	Economist/Business Consultant

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

From 30 March 2016 to 26 August 2016, the composition of the Board of Directors was as follow:

	Full name	Gategory	Profession
Chairman	Andreas Michaelides	Independent non-executive	Accountant/Business Consultant
Vice Chairman	Christos Giampanas	Non executive	Business Consultant
Members	George Georgiou	Managing Director	Bank Employee
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee
	Andreas Kritiotis	Senior - Independent non-executive	CEO of an Insurance Company
	Constantinos Papadopoulos	Independent non-executive	Accountant/Business Consultant
	Irene Rouvitha Panou	Independent non-executive	Economist/Business Consultant

From 27 August 2016 to 31 December 2016, the composition of the Board of Directors was as follow:

	Full name	Gategory	Profession
Chairman	Andreas Michaelides	Independent non-executive	Accountant/Business Consultant
Vice Chairman	Christos Giampanas	Non executive	Business Consultant
Members	George Georgiou	Managing Director	Bank Employee
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee
	Andreas Kritiotis	Senior - Independent non-executive	CEO of an Insurance Company
	Constantinos Papadopoulos	Independent non-executive	Accountant/Business Consultant
	New member*	Independent non-executive	

** Mrs. Irene Rouvitha Panou handed her resignation to the Bank's Board of Directors on 26 August 2016 which was accepted by the Board of Directors. At 31 December 2016, the appointment of a new Member in the Board of Directors was still pending.*

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

3.3.1.Changes in the composition of the Board of Directors during 2016

During 2016, the restructuring plan regarding the composition of the Board of Directors and its committees has been completed in the framework of harmonization with the relevant provisions of Directive on Governance and Management Arrangements in Credit Institutions published in 2014 by the Central Bank of Cyprus.

In particular, in the context of the gradual implementation of the restructuring plan of the Board of Directors of the Bank, the Board of Directors through its decision on 29th March 2016 appointed Mr. Andreas Michaelides, the current independent non-executive member, in the position of the Chairman of the Board of Directors and alongside accepted the resignation of Mr. Spyros Filaretos from the position of the Chairman and Member of the Board of Directors. On the same date, the Board of Directors decided to appoint Mr. Andreas Kritiotis, in the position of the Senior Independent Member.

By a written letter dated 10 August 2016, Mrs. Irene Rouvitha-Panou, independent non-executive Member of the Board of Directors of the Bank, submitted her resignation from the Board of Directors.

In her letter, Mrs. Rouvitha Panou referred to the reason for her resignation, being her appointment as Chairwoman of the Board of Cyprus Telecommunication Authority (CYTA).

Her resignation was submitted to the Board of Directors during the meeting held on 26 August 2016 and it was accepted.

Then the procedure for selection of a new Board Member followed, which was completed on 12 October 2016, the date on which the Board of Directors having taken into consideration the positive suggestion of the Nominations Committee approved unanimously the candidacy of Mrs. Lenia Georgiadou, for the appointment on the position of Independent non-executive Board Member.

After the positive decision by the European Central Bank on the recommendation of the Bank for the appointment of Mrs. Lenia Georgiadou in the position of Independent non-executive member, the Board of Directors ratified on 31 January 2017 her appointment to the specified position.

Upon completion of the procedure for the appointment of the new member to the Board of Directors of the Bank, the relevant provision of the Directive on Governance and Management Arrangements in Credit Institutions by the Central Bank of Cyprus in accordance with which " The size and composition of the management body must be set by taking into account the size and complexity of the institution and the nature and scope of its activities ensuring that – the management body consists of not less than seven (7) members and not more than thirteen (13) members" was fulfilled.

Additionally, by the appointment of Mrs. Georgiadou, the target regarding the representation of the under-represented sex to the Board of Directors, which has been determined in political diversity, has been fulfilled.

In the Board of Directors consisting of seven (7) members, there was being at least one (1) member of each sex.

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

At the date of this report, the Board of Directors consists of the following:

	Full name	Gategory	Profession
Chairman	Andreas Michaelides	Independent non-executive	Accountant/Business Consultant
Vice Chairman	Christos Giampanas	Non executive	Business Consultant
Members	George Georgiou	Managing Director	Bank Employee
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee
	Andreas Kritiotis	Senior - Independent non-executive	CEO of an Insurance Company
	Constantinos Papadopoulos	Independent non-executive	Accountant/Business Consultant
	Lenia Georgiadou	Independent non-executive	Economist

The Managing Director of the Bank and Executive Board Member, Mr. Georgiou retired at the end of 2016. For the position of the new Managing Director, the Group has proposed Mr. Constantinos Koutentakis. The required actions have been taken aiming to schedule the succession procedure in the General Management of the Bank.

At this stage, obtaining the agreement by the Central Bank of Cyprus for the completion of Mr. Koutentaki's appointment procedure as the new Managing Director of the Bank, is pending.

3.3.2. Curricula vitae of all the Members of the Board of Directors

Andreas Michaelides (Chairman)

He was born in 1942. In 1970 he became a Member of the Institute of Chartered Accounts in England and Wales and upon his return to Cyprus he joined Coopers and Lybrand. From 1972 to 1979 he was employed by the Bank of Cyprus as Manager of the Financial Control Division and also as Secretary of the Board of Directors. In 1979 he joined Chrysanthou and Christophorou Audit Company and later he became partner in Peat Marwick Mitchell and Co (KPMG today). He served as the Managing Director of the Emergo Group in Cyprus between 1992 and 2010, where he remains on the Boards of several group companies as Non- Executive Director. He has also served as President of the Council of the Institute of Certified Public Accountants of Cyprus. He has served on the Board of Directors of Alpha Bank Cyprus Ltd since July 2011 as a Member and since 26 April 2016 as Chairman.

Christos Giampanas (Vice Chairman)

He was born in 1952. He studied Economics and Statistics at the University of Athens and the University of Surrey, UK. He started his career at the National Bank for Industrial Development (Athens) and later he joined Societe Generale (Athens) and Barclays Bank (Athens and London), where he assumed the position of Country Manager Greece. In 1998 he joined Alpha Bank A.E. in the area of Corporate Banking. In 2004 he was appointed Executive President of Alpha Bank Romania S.A. and in 2007 Executive General Manager of Alpha Bank A.E. He has served on the Board of Directors of Alpha Bank Cyprus Ltd since October 2007 as a Member and since April 2013 as Vice Chairman.

George Georgiou

He was born in 1954. He studied Mathematics at the University of Athens. He followed specialised training programmes on finance at the New York Institute of Finance, Insead and Citibank Training Centre. He started his career with Citibank, Bahrain, in 1978 and in the following years he continued his career in other banking institutions in Greece and Germany in the areas of Treasury and Investment Banking. He joined Alpha Bank A.E. in 1998 and in April 2011 he was appointed Managing Director of Alpha Bank Cyprus Ltd. He is a member of the Boards of Directors of the Association of Cyprus Banks, the Cyprus Employers and Industrials Federation and the Cyprus - Greece Business Association.

Nicholas Mavrogenis

He was born in 1969. He graduated from Imperial College of Science and Technology, University of London with a B.Eng in Electrical and Electronics Engineering (1991), an MSc in Engineering and Physical Science in Medicine (1993) and an MBA (1994). He started his career with Alpha Bank Cyprus Ltd in 1994, where he has held among others, the positions of Head of Brokerage Services, Head of Consumer Lending Department and Manager of the Organisation Division. Since April 2013 he has held the positions of General Manager, Operations and Member of the Board of Directors of the Bank.

Andreas Kritiotis (Senior Independent Member of the Board)

He was born in 1959. He graduated from Imperial College of Science and Technology (BSc Chemical Engineering) and the Massachusetts Institute of Technology (MSc and PhD Chemical Engineering). He started his career at Bayer AG in Germany. After returning to Cyprus he worked at the Cyprus Development Bank (1992 - 1996) and at Eurolife as General Manager (1996 - 2007). In 2008 he founded Cerithium Ltd, an independent consultancy firm in Nicosia. Since 2012 he has been the CEO of Universal Life Insurance Public Company Ltd. He has served on the Board of Directors of the Bank since April 2010.

Constantinos Papadopoulos

He was born in 1952. He has a BSc (Econ) in Accounting and Finance from the London School of Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales. From 1978 to 2012 he worked at Coopers & Lybrand (later renamed PriceWaterhouseCoopers), where he became a partner in 1982. He served as a member of the Executive Board of the firm and as Deputy Managing Partner. He has also served as President of the Council of the Institute of Certified Public Accountants of Cyprus between 1993 and 1995, Chairman of the Board of the Cyprus Stock Exchange between 1993 and 2000 and President of the Cyprus - Greece Business Association between 2004 and 2008. He has served on the Board of Directors of the Bank since October 2015.

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

Lenia Georgiadou

She was born in 1947. She studied Economics at the London School of Economics and gained practical experience both on Financial Analysis and Policy and on Management and Investment Appraisal, having attended relevant courses at the International Monetary Fund (IMF) and the Pittsburgh University, respectively. Mrs. Georgiadou started her career in the Central Bank of Cyprus in 1970, where she held various positions until her retirement in 2010 from the position of the Director of Domestic Banking Services. She served as Chairwoman on the Board of Directors of SPE Tamassos-Orinis & Pitsilias, a Cooperative Credit Institution, between 2014 and 2016 and on the Board of Directors of the General Insurance Co Ltd from April 2013 to September 2013. In addition, Mrs. Georgiadou served as Member on the Board of Directors of the Bank of Cyprus and on the Board of Directors of Eurolife Ltd from April 2013 to September 2013.

3.4. Secretary of the Bank

The Company Secretary is responsible to assist the performance of the Board of Directors as follow:

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

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

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

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

3.5. Meetings of the Board of Directors

The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively. During 2016, twelve (12) Board meetings were held.

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

3.6. Board performance evaluation

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

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

The Board of Directors shall maintain that a process through which the non-executive board members assess themselves, their individual skills, knowledge and experience whether further professional development will help to advance their expertise and fulfill their obligations, is provided.

In December 2015, external advisors executed an evaluation of the performance of the Board and its committees and recorded their findings in a specific report.

4. Internal Control System

The Board of Directors confirms that during 2016 the Bank was maintaining an adequate and effective internal control system.

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

The Bank maintains an Internal Audit Division headed by the Deputy Manager of the Internal Audit Mrs. Panayiota Kyrou (FCCA). Currently, nine employees are working in the Internal Audit Division.

During 2017, a review of the framework of the internal controls is scheduled to be conducted by an external auditor other than the Bank's statutory external auditor. The review will be conducted according to the provisions of the Directive to Credit Institutions on Corporate Governance and management arrangements.

5. Remuneration of Board Members

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

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

6. Board Committees

The Audit Committee, Risk Committee and the Nominations Committee were active throughout the course of 2016. The responsibilities of the Remuneration Committee have been delegated to the Remuneration Committee of the parent company Alpha Bank A.E, as approved by the Central Bank of Cyprus.

6.1. Audit Committee
6.1.1.Main Responsibilities

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

- the monitoring and assessment of the adequacy and effectiveness of internal control systems, within the Framework of Internal control and Regulatory Compliance,
- advising the Board regarding the adequacy and effectiveness of the framework for business conduct,
- the monitoring of the financial reporting process and the integrity of the bank's financial statements and any formal announcements relating to the bank's financial performance,
- evaluation of the findings and recommendations of internal and external audits and monitoring of the implementation of the necessary corrective measures.

6.1.2.Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2016 the Committee convened ten (10) times.

6.1.3.Composition

The Committee consists only of non-Executive member and more than fifty percent (50%) are independent members.

From 1 January 2016 to 26 August 2016, the composition of the Audit Committee was as follow:

- Andreas Kritiotis, Chairman
- Irene Rouvitha Panou
- Constantinos Papadopoulos

Already been mentioned that Mrs. Irene Rouvitha Panou, handed in her resignation from the company's Board of Directors on 26 August 2016 which was accepted by the Board of Directors.

Since the resignation of Mrs. Irene Rouvitha Panou and until 31 January 2017, the date in which the new composition of the Board Committees has been approved (after the appointment of Mrs. Lenia Georgiadou as an Independent Non-Executive Member to the Board of Directors of Alpha Bank Cyprus Ltd), the Audit Committee was performing its duties under the following composition, Mr. Andreas Kritiotis as a Chairman and Mr Constantinos Papadopoulos as a member.

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

At the date of this report, the composition of the Audit Committee is the following:

- Andreas Kritiotis, Chairman
- Lenia Georgiadou
- Constantinos Papadopoulos

6.1.4. Audit Committee's Conclusions

The Audit Committee confirms that it has complied with the independence procedures of internal audit. The conclusion is based on:

- the organizational structure of the Bank and the meetings held with the Internal Auditor,
- the assessment of the effectiveness of Internal Auditors,
- the assessment of other audits.

6.2. Risk Committee

6.2.1. Main Responsibilities

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

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

6.2.2. Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2016 the Committee convened nine (9) times.

6.2.3. Composition

The Committee consists only of non-Executive member and more than fifty percent (50%) are independent members.

From 1 January 2016 to 26 August 2016, the composition of the Audit Committee was as follow:

- Andreas Michaelides, Chairman
- Irene Rouvitha Panou
- Christos Giampanas

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

Already been mentioned that Mrs. Irene Rouvitha Panou, handed in her resignation from the company's Board of Directors on 26 August 2016 which it was accepted by the Board of Directors.

Since the resignation of Mrs. Irene Rouvitha Panou and until 31 January 2017, the date in which the new composition of the Board Committees has been approved (after the appointment of Mrs. Lenia Georgiadou as an Independent Non-Executive Member to the Board of Directors of Alpha Bank Cyprus Ltd), the Audit Committee was performing its duties under the following composition, Mr. Andreas Michaelides as a Chairman and Mr. Christos Giampanas as a member.

At the date of this report, the composition of the Risk Committee is the following:

- Andreas Michaelides, Chairman
- Constantinos Papadopoulos
- Christos Giampanas

6.3. Nominations/Internal Governance Committee
6.3.1.Main Responsibilities

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

- assessing periodically, and at least annually the structure, size, composition and performance of the Board as a whole and also ensure that there is a proper balance of diversity, skills and experience in case of succession,

- assessing periodically, and at least annually, the knowledge, skills and experience of individual members ,

- review the policy applied by the Board for the selection, development and appointment of senior management and the recruitment, job rotation and promotion of staff,

- review, in cooperation with the audit and risk committees, their composition, powers and independence of the control departments,

- define the representation of gender in the Board. The target set is to a have a minimum of one presentation from each gender in a Board with seven members. The mentioned target has been fulfilled until 26 August 2016, the date in which Mrs. Irene Rouvitha Panou handed in her resignation from the Bank's Board of Directors.

6.3.2. Meetings

The Committee convenes at least once a year or more frequently depending on the circumstances. During 2016 the committee met seven (7) times.

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

6.3.3. Composition

The Committee consists only of non-Executive member and more than fifty percent (50%) are independent members.

From 1 January 2016 to 31 December 2016, the composition of the Audit Committee was as follow:

- Christos Giampanas, Chairman
- Andreas Kritiotis
- Andreas Michaelides

6.4. Summary table of the meetings of the Board and the Committees during 2016 (physically presence and via videoconference)

Name	Board of Directors	Risk Committee	Audit Committee	Nominations/ Internal Governance Committee
Spyros Filaretos*	3/3			
Andreas Michaelides	12/12	9/9		7/7
Christos Giampanas	12/12	9/9		7/7
George Georgiou	12/12			
Nicholas Mavrogenis	12/12			
Andreas Kritiotis	12/12		10/10	7/7
Constantinos Papadopoulos	11/12		9/10	
Irene Rouvitha Panou**	5/7	5/6	6/7	
Total number of meetings	12	9	10	7

* Resigned on 29 March 2016
** Resigned on 26 August 2016

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

7. Remuneration policy

Alpha Bank Cyprus Ltd has revised its Remuneration Policy, which is in line with the local and European regulatory framework as well as with the current collective labor agreement. The Remuneration Policy is required by the Central Bank of Cyprus directives and the relevant guidelines of the European Banking Authority.

The Remuneration policy:

• is consistent with the values, business strategy, objectives and in general the Bank's long-term interests,

• aligns personal and corporate goals in a long-term perspective and incorporates measures to avoid conflicting interests,

• promotes effective risk management, discourages excessive personal risks responsibility and prevents or minimizes the occurrence of conflicts of interest which are detrimental to sound, prudent and sound risk management. It is noted that risk responsibility is decided by committees / approving bodies that operate on the basis of specific terms of reference,

• associates the personnel earnings with the risks they undertake.

Compensation components

The Remuneration policy covers all remunerations, whether resulting from the current Collective Labor Agreement or provided by the Bank's freedom, namely:

• Fixed earnings, wages

• Variable earnings: The variable component of the total reward is optional and refers to bonus schemes or other rewards that may vary from year to year. Their payment takes into account the achievement of the Bank's / Company's objectives, the Unit, as well as the individual performance on the basis of the relevant evaluation criteria. Priority is given to the balance between fixed and variable remuneration components to ensure that the market remains competitive, in combination with the minimization of the risk involved.

• Benefits linked to the job

• Benefits associated with the retirement from the Bank, which are granted by the Bank and at the discretion of the Bank, as the case may be.

The ratio between the components of total remuneration is intended to be:

• Promoting, attaining the objectives,

• Flexible and adaptable to current market conditions,

• Intuitive, taking into account present and future risks.

• Proactive, with provision for possible postponement, adjustment, non-payment or reduction of variable remuneration.

BOARD OF DIRECTORS' REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2016 (cont.)

Remuneration Committee

The Central Bank of Cyprus has approved an exemption and the the duties of the remuneration committee will be performed by the Remuneration Committee of the Alpha Bank Group. Based on this arrangement, the decisions of the Remuneration Committee and the Board of Directors of Alpha Bank AE, are referred to the Board of Directors of Alpha Bank Cyprus Ltd for ratification.

The Remuneration Committee prepares the Remuneration Policy in a prudent and objective manner, which is submitted to the Board of Directors of Alpha Bank A.E. for approval, taking into account the interests of shareholders, investors and other interested parties.

The Remuneration Committee ensures that Human Resource Division, Internal Audit Division, Compliance Division and Risk Management Division are involved in the design, review and implementation of remuneration policy.

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

As at 31 December 2016 and 31 December 2015, the percentage of shareholders with direct or indirect stake of more than 5% of the issued share capital of the Bank were as follows:

	31 December 2016	31 December 2015
	%	%
Alpha Bank S. A.	100	100

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

The direct or indirect shareholding in the Bank held by members of the Board of Directors is described in note 39 of the financial statements.

RELATED PARTY TRANSACTIONS

Transactions with related parties are described in note 40 of the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the reporting period are described in note 42 of the financial statements.

INDEPENDENT AUDITORS

The appointment of independent auditors and their remuneration will be decided at the Annual General Meeting.

By order of the Board of Directors,

Nikitas Alkiviades
Secretary

Nicosia, 15 March 2017

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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

to the Members of

ALPHA BANK CYPRUS LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Alpha Bank Cyprus Limited (the "Bank"), which are presented on pages 40 to 157 and comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

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

Key Audit Matters

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

Provision for impairment of loans and advances to customers

Refer to Note 17 (loans and advances to customers), to Note 1 (applied accounting policies) and to Note 35 (financial risk management) to the financial statements.

The key audit matter	*How the matter was addressed in our audit*
The provision for impairment of loans and advances to customers is a key audit matter due to the size of the carrying amount, the complexity and subjectivity of the timing of the recognition of the provision and the significance of the amounts of the provision.The above calculations are performed by the management of the Bank. The Bank performs an individual impairment assessment and a collective impairment assessment per the Alpha Bank Group policy. The portfolios which give rise to the greatest uncertainty are typically those in the construction industry and those where impairments are derived from collective models. We paid attention to the collective impairment methodologies, focusing on the potential impact of changing inputs and assumptions. We also focused on portfolios that were potentially more sensitive to the estimated timing and proceeds from the future sales of the assets securing the debt.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans and advances. In addition, they included an assessment whether the selection of loans subject to individual impairment was per the policies and limits of the Alpha Bank Group, and the evaluation of the methodologies, inputs and assumptions used by the Bank in calculating collective impairment, and assessing the adequacy of impairment allowances for individually assessed loans and advances. We compared the Bank's assumptions for both collective and individual impairment allowances to our own assessments in relation to key inputs. For a sample of exposures that were subject to an individual impairment assessment, and focusing on group of loans with different risk characteristics, we specifically challenged the Bank's assumptions on the expected future cash flows, including the value of realizable collateral based on our own understanding and available market information. We assessed collateral values with reference to valuations performed by approved valuators. We also re-performed key calculations. We used our own internal specialists to test the collective provision models for compliance with the Bank's model governance policies and re-performed the collective provision calculations while testing reasonableness of key inputs used in the collective impairment provision calculation. We also assessed whether the financial statement disclosures appropriately reflect the Bank's exposure to credit risk, especially considering those portfolios identified as having the higher risk.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L42(I)/2009, as amended from time to time ("Law 42(I)/2009"), 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 Bank, so far as it appears from our examination of these books.

- The financial statements are in agreement with the books of account.

- In our opinion and to the best of our information 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 Management Report on pages 6 to 33, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.

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

- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, and which is included as a specific section of the Management Report, have been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the financial statements.

- In the light of the knowledge and understanding of the business and the Bank's environment obtained in the course of our audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113.

- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The Board Member on the audit resulting in this independent auditors' report is Maria A. Papacosta.

Maria A. Papacosta, FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

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

15 March 2017

Statement of Comprehensive Income

	Note.	From 1 January to 31.12.2016 €'000	31.12.2015 €'000
Interest and similar income	2	121.720	147.492
Interest expense and similar charges	2	(33.238)	(41.466)
Net interest income	2	88.482	106.026
Fees and commission income		7.036	9.283
Commission expense		(1.115)	(1.143)
Net fee and commission income	3	5.921	8.140
Dividend income	4	1.963	392
Gains less losses on financial transactions	5	8.715	(2.578)
Other income	6	3.135	582
		13.813	(1.604)
Total income		**108.216**	**112.562**
Staff costs	7	(32.742)	(38.122)
Voluntary Retirement Program	7	(31.655)	-
General administrative expenses and other expenses	8	(15.855)	(17.363)
Depreciation and amortization	19 &20	(1.955)	(2.174)
Total expenses		**(82.207)**	**(57.659)**
Impairment losses and provisions to cover credit risk	9	(55.585)	(99.601)
Loss before tax		(32.576)	(44.698)
Tax	11	1.803	(31)
Loss after tax		**(30.773)**	**(44.729)**
Other comprehensive income recognised directly to equity:			
Amounts that may be reclassified in the statement of comprehensive income			
Net change in available for sale securities reserve	30	305	455
Total amounts that may be reclassified in the statement of comprehensive income		305	455
Total comprehensive expense for the period attributable to the owners of the Bank		(30.468)	(44.274)
Earnings/(losses) per share :			
Basic and diluted (€ cents)	12	(17,64)	(26,18)

*The figures of the Statement of Comprehensive Income for the comparative period have been restated due to the presentation of income from services offered to Group companies in "other Income" instead of "Fee and Commission income"

The notes on pages 44 to 153 form an integral part of the financial statements.

Balance Sheet

	Note	31.12.2016 €΄000	31.12.2015 €΄000
ASSETS			
Cash and balances with central banks	13	191.873	349.757
Due from banks	14	292.229	58.814
Investment securities available for sale	15	117.829	98.558
Derivative financial assets	16	144	2.885
Loans and advances to customers	17	1.946.360	2.036.547
Investment property	18	2.023	2.023
Property, plant and equipment	19	23.113	24.323
Intangible assets	20	570	641
Deferred tax assets	21	14.164	12.061
Other assets	22	8.110	3.213
Total assets		2.596.415	2.588.822
LIABILITIES			
Due to banks	23	102.563	160.731
Derivative financial liabilities	16	7.467	379
Due to customers	24	1.940.628	1.851.788
Subordinated bonds	25	116.331	116.334
Other liabilities and provisions	26	18.597	18.293
Total liabilities		2.185.586	2.147.525
EQUITY			
Share capital	27	148.303	148.303
Share premium	29	90.467	90.467
Reserves	30	921	616
Retained earnings	31	107.138	137.911
Convertible capital securities	28	64.000	64.000
Total equity		410.829	441.297
Total liabilities and equity		2.596.415	2.588.822
Off balance sheet items	32	172.210	192.568

The financial statements were approved and authorized for issue by the Board of Directors on 15 March 2017.

A.M.Michaelides
Chairman

G. A. Georgiou
Managing Director

Y.Tofarides
Head of Financial
Services Division

The notes on pages 44 to 153 form an integral part of the financial statements.

Statement of Changes in Equity

	Share capital (note 27) €΄000	Share premium (note 29) €΄000	Reserves (note 30) €΄000	Retained earnings (note 31) €΄000	Convertible capital securities (note 28) €΄000	Total equity €΄000
Balance 1.1.2016	**148.303**	**90.467**	**616**	**137.911**	**64.000**	**441.297**
Changes for the period 1.1 – 31.12.2016						
Profit for the year, after tax	-	-	-	(30.773)	-	(30.773)
Other comprehensive income recognized directly in equity	-	-	305	-	-	305
Total comprehensive income for the period, after tax	**-**	**-**	**305**	**(30.773)**	**-**	**(30.468)**
31 December 2016	**148.303**	**90.467**	**921**	**107.138**	**64.000**	**410.829**
Balance 1.1.2015	**135.575**	**63.335**	**161**	**181.874**	**64.000**	**444.945**
Changes for the period 1.1 – 31.12.2015						
Profit for the year, after tax	-	-	-	(44.729)	-	(44.729)
Other comprehensive income recognized directly in equity	-	-	455	-	-	455
Total comprehensive income for the period, after tax	**-**	**-**	**455**	**(44.729)**	**-**	**(44.274)**
Transactions with the owners						
Negative goodwill from the acquisition of Emporiki Bank Cyprus Ltd	-	-	-	766	-	766
Share capital increase	12.728	27.132	-	-	-	39.860
31 December 2015	**148.303**	**90.467**	**616**	**137.911**	**64.000**	**441.297**

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

The notes on pages 44 to 153 form an integral part of the financial statements.

Statement of Cash Flows

	Note	From 1 January to 31.12.2016 €΄000	31.12.2015 €΄000
Cash flow from operating activities			
Profit/(Loss) before tax		(32.576)	(44.698)
Adjustment for gain/(losses) before tax:			
Depreciation of property, plant and equipment	19	1.603	1.625
Amortization of intangible assets	20	352	549
Write off of property, plant and equipment	19	95	-
(Gains)/losses from disposal of investment securities available for sale	15&30	(1.511)	(21)
(Gains)/losses from disposal of property, plant and equipment	6	(6)	(20)
Dividends received	4	(1.963)	(392)
Interest payable of subordinated loans	25	5.068	5.020
Reversal of provisions for litigation or arbitration disputes	26	(3)	(30)
Impairment losses and provisions to cover credit risk	9	65.884	101.087
Net (increase) / decrease in assets:		**36.943**	**63.120**
Loans and advances to customers		24.303	873.433
Derivative financial assets		2.741	(1.494)
Other assets		(4.897)	556
Net increase / (decrease) in liabilities:			
Due to banks		(20.974)	(788.556)
Derivative financial liabilities		7.088	(12.628)
Due to customers		88.840	(360.740)
Other liabilities		7	(6.731)
Net cash flows from continuing operations before taxes		**134.051**	**(233.040)**
Tax paid		-	-
Net cash flows from continuing operations		**134.051**	**(233.040)**
Net cash flows from investing activities:			
Purchase investment securities available for sale	15	(433.278)	(339.567)
Disposal of investment securities available for sale	15	415.823	583.060
Acquisition of Emporiki Bank		-	35.829
Acquisition of property, plant and equipment	19	(488)	(1.312)
Disposal of property, plant and equipment		6	20
Acquisition of intangible assets	20	(281)	(285)
Dividends received	4	1.963	392
Net cash flows from investing activities		**(16.255)**	**278.137**
Net cash flows from financing activities:			
Repayments on subordinated loans	25	(5.071)	(4.878)
Net cash flows from financing activities		**(5.071)**	**(4.878)**
Net increase/(decrease) in cash and cash equivalents		112.725	40.219
Cash and cash equivalents at the beginning of the year	33	295.437	255.218
Cash and cash equivalents at the end of the year	33	408.162	295.437

The notes on pages 44 to 153 form an integral part of the financial statements.

GENERAL INFORMATION

Incorporation and principal activity

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

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

The Bank considers Alpha Bank S.A. as its parent, which is registered in Greece and member of Alpha Bank Group (the "Alpha Bank Group")

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

ACCOUNTING POLICIES APPLIED

1.1 Basis of presentation

These financial statements for the year 1.1 – 31.12.2016 have been prepared :

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

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

- Derivative financial instruments
- Available-for-sale securities

Furthermore, the financial statements have been prepared in accordance with the requirements of the Companies Law 113 of Cyprus and the Securities and Cyprus Stock Exchange Law and the Transparency Requirements (Securities Admitted to trading on a Regulated Market) Law.

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

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

The estimates and assumptions are reviewed on an ongoing basis to take into account current conditions, and the effect of any revisions is recognized in the period in which the estimate is revised.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

The accounting policies for the preparation of the financial statements have been consistently applied by the Bank to the years 2015 and 2016, after taking into account the following amendments to standards which were issued by the International Accounting Standards Board (IASB), adopted by the European Union and applied on 1.1.2016:

- **Amendment to International Financial Reporting Standard 10** “Consolidated Financial Statements”, **to International Financial Reporting Standard 12** “Disclosure of Interests in Other Entities” and **to International Accounting Standard 28** “Investments in Associates and Joint Ventures”: Investment Entities: Applying the Consolidation Exception (Regulation 2016/1703/22.9.2016)

On 18.12.2014, the International Accounting Standards Board issued an amendment to the above standards with which it clarified that the exception provided in IFRS 10 and IAS 28, for the preparation of consolidated financial statements and the application of the equity method respectively, applies also to a parent entity that it is a subsidiary of an investment entity which measures all of its subsidiaries at fair value according to IFRS 10. In addition, with the aforementioned amendment it was clarified that the disclosure requirements of IFRS 12 apply to the investment entities which measure all of their subsidiaries at fair value through profit or loss.

The adoption of the above amendment by the Bank had no impact on its financial statements.

- **Amendment to International Financial Reporting Standard 11** “Joint Arrangements”: Accounting for acquisition of interests in joint operations (Regulation 2015/2173/24.11.2015)

On 6.5.2014 the International Accounting Standards Board issued an amendment to IFRS 11 with which it is clarified that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business (as defined in IFRS 3), it shall apply all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11. In addition, it shall disclose the information required by IFRS 3 and other related standards. This applies both when acquiring the initial interest in the joint operation that constitutes a business and when acquiring an additional interest.

The adoption of the above amendment by the Bank had no impact on its financial statements.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendment to International Accounting Standard 1** "Presentation of Financial Statements": Disclosure Initiative (Regulation 2015/2406/18.12.2015)

On 18.12.2014 the International Accounting Standards Board issued an amendment to IAS 1 in the context of the project it has undertaken to analyze the possibilities for improving the disclosures in IFRS financial reporting. The main amendments are summarized below:

- the restriction to disclose only a summary of significant accounting policies is removed;
- it is clarified that even when other standards require specific disclosures as minimum requirements, an entity may not provide them if this is considered immaterial. In addition, in case the disclosures required by the IFRS are insufficient to enable users to understand the impact of particular transactions, the entity shall consider whether to provide additional disclosures;
- it is clarified that the line items that IFRS require to be presented in the balance sheet and the statements of profit or loss and other comprehensive income are not restrictive and that the entity may present additional line items, headings and subtotals;
- it is clarified that in the Statement of Comprehensive Income the share of other comprehensive income of associates and joint ventures accounted for using the equity method shall be separated into:
  - amounts that will not be reclassified subsequently to profit or loss and
  - amounts that will be reclassified subsequently to profit or loss;
- it is clarified that the standard does not specify the presentation order of the notes and that each entity shall determine a systematic manner of presentation taking into account the understandability and comparability of its financial statements.

The adoption of the above amendment by the Bank had no impact on its financial statements.

- **Amendment to International Accounting Standard 16** "Property, Plant and Equipment" and **to International Accounting Standard 38** "Intangible Assets": Clarification of Acceptable Methods of Depreciation and Amortization (Regulation 2015/2231/2.12.2015)

On 12.5.2014 the International Accounting Standards Board issued an amendment to IAS 16 and IAS 38 with which it expressly prohibits the use of revenue as a basis for the depreciation and amortization method of property, plant and equipment and intangible assets respectively. An exception is provided only for intangible assets and only when the following conditions are met:

- when the intangible asset is expressed as a measure of revenue, i.e. when the right over the use of the intangible asset is expressed as a function of revenue to be generated in such a way that the generation of a specific amount of revenue determines the end of the right of use, or
- when it can be demonstrated that the revenue and the consumption of the economic benefits are highly correlated.

The adoption of the above amendment by the Bank had no impact on its financial statements.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendment to International Accounting Standard 16** "Property, Plant and Equipment" and **to International Accounting Standard 41** "Agriculture": Bearer Plants (Regulation 2015/2113/23.11.2015)

On 30.6.2014 the International Accounting Standards Board issued an amendment to IAS 16 and IAS 41 with which it clarified that bearer plants, which are living plants that:

a) are used in the production or supply of agricultural produce;

b) are expected to bear produce for more than one period; and

c) have remote likelihood of being sold as agricultural produce, except for incidental scrap sales,

shall be accounted for based on IAS 16 instead of IAS 41.

The above amendment does not apply to the activities of the Bank.

- **Amendment to International Accounting Standard 27** "Separate Financial Statements": Equity Method in Separate Financial Statements (Regulation 2015/2441/18.12.2015)

On 12.8.2014 the International Accounting Standards Board issued an amendment to IAS 27 with which it provides the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. In addition, with the above amendment it is clarified that the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures, which under IAS 28 are accounted for with the equity method, do not constitute separate financial statements.

The adoption of the above amendment by the Bank had no impact on its financial statements.

- **Improvements to International Accounting Standards – cycle 2012-2014** (Regulation 2015/2343/15.12.2015)

As part of the annual improvements project, the International Accounting Standards Board issued, on 25.9.2014, non- urgent but necessary amendments to various standards.

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

Except for the standards mentioned above, the European Union has adopted the following new standards which are effective for annual periods beginning after 1.1.2016 and have not been early adopted by the Bank.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

• **International Financial Reporting Standard 9** “Financial Instruments” (Regulation 2016/2067/22.11.2016)

Effective for annual periods beginning on or after 1.1.2018

On 24.7.2014, the International Accounting Standards Board completed the issuance of the final text of IFRS 9: Financial Instruments, which replaces the existing IAS 39. The new standard provides for significant differentiations in the classification and measurement of financial instruments as well as in hedge accounting. An indication of the new requirements is presented below:

Classification and measurement

Financial instruments shall be classified, at initial recognition, at either amortized cost or at fair value. The criteria that should be considered for the initial classification of the financial assets are the following:

i. The entity’s business model for managing the financial assets and

ii. The contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

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

If an instrument meets the above criteria but is held with the objective of both selling and collecting contractual cash flows it shall be classified as measured at fair value through other comprehensive income.

Financial assets that are not included in any of the above two categories are mandatorily measured at fair value though profit or loss.

In addition, IFRS 9 permits, at initial recognition, equity instruments to be classified at fair value through other comprehensive income. The option precludes equity instruments held for trading. Moreover, with regards to embedded derivatives, if the hybrid contract contains a host that is within the scope of IFRS 9, the embedded derivative shall not be separated and the accounting treatment of the hybrid contact should be based on the above requirements for the classification of the financial instruments.

With regards to the financial liabilities, the main difference is that the change in the fair value of a financial liability initially designated at fair value through profit or loss shall be recognised in profit or loss with the exception of the effect of change in the liability’s credit risk which shall be recognised directly in other comprehensive income.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

International Financial Reporting Standard 9 “Financial Instruments” (Regulation 2016/2067/22.11.2016) (cont.)

Impairment

Contrary to the existing IAS 39, under which an entity recognizes only incurred credit losses, the new standard requires the recognition of lifetime expected credit losses if the credit risk of the financial instrument has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, 12-month expected credit losses shall be recognized.

Hedging

The new requirements for hedge accounting are more aligned with the entity’s risk management. The main changes in relation to the current requirements of IAS 39 are summarized below:

- more items become eligible for participating in a hedging relationship either as hedging instruments or as hedged items,
- the requirement for hedge effectiveness tests to be within the range of 80%-125% is removed. Hedge effectiveness test is performed progressively only and under certain circumstances a qualitative assessment is considered adequate,
- in case that a hedging relationship ceases to be effective but the objective of risk management regarding the hedging relationship remains the same, the entity shall rebalance the hedging relationship in order to satisfy the hedge effectiveness criteria.

It is noted that the new requirements for hedge accounting do not include those that relate to macro hedging, since they have not been finalized yet.

Except for the aforementioned modifications, the issuance of IFRS 9 has resulted in the amendment to other standards and mainly to IFRS 7 where new disclosures were added.

IFRS9 Implementation program

In order to ensure the proper implementation of the new standard, the Bank has initiated a program for the implementation of IFRS 9. Until today, in order to manage the Program, a Steering Committee has been set up consisting of members of the General Management and the manager of the Financial Services Division, Credit Risk, Information Technology and Organization.

The Steering Committee meets on a regular basis to confirm key assumptions, approve decisions and policies as well as to monitor the progress of implementation program. The program was split in two workstreams, the impairment workstream and the classification and measurement workstream. In order to ensure the smooth and parallel implementation of all works required to comply with IFRS 9, the delivery of the required changes has been undertaken by about 19 individual projects that the Bank has identified

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

International Financial Reporting Standard 9 "Financial Instruments" (Regulation 2016/2067/22.11.2016) **(cont.)**

To date, the program has focused on the classification of financial instruments on the basis of the new criteria, the development of basic methodologies regarding the concepts of IFRS 9, the design of the operating model and the software applications and the development of methodologies for modeling the credit risk parameters for the calculation of the impairment.

Classification and measurement workstream

The Bank is in the process of evaluating existing business models and to define the new business models where necessary to reflect its business strategy. The outcome of the above process will be to match the existing financial assets with the new business models.

Furthermore, the Bank is in the process of evaluating its existing financial assets in order to determine whether the SPPI criterion (i.e. that cash flows represent solely payment of principal and interest) is satisfied. For standardized retail banking loans, the assessment is applied on the product characteristics, whereas for non-standardized (mainly business) loans the assessment will be applied on the characteristics of each individual financial instruments.

Finally, the Bank is in the process of updating its policies and designing new procedures to be applied for the classification of financial instruments as of 1.1.2018.

Impairment workstream

The Bank should recognize an impairment provision for expected credit losses for all loans and other financial assets that are not classified in the fair value through profit or loss category as well as for off-balance sheet liabilities.

The provision for impairment will be based on expected credit risk losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from initial recognition. In this case, the provision will be based on the probability of default over the life of the instrument.

In assessing whether the credit risk of an instrument has increased significantly since initial recognition, the Bank intends to take into consideration both qualitative and quantitative information, which is substantiated and considered reasonable and which can be differentiated between portfolios. The Bank is currently in the process of developing analytical methodologies for assessing the increase of credit risk.

The main parameters for determining the expected credit risk losses are the following variables:

- probability of default,
- loss given default and
- exposure at default.

The Bank will derive these parameters from internally developed statistical models based on historical data that will be adapted to include long-term information.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

International Financial Reporting Standard 9 "Financial Instruments" (Regulation 2016/2067/22.11.2016) **(cont.)**

Finally, the Bank is planning the procedures and governance framework for the calculation of impairments, including the new provisions introduced by IFRS 9, aiming in establishing a detailed process, for an automated calculation of the impairments which will be described in the updated text of policies and procedures

Transition

Classification and measurement requirements and impairment are applied retrospectively by adjusting the opening balance at the date of initial recognition, without recalculating the comparative figures. At this stage, the Bank does not intend to recalculate the comparative figures.

Quantitative impact

It is estimated that no reliable estimates will be available for the impact of IFRS 9, until the most important decisions affecting the implementation of the program are taken, especially those decision that will interact with the supervisory capital requirements. Consequently, no further information can be provided on the expected impact on the Bank's financial position and regulatory capital.

The Bank however, intends to quantify the potential impact of IFRS 9 when this is allowed by the degree of implementation of the project and in any case no later than the annual financial statements of 31.12.2017.

The Bank is examining the impact from the adoption of IFRS 9 on its financial statements.

- **International Financial Reporting Standard 15** "Revenue from Contracts with Customers" (Regulation 2016/1905/22.9.2016)

Effective for annual periods beginning on or after 1.1.2018

IFRS 15 "Revenue from Contracts with Customers" was issued on 28.5.2014 by the International Accounting Standards Board. The new standard is the outcome of a joint project by the IASB and the Financial Accounting Standards Board (FASB) to develop common requirements as far as the revenue recognition principles are concerned.

The new standard shall be applied to all contracts with customers, except those that are in scope of other standards, such as financial leases, insurance contracts and financial instruments.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

International Financial Reporting Standard 15 “Revenue from Contracts with Customers” (Regulation 2016/1905/22.9.2016) (cont.)

According to the new standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. A new revenue recognition model is introduced, by applying the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The performance obligation notion is new and in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The new IFRS 15 supersedes:

(a) IAS 11 “Construction Contracts”;

(b) IAS 18 “Revenue”;

(c) IFRIC 13 “Customer Loyalty Programmes”;

(d) IFRIC 15 “Agreements for the Construction of Real Estate”;

(e) IFRIC 18 “Transfers of Assets from Customers”;and

(f) SIC-31 “Revenue—Barter Transactions Involving Advertising Services”.

The Bank is examining the impact from the adoption of IFRS 15 on its financial statements.

In addition, the International Accounting Standards Board has issued the following standards and amendments to standards as well as IFRIC 22 which have not yet been adopted by the European Union and they have not been early applied by the Bank.

- **Amendment to International Financial Reporting Standard 2** “Share-based Payment”: Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1.1.2018

On 20.6.2016 the International Accounting Standards Board issued an amendment to IFRS 2 with which the following were clarified:

- in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions shall follow the same approach as for equity-settled share-based payments,

ACCOUNTING POLICIES APPLIED (cont.)

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

- **Amendment to International Financial Reporting Standard 2** "Share-based Payment": Classification and Measurement of Share-based Payment Transactions (cont.)

– where tax law requires an entity to withhold a specified amount of tax (that constitutes a tax obligation of the employee) that relates to share-based payments and shall be remitted to the tax authority, such an arrangement shall be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature,

– if the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification.

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

- **Amendment to International Financial Reporting Standard 4** "Insurance Contracts": applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

Effective for annual periods beginning on or after 1.1.2018

On 12.9.2016 the International Accounting Standards Board issued an amendment to IFRS 4 with which:

– It provides insurers, whose activities are predominantly connected with insurance, with a temporary exemption from application of IFRS 9,

– following full adoption of IFRS 9, it gives all entities with insurance contracts the option to present changes in fair value on qualifying designated financial assets in other comprehensive income instead of profit or loss.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendment to International Financial Reporting Standard 10** "Consolidated Financial Statements" and **to International Accounting Standard 28** "Investments in Associates and Joint Ventures": Sale or contribution of assets between an investor and its associate or joint venture

Effective date: To be determined

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **International Financial Reporting Standard 14** "Regulatory deferral accounts"

Effective for annual periods beginning on or after 1.1.2016

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

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

- **Amendment to International Financial Reporting Standard 15** "Revenue from Contracts with Customers": Clarifications to IFRS 15 *Revenue from Contracts with Customers*

Effective for annual periods beginning on or after 1.1.2018

On 12.4.2016 the International Accounting Standards Board issued an amendment to IFRS 15 with which it mainly clarified the following:

- when a promised good or service is separately identifiable from other promises in a contract, which is part of an entity's assessment of whether a promised good or service is a performance obligation,
- how to apply the principal versus agent application guidance to determine whether the nature of an entity's promise is to provide a promised good or service itself (i.e., the entity is a principal) or to arrange for goods or services to be provided by another party (i.e., the entity is an agent),
- for a licence of intellectual property, which is a factor in determining whether the entity recognises revenue over time or at a point in time.

Finally, two practical expedients to the transition requirements of IFRS 15 were added for completed contracts under full retrospective transition approach as well as for contract modifications at transition.

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

ACCOUNTING POLICIES APPLIED (cont.)

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

- **International Financial Reporting Standard 16** "Leases"

Effective for annual periods beginning on or after 1.1.2019

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

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

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

The Bank is examining the impact from the adoption of IFRS 16 on its financial statements.

- **Amendment to International Accounting Standard 7** "Statement of Cash Flows": Disclosure Initiative

Effective for annual periods beginning on or after 1.1.2017

On 29.1.2016 the International Accounting Standards Board issued an amendment to IAS 7 according to which an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities for which cash flows are classified in the statement of cash flows as cash flows from financing activities. The changes that shall be disclosed, which may arise both from cash flows and non-cash changes, include:

– changes from financing cash flows,
– changes arising from obtaining or losing control of subsidiaries or other businesses,
– the effect of changes in foreign exchange rates,
– changes in fair values and
– other changes.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendment to International Accounting Standard 12** “Income Taxes”: Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual periods beginning on or after 1.1.2017

On 19.1.2016 the International Accounting Standards Board issued an amendment to IAS 12 with which the following were clarified:

- Unrealised losses on debt instruments measured at fair value for accounting purposes and at cost for tax purposes may give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the asset by sale or by use.
- The recoverability of a deferred tax asset is assessed in combination with other deferred tax assets. However, if tax law offsets specific types of losses only against a particular type of income, the relative deferred tax asset shall be assessed in combination with other deferred tax assets of the same type.
- During the deferred tax asset recoverability assessment, an entity compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences.
- The estimate of probable future taxable profit may include the recovery of some of an entity’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

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

- **Amendment to International Accounting Standard 40** “Investment Property”: Transfers of Investment Property

Effective for annual periods beginning on or after 1.1.2018

On 8.12.2016 the International Accounting Standards Board issued an amendment to IAS 40 with which it clarified that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. In addition, the examples of evidence of a change in use were expanded to include assets under construction and not only transfers of completed properties.

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

ACCOUNTING POLICIES APPLIED (cont.)

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

- **Improvements to International Accounting Standards – cycle 2014-2016**

Effective for annual periods beginning on or after 1.1.2017 and 1.1.2018

As part of the annual improvements project, the International Accounting Standards Board issued, on 8.12.2016, non- urgent but necessary amendments to various standards.
The Bank is examining the impact from the adoption of the above amendments on its financial statements.

- **IFRIC Interpretation 22** "Foreign Currency Transactions and Advance Consideration"

Effective for annual periods beginning on or after 1.1.2018

On 8.12.2016 the International Accounting Standards Board issued IFRIC 22. The Interpretation covers foreign currency transactions when an entity recognizes a non monetary asset or liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation clarified that the date of the transaction, for the purpose of determination of exchange rate to use on initial recognition of the asset, the income or expense, is the date of initial recognition of the non monetary asset or liability (i.e. advance consideration). Additionally, if there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The Bank is examining the impact from the adoption of the above Interpretation on its financial statements.

ACCOUNTING POLICIES APPLIED (cont.)

1.2 Operating segments

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

1.3 Transactions in foreign currency

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

1.4 Cash and cash equivalents

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

ACCOUNTING POLICIES APPLIED (cont.)

1.5 Classification and measurement of financial instruments

Recognition date

Acquisitions or disposals of financial assets required to be delivered within the time limit as prescribed in the regulations and standard rules of the relevant market, are recognised at the date of transaction thus the date when the Bank 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 Bank receives or grants funds to the contracting parties.

Initial recognition of financial instruments

The classification of 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 or loss.

Derecognition

The Bank derecognizes financial assets when the cash flows from the financial assets expire, or when the contractual right to receive the cash flows of the financial assets is transferred and at the same time both risks and rewards of ownership are transferred. Any rights or obligations created on derecognition are separately recognised as assets or liabilities.

The Bank derecognizes financial liabilities when its contractual obligations are discharged, cancelled or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount is shown on the Balance Sheet only when the Bank has a legal right to offset the assets against the liabilities and intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are recognised on a net basis only when this is permitted by the accounting standards, or when income and expenses arising from a group of similar transactions.

Measured at amortised cost

The amortized cost of a financial asset or liability , is the amount at which initially measured, less any repayments of capital, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, calculated using the effective interest method after deducting any impairment.

ACCOUNTING POLICIES APPLIED (cont.)

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

Loans and receivables

Loans and receivables, originated by providing cash directly to the borrowers are measured initially at fair value including transaction costs. Subsequently, loans and receivables are measured at amortized cost and are periodically tested for impairment.

The Bank assesses as at each balance sheet date, whether there is evidence of impairment in accordance with Alpha Bank Group policy and the general principles and methodology set out in IAS 39 and the relevant implementation guidance. In particular, the steps performed are the following:

(a) The criteria of assessment on an individual or collective basis

The Bank, in accordance with Alpha Bank Group policy on impairment, assesses for impairment on an individual basis the business loans of the wholesale sector. Importance is attached to the Wholesale Banking sector loans and to specific loans in the Retail Banking sector.

For the remainder of loans the impairment test is performed on a collective basis.

The Bank has determined the criteria that constitute trigger events for the assessment of impairment.

Loans which are individually assessed for impairment and found not impaired are included in groups, based on similar credit risk characteristics, and assessed for collective impairment.

For the purpose of the collective impairment exercise, the Bank groups the portfolio into homogenous populations, based on common risk characteristics, and based on strong historical statistical base, performs an analysis with which it captures and defines impairment testing, by segment population.

The statistical data is examined and assessed by the responsible Division.

Additionally, the Bank recognizes impairment for loss events that have been incurred but have not been reported (IBNR). The calculation of the impairment loss in these cases takes into account the period between the occurrence of a specific event and the date that it becomes known (Loss Identification Period).

ACCOUNTING POLICIES APPLIED (cont.)

1.5 Classification and measurement of financial instruments (cont.)

Loans and receivables (cont.)

(b) Methodology in determining future cash flows from impaired loans

For the purpose of the collective impairment , the Bank has accumulated a significant amount of historical data, which includes the value of the loans being impaired (loss given default – LGD) after the completion of efforts for the recovery of collaterals or other measures taken as to secure collection of loans, including the realization of collateral securities of any nature.

For loans being impaired on an individual basis, the amount of the recoverable amount of each loan is determined after taking into account the time value of money. The cash flows are discounted at the loans' interest rate.

An impairment loss is recognized to the extent that the recoverable amount of the loan is less than the carrying amount.

(c) Interest income recognition of impaired loans

Interest income on impaired loans is recognized based on the carrying value of the loan net of impairment, at the loans' interest rate.

(d) Impairment recognition - Write-offs

Amounts of impaired loans are recognized in allowance accounts until the Bank decides to write them off.

In particular, the Bank proceeds to write off loans, when it is estimated that loans are uncollectable and all legal recourse for their collection has been completed.

(e) Recoveries

If in a subsequent period, after the recognition of the impairment loss, events occur which require the impairment loss to be reduced, or there has been a collection of amounts from loans and advances previously written-off, the recoveries are recognized in impairment losses and provisions to cover credit risk.

A detailed analysis of impairments is included in note 35 of the financial statements.

ACCOUNTING POLICIES APPLIED (cont.)

1.5 Classification and measurement of financial instruments (cont.)

Investment securities 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 bills and government bonds.

Available for sale investments are measured at estimated fair value, based on current market price for securities listed on Stock Exchange. 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.

Interest on treasury bills and 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 recognized in other income from operations in the statement of comprehensive income as soon as the right to receive is deemed final.

Profits or losses 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 Bank 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.

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. A significant or prolonged decrease in fair value of an investment equity instrument below cost represents an objective indication of impairment for application of the above. The Bank defines as “significant” a decrease above 20% related to the cost of the investment. Respectively, “prolonged” is considered a decrease in fair value below cost of investment for a continuous period exceeding one year. When the impairment of investments available for sale takes place the accumulated loss which was included in the Balance Sheet is transferred to the statement of comprehensive income. If events occur following the recognition of impairment loss this will result in a decrease in the already recognised impaired amount, these amounts are recognized as income in the income statement, only in the event that it concerns bonds. In contrast, impairment losses in shares or interests in mutual funds are not reversed in the results.

During the year ended 31 December 2016 there was no indication of impairment of investments available for sale.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Derivative financial instruments

The Bank uses derivative financial instruments such as currency and interest rate swaps and forward rate agreements to hedge for the market price risks arising from operating, financing and investing activities. Derivatives that do not qualify for accounting are considered to be trading instruments.

Derivatives are initially recognized at cost. Subsequently, the derivatives are measured at fair value. The fair value of currency and interest rate swap is considered to be estimated price to be received or paid by the Bank which would pay to terminate the currency and interest swap at the end of a reporting period taking into account the current creditworthiness of the contracting parties. The fair value of the forward rate agreements is the market price at the reporting period. Any adjustments at fair value are recognized in the comprehensive income.

1.7 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.7 Fair value measurement (cont.)

Non financial assets and liabilities

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

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

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

1.8 Property, plant and equipment

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

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

Premises and improvements on leasehold premises	5 - 50 years
Plant and equipment	3 - 10 years

No depreciation is calculated on land. They are however reviewed for possible impairment.

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

The residual values and the useful lives are reviewed and adjusted at each reporting period, if considered necessary.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.9 Investment property

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

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

1.10 Intangible assets

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

Computer application software	3 years
Computer software of the Bank	5 years

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

1.11 Operating leases

Leases on assets, where the Bank does not undertake substantially all the risks and rewards arising from ownership of the assets, 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.

1.12 Impairment losses on non financial assets

The Bank assess at each reporting period the carrying amount 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 Bank 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 the value in use. The value in use is the present value of expected future cash flows from continuing use of the asset and from its disposal at the end of its useful life. The impairment is recognized in the statement of comprehensive income as an expense.

ACCOUNTING POLICIES APPLIED (cont.)

1.13 Tax

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

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

Immovable property tax
The immovable property is taxed at rates ranging between 0,6% and 1,9% of the immovable property values of January 1st , 1980.

Special tax levy on bank deposits
Special tax levy on financial institutions for customers deposits, excluding bank deposits, is in force since 14 April 2011 and is paid by the financial institutions . With effect from 1 January 2013 the tax percentage increased from 0,11% to 0,15%. The legislation was amended in 2015 and the tax is calculated on the customer deposits of the previous quarter instead on the deposits of the previous year.

1.14 Deferred tax assets

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

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

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

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

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

1.15 Other assets

Non-current assets which are acquired through auctions or debt settlement, but are not immediately available for sale or are not expected to be sold within one year, are presented in Other Assets and are valued at the lower of cost (or carrying amount) and fair value.

ACCOUNTING POLICIES APPLIED (cont.)

1.16 Employee benefits

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

The Bank does not operate a defined benefit plan.

1.17 Provisions for litigation and arbitration of disputes

Provisions for litigation and arbitration of disputes are recognized when:

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

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

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

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

1.18 Subordinated bonds

Subordinated bonds consists of bonds that are initially recognized based on financial instruments classification and measurement principles (note 1.5) and are reported at amortized cost. The amortised cost is the fair value of securities issued after deducting interest payments plus the cumulative amortization using the effective interest method of any difference between the initial amount and the amount at maturity date. The bonds are classified as Tier II Capital for the purposes of calculating the capital adequacy ratio.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.19 Share capital

The ordinary shares are classified as equity.

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

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

1.20 Convertible Capital Securities

The convertible capital securities are of perpetual maturity financial instruments issued by the Bank and are initially recognized based on financial instruments classification and measurement principles (note 1.5) The Bank may at its sole discretion at all times, taking into account its financial position and solvency, elect to cancel an interest payment on a non cumulative basis.

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

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

1.21 Interest income and expense

Interest income
Interest income is recognised in the statement of comprehensive income on an accruals basis. Interest receivable includes interest receivable from loans and advances and financial assets available for sale as well as from derivative financial instruments.

Interest expense
Interest expense is recognised on an accrual basis.

1.22 Gains less losses on financial transactions

Gains less losses on financial transactions include the fair value changes of financial assets and liabilities, gains or losses on their disposal and the exchange differences arising from the translation of financial instruments denominated in foreign currencies. Impairment losses on bonds, shares and other securities of variable return are also included in gains less losses on financial transactions.

Differences that may arise between the carrying amount of financial liabilities settled or transferred and the consideration paid, are also recognised in gains less losses on financial transactions.

ACCOUNTING POLICIES APPLIED (cont.)

1.23 Income and expenses from fees and commissions

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

1.24 Dividend Income

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

1.25 Expenses on improvements, repairs and maintenance

The expenses for the alteration or improvement of buildings or improvements on leasehold premises are capitalised and depreciated based on the factor reported in accounting policy for property, plant and equipment.

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

1.26 Financial guarantee contracts

A financial guarantee contract (except insurance contracts) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment that should have be done as per the terms of the contract. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans and other banking facilities.

The financial guarantee contracts are initially recognized at fair value, and measured subsequently at the higher of:

- the best estimate of the cost required to settle the commitment at the reporting date. These estimates are determined based on experience of similar transactions, history of post transactions and management estimates,

- the amount initially recognised less cumulative amortization.

Any increase is recognized in the Statement of Comprehensive Income.

The Bank did not recognize any amounts in the Statement of Comprehensive Income relating to financial guarantee contracts.

ACCOUNTING POLICIES APPLIED (cont.)

1.27 Related parties definition

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

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

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

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

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

Furthermore, the Bank discloses transactions and current balances with companies, in which the above individuals exert control or common control. More specifically, disclosure involves individuals who hold a higher than 20% stake in such companies.

1.28 Comparatives

To the extend considered necessary the comparatives have been adjusted to facilitate changes in presentation of the current year amounts.

ACCOUNTING POLICIES APPLIED (cont.)

1.29 Estimates, decision making criteria and significant sources of uncertainty

The estimates and criteria implemented by the Bank in decision making which impact the preparation of the financial statements are based on historical information and assumptions which under present conditions, are deemed to be reasonable.

The estimates and criteria for decision making are reassessed to take into consideration current developments and the consequences from potential changes are recognised in the financial statements during the period in which they occur.

The Bank, in the context of applying accounting policies and preparing financial statements in accordance with IFRS, conducts estimates and assumptions which impact the amount of recognised income, expenses and assets and liabilities. The use of estimates and assumptions is an integral part of the recognition of accounting figures which mainly relate to the following:

a) Fair value of assets and liabilities

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

b) Impairment losses of financial assets

The Bank, when performing impairment tests on loans and advances to customers, makes estimates regarding the amount and time of future cash flows. Given that these estimates are affected by a number of factors such as the financial position of the borrower, the net realizable value of any collateral or the historical loss ratios per portfolio, actual results may differ from those estimated. Similar estimates are used in the assessment of impairment losses of securities classified as available for sale or held to maturity.

c) Impairment losses of non – financial assets

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

d) Tax

The Bank recognizes the amounts of current and deferred income tax based on estimates concerning the amount of taxable profits, based on which the amounts of tax expected to be paid or recovered in the current and future periods are determined. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit etc. Future tax audits, changes in tax legislation and the amount of taxable profit actually realised, may result in tax payments other than those recognized in the financial statements of the Bank. Any adjustments are recognized in the year in which they are finalized.

ACCOUNTING POLICIES APPLIED (cont.)

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

e) Provisions and contingent liabilities

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

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

1.29.1 Going concern

The financial statements for the year 31.12.2016 have been prepared based on the going concern assumption. For the application of this principle, the Bank takes into account current economic developments and evaluates the economic environment in which it operates. The main factors that create uncertainties regarding the application of this principle relates to the economic environment in Cyprus and Greece, where the parent company Alpha Bank AE operates, and the high level of non-performing loans in the banking system of Cyprus. The main uncertainties regarding the economic environment in Greece relate to the completion of the second evaluation of the program to cover the financing needs of the Greek economy by the European Stability Mechanism, which might adversely affect the growth of the Greek economy. It is noted that the Bank in 2016 has significantly reduced its financing from Alpha Bank AE.

ACCOUNTING POLICIES APPLIED (cont.)

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

1.29.1 Going concern (cont.)

The Bank, in preparing the financial statements of 31.12.2016, took into account the following factors:

- **Capital Adequacy**

The Bank made a capital increase in 2013 and 2015 with the purpose of increasing the capital base and the absorption of Emporiki Bank Cyprus Ltd. Common Equity Equity Tier 1 ratio (CET1) on 31.12.2016 stood with transitional provisions at 16,5%. According to the CRR and the CRD IV as adopted and amended in early February 2017 in the Cypriot legislation with retrospective application effect, the minimum CETI ratio for 2016 was set at 5,125% for Pillar I and for conservation buffer. The Bank is also subject to additional capital requirements for risks that are not covered by the requirements of Pillar I (Pillar II). The Bank's capital adequacy on 31 December 2016 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Bank with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

- **Liquidity**

During 2016, the Bank increased its deposits by Euro 89 million, or 4,8%, at a time when the entire banking system increased its deposits. This allows to the Bank more flexibility on liquidity management.

- **Cyprus Economy**

In March 2016, Cyprus managed to successfully complete the adjustment program under the three-year Memorandum of Understanding agreed with the European Commission, the European Central Bank and the International Monetary Fund (collectively the "Troika") by which the Republic of Cyprus ensured the financing of its financial needs for the three-year period 2013-2015 up to the sum of 10 billion, from which only 7 million were withdrawn.

The economy recorded remarkable performance in 2016. GDP grew by 2,8% in 2016 compared to 1,7% in 2015. Inflation still remains negative at -1,4% while unemployment fell to 13% compared to 15% in 2015.

According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 2,5% in 2017 and 2,3% in 2018. At the same time, unemployment is projected to fall to 12% in 2017 and 11% in 2018. Inflation is expected to record a positive sign on a yearly basis. It is estimated that in 2017 it will rise to 1,2% and 2018 to 1,1%, mainly due to the expected increase in oil prices internationally and to the increase in the local consumption.
Due to the performance of the Cyprus economy, it is expected that international rating agencies will upgrade the Republic of Cyprus to an investment grade, which will bring positive results both to borrowing from international markets and to its lending costs. Today, Cyprus remains two levels below the investment grade.

ACCOUNTING POLICIES APPLIED (cont.)

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

1.29.1 Going concern (cont.)

- **Greek economy – Mother company operating environment**

The completion, in the third quarter of 2015, of the negotiations of the Hellenic Republic for the coverage of the financing needs of the Greek economy, led to an agreement for new financial support by the European Stability Mechanism. The agreement provided for the coverage of the financing needs of the Hellenic Republic for the medium-term period, under the condition that economic reforms are made, while additionally it provided for the allocation of resources to cover the recapitalization needs of the banks as a result of their assessment by the Single Supervisory Mechanism. With respect to the Group of Alpha Bank A.E. specifically, a recapitalization of a total amount of €2.563 million took place in the fourth quarter of 2015, exclusively from private funds. In June 2016 the first evaluation of the Hellenic Republic financial support program was completed and the partial disbursement of the second installment of the program, amounting to €10.3 billion, was approved.

The first disbursement of €7.5 billion took place in June and covered the short-term public debt servicing needs as well as the clearance of part of amounts overdue by the Hellenic Republic to individuals. The remaining amount of €2.8 billion was disbursed in October 2016 after the completion of the prerequisite actions that had been set. The completion of the first evaluation and the disbursement of installments contributed to the enhancement of the real economy and the improvement of the economic environment. Meanwhile, in the fourth quarter of 2016 the second evaluation of the financial support program begun and is expected to be completed in the near time.

The above, combined with the continuation of reforms and the measures described in the Eurogroup statement for the enhancement of the sustainability of the Greek debt, are expected to contribute to the gradual improvement of the economic environment in Greece and to the return of the economy to positive growth rates, noting, however, the negative consequences that would have in these sectors any further delay in the completion of the second evaluation of the program.

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

- the monitoring of cash inflows and outflows on a daily basis,
- the strong capital adequacy ratios of the Bank on 31.12.2016,
- the ability of the Bank to access funding via the Central Bank of Cyprus,
- the strong capital adequacy of the Alpha Bank Group.

Based on the above, it is estimated that the conditions for the application of the going concern principle are met, however, the negative effect that would have on the application of this principle is noted, to any significant deterioration in the economic environment.

2. NET INTEREST INCOME

		From 1 January to	
		31.12.2016	31.12.2015
	Note	€΄000	€΄000
Interest and similar income			
Due from Central Bank of Cyprus		(529)	(321)
Due from banks		162	321
Loans and advances to customers		118.006	142.253
Derivatives held for risk mitigation		2.685	2.996
Government bonds	15	1.396	2.229
Corporate bonds	15	-	14
Total		**121.720**	**147.492**
Interest expense and similar charges			
Due to banks		(226)	(960)
Due to customers		(27.944)	(35.486)
Subordinated bonds	25	(5.068)	(5.020)
Total		**(33.238)**	**(41.466)**
Net interest income		**88.482**	**106.026**

The decrease is attributed mainly to the transfer of loans to a company of Alpha Bank Group in 2015 and the decrease in interest rates. (Note 17)

3. NET FEE AND COMMISSION INCOME

	From 1 January to	
	31.12.2016	31.12.2015*
	€΄000	€΄000
Loans	130	501
Letters of guarantee	500	587
Imports – Exports	246	256
Credit cards	818	1.846
Transfers of funds	1.485	1.792
Foreign exchange	495	580
Insurance	610	1.144
Deposits	1.637	1.434
	5.921	8.140

* The amounts of the "Net fee and commission income" of the comparative period have been restated due to the classification of income from service to Group companies in "Other income" instead of "Fee and commission income". The amount reclassified amounted to € 361 th.

4 . DIVIDEND INCOME

	From 1 January to	
	31.12.2016	31.12.2015
	€΄000	€΄000
Available for sale securities	1.963	392
	1.963	392

The amount represents dividends received by the Bank from its investment in JCC Payments Systems Limited and Visa Inc for 2016. In 2015 the dividend was received from JCC Payments Systems Limited.

5. GAINS LESS LOSSES ON FINANCIAL TRANSACTIONS

	From 1 January to	
	31.12.2016	31.12.2015
	€΄000	€΄000
Foreign exchange differences	814	(5.273)
Investment securities:		
- Bonds and Treasury bills	10	21
-Shares	6.625	-
Derivative financial instruments	103	417
Other financial instruments of Emporiki Bank	1.163	2.257
	8.715	(2.578)

On 21.6.2016, Visa Inc. completed the acquisition of Visa Europe. According to the agreement (as amended on 10.5.2016), on the date of completion of the transaction, Visa Inc. purchased from Visa Europe's members the shares they held. The price for this acquisition consists of:

i. the payment of a total amount of € 12,25 billion upon completion of the transaction,
ii. the distribution of preferred shares,
iii. the payment of an amount of € 1 billion on the third anniversary of the closing of the transaction plus interest.

The transaction price was calculated based on Visa Europe's net revenue contributed by each member for a specific period of time. Therefore, during the current year, the Bank recognized in financial results from shares an amount of € 5,1 million which consists of cash received on the closing date of the transaction and from the recognition of the present value of the amount due from collecting the surplus amount on the third anniversary. In addition, the Bank recognized during the year the preference shares of Visa Inc. acquired in connection with the transaction. These shares, which were classified as available for sale, were recognized at fair value of € 1,5 million by crediting gains less losses on financial transactions.

6. OTHER INCOME

	From 1 January to	
	31.12.2016 €΄000	31.12.2015* €΄000
Profit from sale of fixed assets	6	20
Income from services offered to group companies	3.129	562
	3.149	582

* The amounts of the "Other income" of the comparative period have been restated due to the classification of income from service to Group companies in "Other income" instead of "Fee and commission income". The amount reclassified amounted to € 361 th.

7. STAFF COSTS

	From 1 January to	
	31.12.2016 €΄000	31.12.2015 €΄000
Wages and salaries	29.715	34.491
Other staff costs	740	925
Contributions to employee’s provident fund	2.287	2.706
Voluntary Retirement Program	31.655	-
	64.397	38.122

The total number of employees as at 31.12.2016 were 654 (31.12.2015 : 878)
In 2016, the bank announced a Voluntary Retirement Program from which 249 employees benefited with a total cost of €31,6 million.

8. GENERAL ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

	From 1 January to	
	31.12.2016	31.12.2015
	€΄000	€΄000
Advertisement and promotion expenses	1.243	1.326
Rents payable	1.379	1.505
Special tax levy on customer deposits	1.936	3.111
Repairs and maintenance	913	493
Professional expenses	340	1.669
Legal fees	1.461	1.861
Subscriptions for card use (VISA)	1.387	774
Computer maintenance and supplies	652	761
Insurance	772	818
Electricity	503	615
Telecommunication expenses	509	377
Stationery and printing	670	251
Value added tax	369	1.651
Other	1.463	2.151
	15.855	17.363

On 11 February 2016, Cyprus adopted the provisions of the new European Directive 2014/59 “Bank Recovery and Resolution Directive”. The new framework provides for the establishment of pre-funded resolution funds of 1% of deposits to be built up by 31 December 2024. Credit institutions' contributions will be based on their risk profile and the amount of their covered deposits. For the year 2016, the Bank accounted for € 913 thousand, which was covered by the contributions made to the “Special tax levy on customer deposits”

9. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

		From 1 January to	
		31.12.2016	31.12.2015
	Note	€΄000	€΄000
Impairment losses on loans and advances to customers	17	65.884	101.087
Recoveries from loans written off		(7.299)	(1.486)
		58.585	99.601

10. LOSSES BEFORE TAX

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

		From 1 January to	
	Note	31.12.2016 €΄000	31.12.2015 €΄000
Directors' remuneration:			
Executive Directors	40(a)	488	460
Non-Executive Directors	40(a)	138	113
Independent auditors' remuneration for statutory audit of annual accounts		76	76
Independent auditors' remuneration for other review services		-	5
Independent auditors' remuneration for other non-audit services		48	86
Depreciation of property, plant and equipment	19	1.603	1.625
Amortization of intangible assets	20	352	549
Rent payable	8	1.379	1.505

11. TAX

		From 1 January to	
	Note	31.12.2016 €΄000	31.12.2015 €΄000
Provision for tax for previous years		300	
Deferred tax - debit/(credit)	21	(2.103)	31
Debit/(Credit) for the year		1.803	31

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

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

The Bank has been tax reviewed up until 2011 and is currently in the process of being reviewed for the years 2012-2014. As the tax review could potentially disallow certain expenses, it is likely that further tax could be imposed for years not reviewed by the tax authorities.

11. TAX (cont.)

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

	From 1 January to			
		31.12.2016		31.12.2015
	%	€΄000	%	€΄000
Accounting loss before tax		(32.576)		(44.698)
Tax calculated at applicable tax rates (nominal tax rate)	12,50	(4.072)	12,50	(5.587)
Tax effect of expenses not deductible for tax purposes	(1,93)	628	(0,79)	352
Tax effect of allowances and income not subject to tax	4,13	(1.346)	0,97	(433)
Tax effect of loss for the year	(9,17)	2.987	(12,75)	5.699
Tax as per statement of comprehensive income (effective tax rate)	(5,53)	(1.803)	0,07	31

The Bank has not recognized deferred tax assets amounting to € 26.969 thous. as it is not likely that a future economic profit will be available against which the Bank may use the benefit in conjunction with the fact that they can only be transferred and offset against income in the next five years.

12. EARNINGS/(LOSSES) PER SHARE

Losses per share are calculated by dividing the losses for the year attributable to the owners of the Bank by the weighted average number of issued ordinary shares during the year.

	From 1 January to	
	31.12.2016 (€΄000)	31.12.2015 (€΄000)
Profit / (Losses) attributable to the owners (€)	(30.773)	(44.729)
Issued shares on 1 January	174.474.178	159.500.000
Impact from share issue in March	-	11.322.940
Weighted average number of shares for the year	174.474.178	170.822.940
Basic and diluted earnings /(losses) per share (€ cent)	(17,64)	(26,18)

13. CASH AND BALANCES WITH CENTRAL BANKS

	31.12.2016 €΄000	31.12.2015 €΄000
Cash and cash equivalents	9.002	9.776
Balances with Central Bank of Cyprus	182.871	339.981
	191.873	349.757

Deposits with the Central Bank of Cyprus bear interest based on the interbank rate of the relative period and currency.

The exposure of the Bank to market risk, interest rate risk and analysis of the above assets at maturity and currency are disclosed in note 35 of the financial statements.

14. DUE FROM BANKS

	31.12.2016 €΄000	31.12.2015 €΄000
Placements with Alpha Bank Group	233.540	9.873
Placements with other financial institutions	58.689	48.941
	292.229	58.814

Amounts Due from banks include an amount of €209,4 million reverse repos.

The exposure of the Bank to market risk, interest rate risk and analysis of the above loans and advances to financial institutions at maturity are disclosed in note 35 of the financial statements.

15. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investments available for sale at fair value

	31.12.2016 €΄000	31.12.2015 €΄000
Government bonds and treasury bills	114.514	96.907
Corporate bonds and shares	3.315	1.651
	117.829	98.558
Listed	116.178	96.907
Non Listed	1.651	1.651
	117.829	98.558
Geographical analysis based on issuer's region:		
- Cyprus	116.165	98.558
- USA	1.664	-
	117.829	98.558

The non listed securities include the Bank's interest in the company JCC Payments Systems Limited.

15. INVESTMENT SECURITIES AVAILABLE FOR SALE (cont.)

The movement of investments available for sale is as follows:

2016	Government bonds and treasury bills €΄000	Corporate bonds and shares €΄000	Total €΄000
Balance 1 January	96.907	1.651	98.558
Additions	433.278	-	433.278
Equity exchanged	-	1.501	1.501
Matured/Disposed Securities	(417.158)	-	(417.158)
Interest receivable	1.396	-	1.396
Interest received	(61)	-	(61)
Revaluation transferred to equity (Note 30)	152	163	315
Balance 31 December	114.514	3.315	117.829

2015	Government bonds and treasury bills €΄000	Corporate bonds and shares €΄000	Total €΄000
Balance 1 January	319.310	22.265	341.575
Additions	339.567	-	339.567
Matured/Disposed Securities	(564.360)	(20.182)	(584.542)
Interest receivable	2.229	14	2.243
Interest received	(315)	(446)	(761)
Revaluation transferred to equity (Note 30)	476	-	476
Balance 31 December	96.907	1.651	98.558

The analysis of the above assets at maturity date is reported in note 35 of the financial statements.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Derivatives nominal value	€΄000	€΄000	€΄000	€΄000
Foreign exchange derivatives				
Currency swaps	36.631	565.390	158.807	485.423
	36.631	565.390	158.807	485.423
Total derivatives	36.631	565.390	158.807	485.423

Fair value of derivatives

	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
	€΄000	€΄000	€΄000	€΄000
Foreign exchange derivatives				
Currency swaps	144	7.467	2.885	379
	144	7.467	2.885	379
Total derivatives	144	7.467	2.885	379

17. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2016 €´000	31.12.2015 €´000
Loans and advances to customers	2.613.680	2.619.829
Allowance for impairment losses	(667.320)	(583.282)
	1.946.360	2.036.547

	31.12.2016 €´000	31.12.2015 €´000
Analysis by industry sector		
Manufacturing	56.799	56.580
Tourism	82.309	88.209
Trade	128.933	133.370
Buildings and construction	686.271	687.828
Business and loans to individuals	1.459.722	1.490.384
Other sectors	199.646	163.458
	2.613.680	2.619.829
Analysis by geographical region		
Cyprus	1.939.611	1.929.316
Greece	9.651	11.321
Other European countries	591.924	606.913
Other countries	72.494	72.279
	2.613.680	2.619.829

During 2015 loans with net carrying value €949 mil. were transferred to a company of Alpha Bank Group. All risks and rewards have been transferred, thus, they were derecognized from the statement of financial position.

The exposure of the Bank to credit risk and analysis of loans and advances to customers by industry sector, by geographical region and by maturity is disclosed in note 35 of the financial statements.

17. LOANS AND ADVANCES TO CUSTOMERS (cont.)

Allowance for impairment losses

	Impairment allowance reserve €΄000
2016	
1 January	583.282
Impairment losses and provisions to cover credit risk (note 9)	65.884
Unwinding of interest	36.618
Amounts used for write offs	(19.313)
Exchange difference	849
	667.320
2015	792.285
1 January	101.087
Impairment losses and provisions to cover credit risk (note 9)	34.861
Unwinding of interest	(346.567)
Amounts used for write offs	(39.324)
Exchange difference	40.940
	583.282

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

18. INVESTMENT PROPERTY

	Land €΄000
Cost	
31 December 2016	2.023
Amortization	
31 December 2016	-
Net book value	
31 December 2015	2.023
31 December 2016	2.023

The fair value of investment property on 31.12.2016 amounted to €6,4 mil. (2015 : €6,4 mil.) The fair value of immovable property is calculated in accordance with the methods described in note 1.7 and is ranked according to the hierarchy of fair value at Level 3 having made use of information provided from case investigations and data relating to properties of similar characteristics and consequently included a wide range of non-observable data on the market.

19. PROPERTY, PLANT AND EQUIPMENT

Cost	Land (Note 1) €´000	Buildings and improvements on leasehold premises (Note 1) €´000	Plant and equipment €´000	Total €´000
1 January 2016	3.089	33.796	19.980	56.865
Additions	-	148	340	488
Disposals	-	-	(114)	(114)
Write offs	-	(668)	(313)	(981)
31 December 2016	3.089	33.276	19.893	56.258
1 January 2015	3.089	33.149	19.202	55.440
Additions	-	514	798	1.312
Disposals	-	(19)	(226)	(245)
Additions from acquisition of Emporiki Bank	-	152	206	358
31 December 2015	3.089	33.796	19.980	56.865

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

19. PROPERTY, PLANT AND EQUIPMENT (cont.)

	Land (Note 1) €´000	Buildings and improvements on leasehold premises (Note 1) €´000	Plant and equipment €´000	Total €´000
Depreciation				
1 January 2016	-	14.879	17.663	32.542
Charge for the year	-	845	758	1.603
Disposals	-	-	(114)	(114)
Write offs	-	(577)	(309)	(886)
31 December 2016	-	15.147	17.998	33.145
1 January 2015	-	13.967	17.195	31.162
Charge for the year	-	931	694	1.625
Disposals	-	(19)	(226)	(245)
Write offs	-	-	-	-
31 December 2015	-	14.879	17.663	32.542
Net book value				
1 January 2015	3.089	19.182	2.007	24.278
31 December 2015	3.089	18.917	2.317	24.323
31 December 2016	3.089	18.129	1.895	23.113

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

20. INTANGIBLE ASSETS

	Computer Software of the Bank €´000
Cost	
1 January 2016	8.378
Additions	281
31 December 2016	8.659
1 January 2015	8.064
Additions	285
Additions from acquisition of Emporiki Bank	29
31 December 2015	8.378
Amortization	
1 January 2016	7.737
Charge for the year	352
31 December 2016	8.089
1 January 2015	7.188
Charge for the year	549
31 December 2015	7.737
Net book value	
1 January 2015	876
31 December 2015	641
31 December 2016	570

21. DEFERRED TAX ASSETS

2016	Tax losses €΄000	Difference between depreciation and capital allowances €΄000	Total €΄000
1 January	13.054	(993)	12.061
Credit / (Debit) in the statement of comprehensive income	2.020	83	2.103
31 December	15.074	(910)	14.164
2015			
1 January	13.054	(962)	12.092
Credit / (Debit) in the statement of comprehensive income	-	(31)	(31)
31 December	13.054	(993)	12.061

The deferred tax assets and liabilities arise from the following:

	31.12.2016 €΄000	31.12.2015 €΄000
Deferred tax asset		
Tax losses	15.074	13.054
Deferred tax liability		
Difference between depreciation and capital allowances	(910)	(993)
Deferred tax asset	14.164	12.061

Deferred tax is provided for all temporary differences under the liability method using the applicable tax rates (Note 11). In case of tax losses the applicable tax rate is 12,5%.

The recognition of deferred tax assets is supported by the Bank's forecasts and takes into account the recoverability of deferred tax assets within the expiration period.

22. OTHER ASSETS

	31.12.2016 €΄000	31.12.2015 €΄000
Receivables from Alpha Bank Group companies (Note 40)	198	1.015
Other receivables and prepayments	405	1.368
Assets from auctions and agreements with customers	5.884	559
Interest prepayments	1.623	271
	8.110	3.213

Assets acquired through auctions but are not readily available for sale or are not expected to be sold within one year are presented in other assets and are valued at the lower of cost (or book value) and fair value according to IAS2. During 2016, the bank repossessed assets worthing €5.3 million.

23. DUE TO BANKS

	31.12.2016 €΄000	31.12.2015 €΄000
Amounts due to companies of Alpha Bank Group (Note 40c)	83.172	155.434
Amounts due to other financial institutions	19.391	5.297
	102.563	160.731

Amounts due to Alpha Bank A.E. are secured with «Loans and advances to customers» (Note 35.6)
The exposure of the Bank to liquidity risk and analysis of deposits from financial institutions by maturity is disclosed in note 35 of the financial statements.

24. DUE TO CUSTOMERS

	31.12.2016 €΄000	31.12.2015 €΄000
Deposits:		
Current	462.458	433.100
Savings	15.616	15.162
Fixed term or notice	1.462.554	1.403.526
	1.940.628	1.851.788

The exposure of the Bank to liquidity risk and analysis of deposits from customers by maturity are disclosed in note 35 of the financial statements.

25. SUBORDINATED BONDS

Subordinated bonds at amortised cost

	2016 €΄000	2015 €΄000
1 January	116.334	100.256
Subordinated bonds from the acquisition of Emporiki Bank	-	15.936
Interest payable	5.068	5.020
Payments	(5.071)	(4.878)
31 December	116.331	116.334

	Listed €΄000	Non - Listed €΄000	Total €΄000
1 January 2016	100.240	16.094	116.334
Interest payable	2.608	2.460	5.068
Payments	(2.627)	(2.444)	(5.071)
31 December 2016	100.221	16.110	116.331

	Listed €000	Non - Listed €000	Total €000
1 January 2015	100.256	-	100.256
Subordinated bonds from the acquisition of Emporiki Bank	-	15.936	15.936
Interest payable	2.841	2.179	5.020
Payments	(2.857)	(2.021)	(4.878)
31 December 2015	100.240	16.094	116.334

25. SUBORDINATED BONDS (cont.)

Subordinated bonds at amortised cost (cont.)

Listed

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

The Subordinated bonds may, at the option of the Bank be fully redeemed, at their principal amount together with accrued 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 Subordinated bonds bear a floating interest rate which is set at the beginning of each interest period and is valid for that specific interest period.

The floating interest rate is equal to the 3-months Euribor in force at the beginning of each interest period plus a margin of 2.80%. The Subordinated bonds are not secured and in case of dissolution of the Bank, their repayment shall follow in priority the repayment of the obligations of the Bank over the depositors and any other creditors of the Bank.

Non - Listed

Non - listed securities are secondary capital (Tier II) issued by Emporiki Bank Cyprus Ltd and held by companies of the Alpha Bank Group. These securities were recognised at their fair value at the acquisition date of Emporiki Bank Cyprus Ltd for the amount of € 15.936 thous. The difference between the nominal value and the fair value at the acquisition date (01.03.2015) will be amortized until the maturity of the securities. An amount of € 2.044 thous., in 2016 has been charged to the income statement.

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

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

Date of issue	Capital outstanding €000	Interest base	Margin
17.3.2008	800	Euribor 6m	1,5%
12.12.2008	540	Euribor 3m	3,5%
22.12.2009	3.900	Euribor 3m	1,45%
3.3.2011	16.000	Euribor 3m	2,16%
Total	21.240		

25. SUBORDINATED BONDS (cont.)

Subordinated bonds at amortised cost (cont.)

Non Listed (cont.)

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

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

	31.12.2016 € 000
Within one year	1.970
1 to 3 years	8.603
Over 3 years	10.667
Total	21.240

	31.12.2015 € 000
Within one year	2.020
1 to 3 years	3.940
Over 3 years	17.300
Total	23.260

26. OTHER LIABILITIES AND PROVISIONS

	31.12.2016 €΄000	31.12.2015 €΄000
Accrued expenses	3.565	3.847
Provisions for litigation and arbitration (Note. i)	47	50
Other payables	12.265	10.551
Amounts due to Alpha Bank Group companies (Note 40)	1.998	2.933
Taxes payables on behalf of clients	722	912
	18.597	18.293

(i) Provisions for litigation and arbitration

	2016 €΄000	2015 €΄000
1 January	50	77
Reversal for the year	(3)	(30)
Provision from the acquisition of Emporiki Bank	-	3
31 December	47	50

The Bank, in the ordinary course of business, is a defendant in claims from customers and other lawsuits. According to the estimations of the legal department, the ultimate settlement is not expected to have a material effect on the financial position or the operations of the Bank. The Bank on 31.12.2016 has recorded a provision for pending legal cases amounting to €47 thous. which is included in “Other Liabilities and provisions”

27. SHARE CAPITAL

	2016		2015	
	Number of shares	**€000**	**Number of shares**	**€000**
Authorised				
31 December				
(Ordinary shares of €0,85 each)	600.000.000	510.000	600.000.000	510.000
Issued and fully paid				
1 January	174.474.178	148.303	159.500.000	135.575
Issue of shares	-	-	14.974.178	12.728
31 December (Ordinary shares of €0,85 each)	174.474.178	148.303	174.474.178	148.303

On March 1, 2015 the Bank completed the acquisition of 100% of shares constituting the issued share capital of Emporiki Bank Cyprus Ltd and became the sole shareholder.

The acquisition was effected with an increase of the Bank's share capital on March 30, 2015 and the issuance of 14.974.178 new ordinary shares of nominal value €0,85 each, totaling €12.728 thousand. The shares granted as consideration to existing shareholders of Emporiki Bank Cyprus Ltd at a price of €2,66. The difference between the nominal value and the issue price totaling €27.132 thous. was credited to the account "Share Premium" in Equity.

Shareholders Structure

		31.12.2016		31.12.2015	
	Shareholder	Number of shares	%	Number of shares	%
1.	Alpha Bank AE	172.255.698	98,73	172.255.698	98,73
2.	Emporiki Venture Capital Developed Markets Ltd	1.163.835	0,67	1.163.835	0,67
3.	Emporiki Venture Capital Emerging Markets Ltd	1.054.645	0,60	1.054.645	0,60
	Σύνολο	**174.474.178**	**100,00**	**174.474.178**	**100,00**

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

28. CONVERTIBLE CAPITAL SECURITIES

	31.12.2016 €΄000	31.12.2015 €΄000
Issue of convertible capital securities	64.000	64.000

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

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

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

The Bank has cancelled the payment of interest for 2015 and 2016.

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

Mandatory cancellation of interest payment shall apply when:

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

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

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

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

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

29. SHARE PREMIUM

	2016 €΄000		2015 €΄000	
Opening balance 1 January		**90.467**		**63.335**
Changes for the period 1.1 - 31.12				
Share capital increase	-		27.132	
Total		-		27.132
Balance 31 December		**90.467**		**90.467**

On March 30, 2015 the Bank issued 14.974.178 new ordinary shares of nominal value €0,85 each, at a price of €2,66. The difference between the nominal value and the issue price totaling €27.132 thous. was credited to the account "Share Premium" in Equity.

30. RESERVES

a) Available for sale investments

Investments revaluation reserve is not distributable, however 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 retained earnings.

	2015 €΄000		2015 €΄000	
Opening balance 1 January		**16**		**(439)**
Changes for the period 1.1 - 31.12				
Revaluation of investments available for sale	315		476	
Transfer to retained earnings	(10)		(21)	
Total		305		455
Balance 31 December		**321**		**16**

b) Reserve from the conversion of share capital

	2016 €΄000	2015 €΄000
Balance 31 December	**600**	**600**
Reserves total (a+b)	**921**	**616**

31. RETAINED EARNINGS

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

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

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

32. CONTINGENT LIABILITIES AND COMMITMENTS

32.1 OFF BALANCE SHEET LIABILITIES

	31.12.2016 €΄000	31.12.2015 €΄000
Contingent liabilities		
Bank guarantees	46.853	51.922
Commitments		
Letters of credit and letters of guarantees	5.492	5.462
Undrawn credit facilities	119.865	135.184
	125.357	140.646
Total off balance sheet liabilities	172.210	192.568

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 Bank 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 Bank at any time by giving notice to the customer.

The exposure of the Bank to credit risk is disclosed in note 35 of the financial statements.

32.1 OFF BALANCE SHEET LIABILITIES (cont.)

31.12.2016	Financial services sector €´000	Manufacturing €´000	Buildings & construction €´000	Trading €´000	Tourism industry €´000	Other €´000	Individuals €´000	Total €´000
Exposure to credit risk relating to off balance sheet items:								
Letters of guarantee, letters of credit and other guarantees	5.576	1.621	8.044	21.449	1.637	12.712	1.306	52.345
Undrawn credit facilities	1.006	15.500	17.258	20.568	4.111	22.449	38.973	119.865
Total	6.582	17.121	25.302	42.017	5.748	35.161	40.279	172.210
31.12.2015								
Exposure to credit risk relating to off balance sheet items:								
Letters of guarantee, letters of credit and other guarantees	4.908	1.729	12.749	18.762	1.849	15.866	1.521	57.384
Undrawn credit facilities	1.248	14.540	17.792	22.528	3.896	26.043	49.137	135.184
Total	6.156	16.269	30.541	41.290	5.745	41.909	50.658	192.568

32.2 LEASE COMMITMENTS

The minimum future commitments of leases per the lease agreements that expire at different dates up to 2032 are as follows:

	31.12.2016 €΄000	31.12.2015 €΄000
Within one year	1.249	1.377
Between one to five years	3.389	4.936
More than five years	4.896	5.132
	9.534	11.445

32.3 LEGAL

As at 31 December 2016, there were pending litigations against the Bank in connection with its activities. Based on legal advice, the Board of Directors proceeded to a provision for litigation issues (note 26) or to a provision for impairment of doubtful debts for some of these cases in the financial statements, where it is expected that the Bank will suffer loss.

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

32.4 TAX

The Bank has been tax reviewed up until 2011 and is currently in the process of being reviewed for the years 2012-2014. As the tax review could potentially disallow certain expenses, it is likely that further tax could be imposed for years not reviewed by the tax authorities.

33. CASH AND CASH EQUIVALENTS

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

	Note	31.12.2016 €΄000	31.12.2015 €΄000
Cash and balances with Central Banks	13	191.873	349.757
Due from banks	14	292.229	58.814
Due to banks		(75.940)	(113.134)
		408.162	295.437

34. OPERATING SEGMENTS

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

- Retail Banking
- Corporate Banking
- Treasury
- Other

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

	1.1.-31.12.2016				
	Retail Banking €000	Corporate Banking €000	Treasury €000	Other €000	Total €000
Net interest income	55.487	31.979	1.016		88.482
Net fee and commission income	5.106	1.225		(410)	5.921
Other income	1.048	595	9.515	2.655	13.813
Total income	61.641	33.799	10.531	2.245	108.216
Total expenses	(20.178)	(9.004)		(53.025)	(82.207)
Impairment losses and provisions to cover credit risk	(23.127)	(35.458)	-	-	(58.585)
Loss before tax	18.336	(10.663)	10.531	(50.780)	(32.576)
Total assets 31.12.2016	1.153.475	792.885	601.931	48.124	2.596.415
Total liabilities 31.12.2016	1.773.075	167.552	202.563	42.396	2.185.586
Capital expenditure	-	-	-	769	769
Depreciation and amortization	792	358	-	805	1.955

34. OPERATING SEGMENTS (cont.)

	1.1-31.12.2015				
	Retail Banking €000	Corporate Banking €000	Treasury €000	Other €000	Total €000
Net interest income	70.583	33.365	2.078		106.026
Net fee and commission income	6.776	1.642		(278)	8.140
Other income	2.617	222	(4.443)	-	(1.604)
Total income	79.976	35.229	(2.365)	(278)	112.562
Total expenses	(22.691)	(10.135)	-	(24.833)	(57.659)
Impairment losses and provisions to cover credit risk	(83.743)	(15.858)	-	-	(99.601)
Loss before tax	(26.458)	9.236	(2.365)	(25.111)	(44.698)
Total assets 31.12.2015	1.220.280	816.267	507.129	45.146	2.588.822
Total liabilities 31.12.2015	1.704.873	146.916	260.730	35.006	2.147.525
Capital expenditure	597	294	-	706	1.597
Depreciation and amortization	813	400	-	961	2.174

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

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

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

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

35. RISK MANAGEMENT

Alpha Bank Cyprus Limited, is adhering to the provisions of Basel III, as these are adopted by the European Directives, and the Central Bank of Cyprus Directive on Corporate Governance. The Bank being a member of Alpha Bank Group, operates within the framework and procedures of risk management of the Alpha Bank Group.

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

- compliance with the instructions of the supervisory bodies with regards to setting a policy for the acceptance, monitoring and management of every risk.
- improvement in the management actions to prevent and minimize risks.
- effective capital planning in order to cover the risks undertaken.

Within the above framework, the Group has established, Policy manuals and Procedures in specific areas relating to risk management such as:

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

The above policies are specific and are incorporated into the procedures of the Bank, taking into account international best practices and regulatory requirements of the domestic and European supervisory framework.

The Board of Directors and the Risk Management Committee are responsible for the risk assessment and the coordination of activities required for their management, through the supervision of the strategy and the procedures of risk management.

The Bank operates the Credit Risk and Market Risk and Operational Risk Divisions whose primary responsibility is the design and implementation methods to effectively identify, measure and manage the risks undertaken by the Bank.

The Credit Risk Division is separated in the following departments:

- Policies and Supervision
- Credit Control
- Data Analysis
- Credit risk methodologies

In the Market and Operational Risk Division, the following departments are included:

- Market and Liquidity Risk
- Operational Risk Division

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk

Credit Risk refers to the potential risk that the Bank may face derived from the inability of creditors or contracting parties to promptly meet their repayment obligations or to fully repay their obligations as per terms of contractual agreements.

The Bank reduces 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. Diversification between different categories of clients is achieved to the extent possible following the setting of upper credit limits to individuals and groups. Through compliance with the internal procedures of the Bank 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, assessment of customers' repayment ability, they describe the stages that have to be followed from the preparation and submission of the customer's request to the appropriate approval authority to the final approval and implementation. Included in the procedures is the monitoring of customers accounts and the transactional behavior following the disbursement. The procedures are constantly reviewed in order to enhance standardization, measurement and management of credit risk.

Facilities are authorized by Committees, the level of whom, is subject to amount of exposure, type, rating of customer, product and collateral. The credit policy of the Bank is in line with the Alpha Bank Group policy and the regulations of the Central Bank of Cyprus.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Measuring credit risk and internal ratings

Important tools that are being used for the loan approval process as well as for the credit quality classification of the loan portfolio, are the rating of the credit worthiness of the borrower.

The purpose of the credit rating system is to assess the probability of non-performance by creditors to fulfill their obligations towards Alpha Bank Group.

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

In relation to the Wholesale portfolio, the Bank uses statistical models and credit evaluation instruments for business that are also used at Group level.

The rating systems used by the Group and the Bank are the Alpha Bank Rating System (ABRS) and Moody's Risk Advisor (MRA) which incorporate various models (specimens) of credit risk rating.

All existing and potential credit customers of the Bank and the companies of Alpha Bank Group are assessed based on the suitable credit rating model and within the agreed timeframe.

The statistical confirmation of credit risk rating models is reviewed constantly in order to ensure the maximum possible predictive capacity, in accordance with international best practices and the regulatory framework of risk management.

To assess the likelihood of default by the creditors of the Bank and the companies of the Group, the credit risk rating models evaluate a series of parameters, which can be grouped as follows:

- financial capabilities of the borrower (liquidity indicators, indebtedness etc),
- comparative position of the borrower in the wider environment in which they operate and mainly in comparison to competing businesses in the same sector,
- transactional behaviour of the creditor with the Group and other third parties (debts in arrears, adverse information etc.),
- qualitative characteristics of the creditor (integrity and continuity of management, suitability of property, plant and equipment etc).

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Debtors rating

Debtors are rated at the following credit risk ratings:

AA, A+, A, A-, BB+, BB, BB-, B+,B, B-, CC+, CC, CC-, C, D , D0, D1, D2, E

For the purposes of completing the table «Asset Quality of Neither Past Due Nor Impaired Loans and Advances to Customers », at the "High" rating the rates AA, A+, A, A- and BB+ apply, at the "Satisfactory" rating the rates BB, BB-, B+, B, B-, CC+, and CC apply and at the "unrated and under surveillance" (higher risk) CC- and lower apply.

The Bank has also developed statistical models to assess applications which it has incorporated its approval procedures.

An important mean of mitigating the credit risk is the use of collaterals from customers.

Collaterals include all kind of assets and rights, which are available to the bank, either from the debtors or from third parties, in order to be used as complementary liquidity sources of relative loans.

Environmental & Social Risk

Within the context of credit policy and the credit risk management, consideration has been given to the strict observance of the principles of environmentally and socially responsible lending to businesses. The main objective is to manage the potential risk arising from the activities of the Group's borrowers, which may be related to direct or indirect environmental and social damage which might have a negative impact on the operational activities and the financial results of the Group.

Bad Debts Write offs/ Bad Debts Write downs

The Bank, in order to write off amounts either after a court decision or following its own decision (customer agreement or inability to pay), applies the "Write offs / write downs" manual of 3/2015.

Credit Control Management Framework

Credit Control (Retail)

The Bank, in order to ensure proper compliance with credit policy by the approving units, is in the process of designing credit control mechanisms, which will be carried out at regular intervals and will aim at confirming compliance with the credit criteria. In addition, Data Integrity Verification will be performed to assess the Retail Banking credit applications. Additionally, a quality analysis of the approval process is carried out.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Credit Control (Wholesale)

In order to ensure the correct implementation of credit policy and the restructurings policy, the Bank is in the process of designing credit control mechanisms. In particular, audits will be carried out on Bank's Business and NPL Units that will cover the credit policy, the portfolio analysis, and the completeness and accuracy of the data in the information systems through sample checks.

Accounting standard IFRS9

It is noted that within 2017 the Bank is under the process of developing the necessary procedures, so that on 1.1.2018 will be fully compliant with the provisions of the new IFRS9 accounting standard. More specifically, IFRS9 introduces a fundamental breakthrough in the impairment model, through the transition from the existing “Incurred” model of the IAS 39 to the "Expected Credit Loss" model, which will result in early recognition of credit losses, based on lifetime expected credit losses. This gives a stochastic / probabilistic view of the calculations of impairments, an increased dependence of computations on stochastic models and a sensitivity to macroeconomic conditions in the banking institutions' environment.

Furthermore, the Bank shall ensure that it continuously monitors the delays in non-performing loans and takes the measures to contain them. Recoveries procedures are updated on a regular basis geared towards flexibility and effectiveness with the aim of limiting credit risk.

Impairments:

Impairment policy

The Bank reviews loans and advances to customers in order to assess whether there is a need for impairment which is recognized in comprehensive income. The Bank assesses whether there is objective evidence of impairment in order to proceed with customers' individual assessment for impairment. The loan portfolio is assessed on individual and collective basis.

Individual assessment for impairment

The Bank has defined as ‘significant for individual assessment’ customers loans that are managed by the Wholesale Banking sector with facilities in excess of €300 thousands, including associated companies and connected persons with facilities over €1 mil. In addition, for Retail Banking customers it has defined as ‘significant for individual assessment’ loans to customers with facilities over €1 mil. and connected with them persons with facilities over €1 mil.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Individual assessment for impairment (cont.)

The assessment for impairment is performed on a quarterly basis, as follows:

The Bank assesses whether objective evidence for individual assessment for impairment exists. The process for identifying loans for impairment and estimating their impairment provision consists of the following steps:

- identification of loans which will be individually assessed and for which events exist which constitute objective evidence that an impairment loss has occurred,
- impairment calculation on an individual basis for the loans identified in the previous step, as the difference between the recoverable amount and the carrying amount of the loan,
- loans where no provision was made on the individual basis, will be examined under collective impairment, based on similar credit risk characteristics.

Significant loans are assessed on an individual basis if one of the following trigger events exists:

- exposures exhibiting arrears / past due over 90 days,
- non performing exposures (EBA Definition),
- rating of borrower CC- or worse (Wholesale customers),
- customer expired credit rating (Wholesale customers),
- deteriorated debt restructuring (EBA Forborne),
- significant difficulty of the borrower to repay third parties obligations,
- significant deterioration of the financial position and performance of the borrower,
- adverse developments in borrowers' industry outlook,
- interventions and actions by regulatory bodies against the borrower (Wholesale customers),
- interventions and actions by government authorities against the borrower (Retail customers),
- breach of contractual or credit terms and conditions (includes non submission of Financial Statements),
- adverse changes in the shareholders' structure or the management of the company or serious management issues/problems (Wholesale customers),
- occurrence of unforeseen, extreme events,
- permanent arrears and / or other problems to another member of the group of the borrower.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Collective assessment for impairment

For collective assessment for impairment purposes the following categories for Wholesale and Retail customers are examined:

- Loans with facilities less than those defined as being "individually significant".
- Loans which are individually significant and are not subject to losses, during individual assessment for impairments, are also collectively assessed once they are grouped based on similar credit risk characteristics
- Loans for which there are no triggers for impairment and consequently are not individually assessed, are categorized based on similar credit risk characteristics.

Identifying specific loans with objective evidence of impairment loss to be recognized may lead to a delay in recognition of loan impairment, which has already incurred. In this context, in accordance with IAS 39, it is appropriate to recognize impairment loss for those losses that have been «incurred but not reported» (IBNR).

The identification of loans to be impaired and the assessment of impairment includes the following steps:

- Recognition of loans to be collectively assessed
- Calculation of impairment on a collective basis of the loans identified in the preceding step
- Identification of loans to be collectively assessed for losses incurred but not reported ("IBNR")

For the provisions on collective assessment, the loans are grouped based on similar credit risk characteristics. The impairment amount is calculated based on the credit risk characteristics of each group and the portfolio to which the borrower or loan belongs to. Simultaneously, conditions/events which may potentially cause losses and which are considered for impairment are also examined. Statistical methods or empirical assessment are used in determining provisions.

The assessment of the Wholesale Banking sector is performed on a customer basis and for the Retail Banking sector on an account basis.

To determine the amount of the required provisions, the Bank needs to assess the amount and timing of future cash flows. Such assessments are based on assumptions on a number of factors. The assumptions include future changes in the value of the assets/recoverable amount as well as the timeframe for liquidity purposes

Any changes to assumptions or differences between assumptions which were made and actual differences could lead to significant changes to the amount of the required provisions.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Forbearance

Maintaining a healthy loan portfolio depends on the constant monitoring and assessment of the borrowers in order to allow early detection of future liquidity problems, which could affect the normal repayment of their obligations to the Alpha Bank Group.

The credit tools which are normally used by the Bank for managing the liquidity problems that borrowers are facing for repaying their obligations are the restructuring of debt through the renegotiation of the original terms and conditions of the loan agreement they have entered into.

The existence of more favorable terms for renegotiating and modifying the terms and conditions of the bilateral arrangement between the Bank and the debtor (concession), who is facing or is about to face difficulties in meeting his financial commitments ("financial difficulty"), are defined with respect to:

- Difference in terms of the contract with debtors with no financial difficulties; and
- Cases where a modified contract includes more favourable terms than other debtors with similar risk profile.

Regulation EU No. 575/2013 established the framework for prudential requirements on the management by credit institutions of loans arrears and non-performing loans.

Based on the European Commission Regulation EU 227/2015 of 9 January 2015 and the technical standards implementation of the European Banking Authority, the Bank and the Group undertake the resulting obligations in relation to restructured loans.

The restructuring of debtors is proposed for cooperative and viable borrowers who are experiencing financial difficulties on the condition that the restructuring will be effective and viable in the long term, taking into consideration the causes which resulted in financial difficulties as well as the repayment capability of the borrower.

Henceforth, based on the above conditions the development, quality and effectiveness of these loans shall be monitored.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

DEFINITIONS:

The following definitions apply for the purpose of completing the tables that follow:

Past Due Exposures
Past due exposures are defined as exposures that are more than one (1) day past due.

Non Performing Exposures
An exposure is considered as non-performing when one of the following criteria is satisfied:

- The exposure is more than 90 days past due
- An exposure against which legal actions have been undertaken by the bank
- The debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral
- The exposure has been impaired
- The exposure is classified as forborne non-performing exposure, as defined in the Implementing Regulation (EU) 2015/227 of January 9, 2015.

Performing Exposures

An exposure is considered as performing when the following criteria are met:

- the exposure is less than 90 days past due;
- no legal actions have been undertaken against the exposure;
- the situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made
- the exposure is not classified as impaired or
- the exposure is classified as forborne performing exposure, as defined in the aforementioned Implementing Regulation (EU) 2015/227 of 9 January 2015.

- **Forborne Loans**

Loans with tolerating measures are defined as loans which include concessions towards the debtor who is facing or is about to face difficulties in fulfilling its obligations.

- **Unlikely to pay loans**

Loans with 'unlikely to pay' indications are defined as loans which have been assessed as unlikely to be repaid by the client without the liquidation of their collateral, regardless of the existence of any arrears or the number of days past due.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Impaired Loans

Impaired loans are those loans defined as follows:

- loans for which an impairment amount has been allocated following the individual assessment for impairment,
- loans in arrears more than 90 days or under legal proceedings status, for which an impairment amount has been allocated following the collective assessment for impairment,
- the loans that have been marked as "non-performing or forborne non performing" regardless of the number of days in arrears.
- loans marked as «Unlikely to pay» and are not in arrears over 90 days.

Accumulated impairment

For the purposes of the presentation of credit risk disclosures , the accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired at fair value. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 17 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Wholesale and Retail Banking credit facilities

Wholesale Banking credit facilities are included in each of the following categories subject to the characteristics of the credit facility of the obligor, as shown in the table below:

	Portfolio	Characteristics
Wholesale banking customers	Corporate	Groups with turnover > €2,5 mil. or credit facility > €1 mil.
	SME	Groups with turnover between €0,5 mil. and €2,5 mil. or credit facility between €150 thous. and €1 mil.

Credit facilities granted to customers with other characteristics other than those shown above fall under the Retail Banking sector

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FINANCIAL INSTRUMENTS CREDIT RISK

	31.12.2016			31.12.2015		
	Exposure before impairment €´000	Impairment €´000	Net exposure to credit risk €´000	Exposure before impairment €´000	Impairment €´000	Net exposure to credit risk €´000
A. Credit risk exposure relating to on balance sheet items						
Balances with central banks	182.871	-	182.871	339.981	-	339.981
Due from banks	292.229	-	292.229	58.814	-	58.814
Loans and advances to customers	2.802.889	856.529	1.946.360	2.834.793	798.246	2.036.547
Derivative financial assets	144	-	144	2.885	-	2.885
Available for sale securities :						
- Available for sale (government)	114.514	-	114.514	96.907	-	96.907
- Available for sale (other)	3.315	-	3.315	1.651	-	1.651
Total amount of balance sheet items exposed to credit risk (a)	3.395.962	856.529	2.539.433	3.335.031	798.246	2.536.785
Other balance sheet items not exposed to credit risk	56.982	-	56.982	52.037	-	52.037
Total assets	3.452.944	856.529	2.596.415	3.387.068	798.246	2.588.822
B. Credit risk exposure relating to off balance sheet items:						
Letters of guarantee, letters of credit and other guarantees	52.345	-	52.345	57.384	-	57.384
Undrawn loan agreements and credit limits that cannot be recalled (committed)	119.865	-	119.865	135.184	-	135.184
Total amount of off balance sheet items exposed to credit risk (b)	172.210	-	172.210	192.568	-	192.568
Total credit risk exposure (a+b)	3.568.172	856.529	2.711.643	3.527.599	798.246	2.729.353

The maximum credit risk to which the Bank is exposed is depicted in the column “Net exposure to credit risk”.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS BY ASSET QUALITY (impaired or not impaired – impairment allowance – value of collateral)

31.12.2016	Non impaired loans and advances		Impaired loans and advances			Accumulated impairment allowance			
	Neither past due nor impaired €΄000	Past due but not impaired €΄000	Individually assessed €΄000	Collectively assessed €΄000	Total gross amount €΄000	Individually assessed €΄000	Collectively assesses €΄000	Total net amount €΄000	Collateral values €΄000
Retail lending									
Mortgage	391.027	65.991	115.165	746.938	1.319.121	57.947	318.642	942.532	932.631
Consumer	50.879	8.030	35.092	148.267	242.268	18.783	67.645	155.840	85.134
Credit cards	8.002	319	704	5.542	14.567	371	3.212	10.984	1.216
Small Business Loans	17.272	1.924	3.667	42.730	65.593	1.462	20.062	44.069	35.285
	467.180	76.264	154.628	943.477	1.641.549	78.563	409.561	1.153.425	1.054.266
Corporate lending									
Large	461.942	35.942	453.723	12.012	963.619	250.855	18.457	694.307	580.396
SME's	13.301	19.645	146.040	18.049	197.035	88.866	10.227	97.942	99.037
	475.243	55.587	599.763	30.061	1.160.654	339.721	28.684	792.249	679.433
Public sector	686	-	-	-	686	-	-	686	686
Total	943.109	131.851	754.391	973.538	2.802.889	418.284	438.245	1.946.360	1.734.385

An amount of €30.110 thous. that is included in accumulated impairment allowance under "Collectively assessed" relates to IBNR provisions. An amount of €306.656 thous. included in impaired loans and advances relates to restructured loans less than 90 days past due.
The accumulated provision for impairment, relates to the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired at fair value. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 17 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS BY ASSET QUALITY (impaired or not impaired – impairment allowance – value of collateral) (cont.)

	31.12.2015								
	Non impaired loans and advances		Impaired loans and advances			Accumulated impairment allowance			
	Neither past due nor impaired €΄000	Past due but not impaired €΄000	Individually assessed €΄000	Collectively assessed €΄000	Total gross amount €΄000	Individually assessed €΄000	Collectively assesses €΄000	Total net amount €΄000	Collateral values €΄000
Retail lending									
Mortgage	443.196	72.403	84.484	740.444	1.340.527	38.301	311.666	990.560	986.384
Consumer	62.052	8.650	42.865	144.244	257.811	23.541	63.894	170.376	101.096
Credit cards	9.145	268	610	5.320	15.343	277	2.797	12.269	1.466
Small Business Loans	17.486	3.935	3.330	40.014	64.765	1.209	16.480	47.076	37.293
	531.879	85.256	131.289	930.022	1.678.446	63.328	394.837	1.220.281	1.126.239
Corporate lending									
Large	475.851	42.524	430.659	9.354	958.388	213.833	31.617	712.938	689.269
SME's	18.723	17.532	137.840	23.396	197.491	78.127	16.442	102.922	108.997
	494.574	60.056	568.499	32.750	1.155.879	291.960	48.059	815.860	798.266
Public sector	468	-	-	-	468	-	62	406	468
Total	1.026.921	145.312	699.788	962.772	2.834.793	355.288	442.958	2.036.547	1.924.973

An amount of €59.514 thous. that is included in accumulated impairment allowance under "Collectively assessed" relates to IBNR provisions. An amount of €209.271 thous. included in impaired loans and advances relates to restructured loans less than 90 days past due.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

ANALYSIS OF NEITHER PAST DUE NOR IMPAIRED LOANS AND ADVANCES TO CUSTOMERS

	31.12.2016				
	Strong €΄000	Satisfactory €΄000	Watch list (higher risk) €΄000	Total neither past due nor impaired €΄000	Value of collateral €΄000
Retail lending					
Mortgage	-	390.564	463	391.027	357.645
Consumer	-	50.879	-	50.879	21.078
Credit cards	11	7.938	53	8.002	1.032
Small Business Loans	-	17.272	-	17.272	11.467
	11	466.653	516	467.180	391.222
Corporate lending					
Large	28.179	219.926	213.837	461.942	330.697
SME's	278	5.728	7.295	13.301	10.676
	28.457	225.654	221.132	475.243	341.373
Public sector	-	579	107	686	686
Total	28.468	692.886	221.755	943.109	733.281

	31.12.2015				
	Strong €΄000	Satisfactory €΄000	Watch list (higher risk) €΄000	Total neither past due nor impaired €΄000	Value of collateral €΄000
Retail lending					
Mortgage	-	443.196	-	443.196	401.952
Consumer	-	62.052	-	62.052	28.763
Credit cards	-	9.145	-	9.145	1.232
Small Business Loans	-	17.486	-	17.486	12.087
	-	531.879	-	531.879	444.034
Corporate lending					
Large	46.276	292.168	137.407	475.851	399.205
SME's	572	8.979	9.172	18.723	15.624
	46.848	301.147	146.579	494.574	414.829
Public sector	-	468	-	468	468
Total	46.848	833.494	146.579	1.026.921	859.331

35.RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

AGEING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

31.12.2016

	Retail Lending				Corporate lending		
	Mortgage €´000	Consumer €´000	Credit cards €´000	Small business loans €´000	Large €´000	SME's €´000	Total past due but not impaired €´000
1 - 30 days	43.282	5.460	198	1.437	8.399	1.141	59.917
31 - 60 days	12.400	1.372	92	175	2.153	342	16.534
61 - 90 days	10.309	1.198	29	312	380	482	12.710
91 - 180 days	-	-	-	-	4.800	1.071	5.871
181 - 360 days	-	-	-	-	9.824	595	10.419
> 360 days	-	-	-	-	10.386	16.014	26.400
Total	65.991	8.030	319	1.924	35.942	19.645	131.851
Value of collateral	59.399	2.736	-	1.202	33.815	14.683	111.835

31.12.2015

	Retail Lending				Corporate lending		
	Mortgage €´000	Consumer €´000	Credit cards €´000	Small business loans €´000	Large €´000	SME's €´000	Total past due but not impaired €´000
1 - 30 days	45.258	5.548	140	2.225	6.170	1.766	61.107
31 - 60 days	19.567	1.622	83	541	14.562	822	37.197
61 - 90 days	7.578	1.480	45	1.169	2.389	2	12.663
91 - 180 days	-	-	-	-	3.661	633	4.294
181 - 360 days	-	-	-	-	269	591	860
> 360 days	-	-	-	-	15.473	13.718	29.191
Total	72.403	8.650	268	3.935	42.524	17.532	145.312
Value of collateral	62.259	3.434	29	3.010	28.869	11.597	109.198

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

AGEING ANALYSIS OF IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

31.12.2016

	Retail lending				Corporate lending		
	Mortgage €´000	Consumer €´000	Credit cards €´000	Small business loans €´000	Large €´000	SME's €´000	Total Impaired €´000
Without arrears	79.081	10.540	27	3.632	43.425	1.490	138.195
1 - 30 days	30.709	4.545	-	961	3.076	449	39.740
31 - 60 days	24.768	4.031	-	1.554	376	-	30.729
61 - 90 days	13.958	4.725	-	1.539	4.406	1.091	25.719
91 - 180 days	7.121	3.594	13	560	7.723	332	19.343
181 - 360 days	14.624	1.392	1.499	948	11.759	967	31.189
> 360 days	329.357	70.201	1.258	16.092	137.669	62.018	616.595
Net value of impaired loans and advances	499.618	99.028	2.797	25.286	208.434	66.347	901.510
Value of collateral	515.588	61.320	184	22.615	215.884	73.678	889.269

31.12.2015

	Retail lending				Corporate lending		
	Mortgage €´000	Consumer €´000	Credit cards €´000	Small business loans €´000	Large €´000	SME's €´000	Total Impaired €´000
Without arrears	74.204	12.576	33	2.993	37.140	804	127.750
1 - 30 days	19.179	2.848	-	2.140	196	421	24.784
31 - 60 days	9.574	1.983	-	183	1.459	625	13.824
61 - 90 days	7.726	2.907	3	529	21.796	43	33.004
91 - 180 days	15.897	2.308	62	730	2.366	552	21.915
181 - 360 days	25.487	3.323	1.561	825	4.784	3.235	39.215
> 360 days	347.389	75.413	1.267	18.838	154.190	66.238	663.335
Net value of impaired loans and advances	499.456	101.358	2.926	26.238	221.931	71.918	923.827
Value of collateral	522.173	68.899	205	22.197	261.194	81.775	956.443

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

MOVEMENT OF IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

	2016						
	Retail Lending				Corporate Lending		Total
	Mortgages	Consumer	Credit cards	Small business loans	Large businesses	SMEs businesses	
	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2016	**824.927**	**187.109**	**5.930**	**43.344**	**440.013**	**161.237**	**1.662.560**
Value of loans categorized as impaired within the period	89.853	18.350	969	5.792	50.393	19.408	184.765
Value of loans removed from impaired category	(51.195)	(10.079)	(84)	(2.443)	(13.380)	(7.369)	(84.551)
Proceeds from impaired loans	(4.602)	(1.928)	(484)	(366)	(4.526)	(1.023)	(12.929)
Write off of impaired loans and Advances	(5.350)	(7.809)	(95)	(103)	(12.124)	(3.095)	(28.576)
Disposal of impaired loans and Advances	-	-	-	-	-	-	-
Exchange differences and other movement	8.470	(2.284)	10	173	5.359	(5.069)	6.660
Balance 31.12.2016	**862.103**	**183.359**	**6.246**	**46.397**	**465.735**	**164.089**	**1.727.929**
Accumulated impairment provision	(362.485)	(84.331)	(3.449)	(21.111)	(257.301)	(97.742)	(826.419)
Net value of impaired loans and advances	**499.618**	**99.028**	**2.797**	**25.286**	**208.434**	**66.347**	**901.510**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

MOVEMENT OF IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

	2015						
	Retail Lending				Corporate Lending		Total
	Mortgages	Consumer	Credit cards	Small business loans	Large businesses	SMEs businesses	
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2015	**916.441**	**137.265**	**5.497**	**29.213**	**689.652**	**99.338**	**1.877.406**
Value of loans categorized as impaired within the period	327.406	63.574	1.800	16.324	143.603	72.583	625.290
Value of loans removed from impaired category	(42.194)	(12.599)	(464)	(2.038)	(11.180)	7.984)	(76.459)
Proceeds from impaired loans	(16.316)	(3.975)	(78)	(541)	(11.296)	(1.903)	(34.109)
Write off of impaired loans and advances	(29.456)	(676)	(179)	(32)	(179)	-	(30.522)
Disposal of impaired loans and advances	(367.775)	(1.710)	(198)	-	(381.401)	(1.982)	(753.066)
Exchange differences and other movement	36.821	5.230	(448)	418	10.814	1.185	54.020
Balance 31.12.2015	**824.927**	**187.109**	**5.930**	**43.344**	**440.013**	**161.237**	**1.662.560**
Accumulated impairment provision	(325.471)	(85.752)	(3.003)	(17.106)	(218.082)	(89.319)	(738.733)
Net value of impaired loans and advances	**499.456**	**101.357**	**2.927**	**26.238**	**221.931**	**71.918**	**923.827**

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk (cont.)

Credit risk mitigation techniques

(a) Policies and procedures for the valuation and management of collaterals

Collateral may be used to offset the risk of default on the obligations of the borrowers or the counterparties under the agreed terms.

The main types of collateral for retail customers are mortgages on real estate, deposits, bank letters of guarantee and shares. For loans secured with mortgage, limits on the loan to value (LTV) have been set, which are proportionate to the purpose of the loan and the type of collateral. The client's contribution to the funded property is important because it directly affects the customer's ability to repay and the risk borne by the Bank. For customers in the "Wholesale" sector, the repayment of the loan depends on the company's viability and growth prospects, the conditions prevailing in the company's business sector and the unpredictable factors that may affect positively or negatively the operation of the company. In cases where the primary borrower is a physical person, a life insurance is compulsory. When assessing the collateral, the Bank calculates the possible cash flows that will be collected if the collateral is liquidated.

Therefore, the following are taken into consideration:

- the quality of the collateral
- market / commercial value
- any difficulties in the liquidation process
- the time needed for the liquidation
- the costs associated with liquidation
- any encumbrances on the property (eg mortgages, foreclosures, memos)
- any preferential claims that may arise during the liquidation of corporate assets (from government agencies, employees)

Property valuations are carried out by:

- The Group company, Alpha Real Estate Services LLC "ARES",
- An approved external valuer who is selected from a preapproved list of valuers. The list is reviewed annually

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk (cont.)

Credit risk mitigation techniques (cont.)

(b) Acceptable collateral types for Pillar I purposes

The main types of collateral obtained by the Bank are real estate mortgages, customer deposit, letters of guarantee and pledge of shares.

(i) Immovable properties

According to the Group's directives properties that secure the loan of wholesale customers, periodic valuations should be carried out as follows:

• Every two years for buildings whose construction has been completed and are in use, or are rented, or are intended to be rented,

• Once a year for properties such as offices, shops, department stores, hotels, industrial warehouses, land plots within the city plan, pieces of land suitable for building which are outside the city plan, fields etc.

In the case of residential real estate, a valuation must be made every three years.

(ii) Deposits lien

Customers deposits are encumbered with a lien by signing a "General Lien"

The encumbrance may be for the full amount of the deposit or for a specified / predetermined amount of the account.

A deposit account can be pledged to secure facilities of third parties. Amounts in a deposit account can be pledged and constitute collateral for more than one credit facility.

(iii) Pledge of shares

The pledge of shares of public companies, listed or not on stock exchange, is an acceptable form of collateral for the Bank.

For the shares of public companies listed on the stock exchange, value is given as follows:

- If pledged shares amount up to 3% of the shares of the company, 75% of the average market price on the day of calculation is accepted.
- If pledged shares amount more than 3% of the shares of the company, 50% of the average market price on the day of calculation is accepted

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk (cont.)

Credit risk mitigation techniques (cont.)

(b) Acceptable collateral types for Pillar I purposes (cont.)

For the shares of public companies not listed on the stock exchange, value is given as follows:

- Up to 50% of the net assets of the company based on its latest financial statements, multiplied by the percentage of the pledged shares.

(iv) Letters of Bank Guarantee

Letters of Guarantee (LGs) are issued by any bank or Co-Operative credit institution (Co-Op) in favor of the Bank and are accepted as a guarantee for the provision of banking facilities.
In order to accept a new Letter of Guarantee or renew an existing one, an application is forwarded to the Group for approval. The Group maintains preapproved limits for LGs for each financial institution separately which it monitors.

(c) Concentration risk

The Bank's risk appetite framework includes relevant concentration risk limits that are regularly monitored in order to take corrective actions where deemed necessary.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOAN-TO-VALUE RATIO (LTV) OF MORTGAGE LENDING

	Mortgage Loans	
	31.12.2016 €΄000	**31.12.2015** €΄000
< 50%	169.351	177.215
50% - 70%	167.626	175.582
71% - 80%	92.973	94.876
81% - 90%	83.364	112.809
91% - 100%	72.069	94.685
101% - 120%	171.303	183.349
121% - 150%	191.039	207.759
> 150%	371.396	294.252
Total exposure	1.319.121	1.340.527
Average LTV (%)	77.6%	74.4%

BREAKDOWN OF COLLATERAL AND GUARANTEES

	31.12.2016 Value of collateral received			
	Real estate collateral €΄000	Financial collateral €΄000	Other collateral €΄000	Total €΄000
Retail lending	1.032.624	18.687	2.956	1.054.266
Corporate lending	623.739	49.914	5.779	679.432
Public sector	-	551	135	686
Total	1.656.363	69.152	8.870	1.734.384

	31.12.2015 Value of collateral received			
	Real estate collateral €΄000	Financial collateral €΄000	Other collateral €΄000	Total €΄000
Retail lending	1.092.570	29.780	3.889	1.126.239
Corporate lending	727.255	55.950	15.061	798.266
Public sector	-	390	78	468
Total	1.819.825	86.120	19.028	1.924.973

The Bank has not received any collaterals it may sell or re-assign in case of no default by the debtor.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

REPOSSESSED COLLATERALS

	31.12.2016						
	Balance sheet balances					Disposals	
	Value of collaterals repossessed 31.12.2016	of which in 2016	Accumulated impairment allowance 31.12.2016	of which in 2016	Carrying amount of collaterals repossessed 31.12.2016	Net disposal Value	Net gain/(loss) on disposal
	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Real Estate	5.884	5.325	-	-	5.884	-	-

	31.12.2015						
	Balance sheet balances					Disposals	
	Value of collaterals repossessed 31.12.2015	of which in 2015	Accumulated impairment allowance 31.12.2015	of which in 2015	Carrying amount of collaterals repossessed 31.12.2015	Net disposal Value	Net gain/(loss) on disposal
	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Real Estate	559	-	-	-	559	-	-

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS, IMPAIRED LOANS, IMPAIRMENT ALLOWANCE BY PRODUCT LINE, INDUSTRY AND GEOGRAPHICAL REGION

31.12.2016		Cyprus			Greece			Rest of Europe			Other countries	
	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Retail lending	**930.930**	**591.600**	**244.168**	**1.973**	**1.632**	**648**	**635.079**	**456.932**	**226.022**	**73.567**	**47.941**	**17.286**
Mortgage	621.429	367.553	140.000	1.829	1.510	612	623.764	446.228	219.464	72.099	46.812	16.513
Consumer	229.900	171.717	79.223	126	115	32	10.885	10.492	6.454	1.357	1.035	719
Credit cards	14.203	5.941	3.428	18	7	4	243	212	104	103	86	47
Small business loans	65.398	46.389	21.517	-	-	-	187	-	-	8	8	7
Corporate lending	**1.146.615**	**622.033**	**363.985**	**9.884**	**6.665**	**4.178**	**2.061**	**-**	**-**	**2.094**	**1.126**	**242**
Financial institutions	73.508	5.267	3.851	-	-	-	-	-	-	-	-	-
Manufacturing	51.327	34.513	18.886	687	156	101	2.061	-	-	-	-	-
Real estate development	80.370	32.220	16.572	-	-	-	-	-	-	-	-	-
Construction	638.841	389.441	238.210	1.073	967	592	-	-	-	2.094	1.126	242
Wholesale and retail trade	120.056	69.573	40.714	6.080	4.637	2.761	-	-	-	-	-	-
Transportation	10.108	4.088	2.068	-	-	-	-	-	-	-	-	-
Tourism	79.162	33.259	9.926	1.669	810	686	-	-	-	-	-	-
Services	23.961	20.926	10.174	30	5	2	-	-	-	-	-	-
Other sectors	69.282	32.746	23.584	345	90	36	-	-	-	-	-	-
Public sector	**686**	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2.078.231**	**1.213.633**	**608.153**	**11.857**	**8.297**	**4.826**	**637.140**	**456.932**	**226.022**	**75.661**	**49.067**	**17.528**

Note.: Accumulated impairment allowance includes losses incurred but not reported (IBNR). IBNR concerns provisions for non-impaired loans and advances.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS, IMPAIRED LOANS, IMPAIRMENT ALLOWANCE BY PRODUCT LINE, INDUSTRY AND GEOGRAPHICAL REGION (cont.)

31.12.2015	Cyprus			Greece			Rest of Europe			Other countries		
	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance	Gross amount	Impaired amount	Accumulated impairment allowance
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	**952.534**	**577.679**	**229.677**	**1.889**	**1.198**	**470**	**650.777**	**437.258**	**210.783**	**73.246**	**45.175**	**17.235**
Mortgage	630.109	355.651	128.909	1.702	1.078	416	641.156	428.311	206.080	67.560	39.887	14.562
Consumer	242.986	173.031	80.145	168	114	50	9.179	8.746	4.619	5.478	5.218	2.621
Credit cards	14.877	5.660	2.940	19	6	4	246	201	84	201	63	46
Small business loans	64.562	43.337	17.683	-	-	-	196	-	-	7	7	6
Corporate lending	**1.139.713**	**597.785**	**334.537**	**12.433**	**3.465**	**5.482**	**2.240**	**-**	**-**	**1.493**	**-**	**-**
Financial institutions	52.551	13.784	19.201	-	-	-	-	-	-	-	-	-
Manufacturing	55.609	32.459	19.797	1.636	703	842	-	-	-	-	-	-
Real estate Development	82.544	29.551	13.915	-	-	-	-	-	-	-	-	-
construction	636.497	364.048	192.818	1.229	696	619	-	-	-	1.493	-	-
Wholesale and retail trade	122.569	67.920	41.060	7.441	1.973	3.146	2.240	-	-	-	-	-
Transportation	7.124	3.498	2.799	-	-	-	-	-	-	-	-	-
Tourism	85.251	34.037	10.280	1.720	2	767	-	-	-	-	-	-
Services	22.499	19.266	10.069	29	4	3	-	-	-	-	-	-
Other sectors	75.069	33.220	24.598	378	87	105	-	-	-	-	-	-
Public sector	**468**	**-**	**62**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2.092.715**	**1.175.464**	**564.276**	**14.322**	**4.663**	**5.952**	**653.017**	**437.258**	**210.783**	**74.739**	**45.175**	**17.235**

Note.: Accumulated impairment allowance includes losses incurred but not reported (IBNR). IBNR concerns provisions for non-impaired loans and advances.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

INTEREST INCOME RECOGNISED BY QUALITY OF LOANS AND ADVANCES AND PRODUCT LINE

	31.12.2016		
	Interest income on non impaired loans and advances €΄000	Interest income on impaired loans and advances €΄000	Total interest income €΄000
Retail lending	21.817	47.784	69.601
Corporate lending	25.200	23.205	48.405
Total interest income	47.017	70.989	118.006

	31.12.2015		
	Interest income on non impaired loans and advances €΄000	Interest income on impaired loans and advances €΄000	Total interest income €΄000
Retail lending	29.298	58.232	87.530
Corporate lending	23.470	31.253	54.723
Total interest income	52.768	89.485	142.253

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

ANALYSIS OF FORBORNE LOANS AND ADVANCES TO CUSTOMERS

	31.12.2016		
	Total amount of loans and advances €΄000	Total amount of forborne loans and advances €΄000	Forborne loans and advances (%)
Neither past due nor impaired	943.109	184.925	19,61
Past due but not impaired	131.851	40.607	30,80
Impaired	1.727.929	526.630	30,48
Total (before impairment)	2.802.889	752.162	26,84
Individual impairment allowance	(418.284)	(51.899)	12,41
Collective impairment allowance	(438.245)	(121.263)	27,67
Total net amount	1.946.360	579.000	29,75
Value of collateral	**1.734.385**	**547.175**	**31,55**

	31.12.2015		
	Total amount of loans and advances €΄000	Total amount of forborne loans and advances €΄000	Forborne loans and advances (%)
Neither past due nor impaired	1.026.921	219.770	21,40
Past due but not impaired	145.312	44.931	30,92
Impaired	1.662.560	482.475	29,02
Total (before impairment)	2.834.793	747.176	26,36
Individual impairment allowance	(355.288)	(33.696)	9,48
Collective impairment allowance	(442.958)	(123.519)	27,88
Total net amount	2.036.547	589.961	28,97
Value of collateral	**1.924.973**	**580.489**	**30,16**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF FORBEARANCE

	31.12.2016 €΄000
Deferral of interest payment	3.482
Reduced payment schedule	22.967
Grace period	116.605
Extension of repayment schedule	14.939
Capitalisation of arrears	320.034
Partial write off of debt	43.211
Extension of repayment schedule and interest payment only	33.414
Other	24.348
Total net value	579.000

	31.12.2015 €΄000
Deferral of interest payment	2.235
Reduced payment schedule	52.246
Grace period	151.902
Extension of repayment schedule	14.123
Capitalisation of arrears	228.458
Partial write off of debt	105.518
Other	35.479
Total net value	589.961

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

	31.12.2016 €΄000	**31.12.2015** €΄000
Retail lending		
Mortgage	382.671	429.086
Consumer	43.928	48.215
Credit card	1	-
Small business loans	13.553	11.281
	440.153	488.582
Corporate lending		
Large	130.351	94.632
SME's	8.496	6.747
	138.847	101.379
Total net value	579.000	589.961

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHIC AREA

	31.12.2016
	€΄000
Cyprus	410.535
Greece	801
Other European countries	140.866
Other countries	26.798
Total net value	579.000

	31.12.2015
	€΄000
Cyprus	375.054
Greece	737
Other European countries	187.012
Other countries	27.158
Total net value	589.961

OTHER RECEIVABLES

31.12.2016	**Deposits with Central Bank of Cyprus** €΄000	**Loans and advances to financial institutions** €΄000	**Derivative financial instruments** €΄000	**Investment securities available for sale** €΄000	**Total** €΄000
AA- to AAA	-	177	-	-	177
A- to A+	-	35.633	-	1.664	37.297
Lower than A-	182.871	256.419	144	114.514	553.948
Unrated	-	-	-	1.651	1.651
Not past due nor impaired	**182.871**	**292.229**	**144**	**117.829**	**593.073**
31.12.2015					
AA- to AAA	-	285	-	-	285
A- to A+	-	47.964	-	-	47.964
Lower than A-	339.981	10.565	2.885	96.907	450.338
Unrated	-	-	-	1.651	1.651
Not past due nor impaired	**339.981**	**58.814**	**2.885**	**98.558**	**500.238**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
BALANCES WITH CENTRAL BANKS – DUE FROM BANKS – DERIVATIVE FINANCIAL INSTRUMENTS – BASED ON CREDIT RATING

	31.12.2016				
	Balances with Central Bank of Cyprus €´000	Due from banks €´000	Derivative financial assets €´000	Investment securities available for sale €´000	Total €´000
Not past due and not impaired	182.871	292.229	144	117.829	593.073
Past due but not impaired	-	-	-	-	-
Impaired	-	-	-	-	-
Exposure value before impairment	182.871	292.229	144	117.829	593.073
Less:					
Accumulated impairments	-	-	-	-	-
Net exposure value	182.871	292.229	144	117.829	593.073

	31.12.2015				
	Balances with Central Bank of Cyprus €´000	Due from banks €´000	Derivative financial assets €´000	Investment securities available for sale €´000	Total €´000
Not past due and not impaired	339.981	58.814	2.885	98.558	500.238
Past due but not impaired	-	-	-	-	-
Impaired	-	-	-	-	-
Exposure value before impairment	339.981	58.814	2.885	98.558	500.238
Less:					
Accumulated impairments	-	-	-	-	-
Net exposure value	339.981	58.814	2.885	98.558	500.238

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FINANCIAL ASSETS SUBJECT TO CREDIT RISK – Analysis by sector

	31.12.2016												
	Financial institutions & other financial services	Manufacturing and crafts	Real estate developments	Construction	Wholesale and retail trade	Public sector	Transport	Tourism	Other sectors	Individuals and small businesses	Total	Provisions	Total net value
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Credit risk exposure associated with balance sheet items:													
Balances with Central Banks	182.871	-	-	-	-	-	-	-	-	-	**182.871**	-	**182.871**
Due from banks	292.229	-	-	-	-	-	-	-	-	-	**292.229**	-	**292.229**
Loans and advances to customers	73.508	54.075	80.370	642.008	126.136	686	10.108	80.831	93.618	1.641.549	**2.802.889**	856.529	**1.946.360**
Derivative financial assets	144	-	-	-	-	-	-	-	-	-	**144**	-	**144**
Investment securities available for sale	3.315	-	-	-	-	114.514	-	-	-	-	**117.829**	-	**117.829**
Total value of on balance sheet items subject to credit risk (a)	**552.067**	**54.075**	**80.370**	**642.008**	**126.136**	**115.200**	**10.108**	**80.831**	**93.618**	**1.641.549**	**3.395.962**	**856.529**	**2.539.433**
Other on balance sheet items not subject to credit risk	56.982	-	-	-	-	-	-	-	-	-	**56.982**	-	**56.982**
Total assets	**609.048**	**54.075**	**80.370**	**642.008**	**126.136**	**115.200**	**10.108**	**80.831**	**93.618**	**1.641.549**	**3.452.944**	**856.529**	**2.596.415**
Credit risk exposure related to off-balance sheet items:													
Letters of guarantee, Letters of Credit	**5.576**	**1.621**	**5**	**8.038**	**21.449**	**12**	**213**	**1.637**	**12.488**	**1.306**	**52.345**	**-**	**52.345**
Undrawn facilities and credit limits that cannot be revoked	**1.005**	**15.500**	**3.572**	**13.687**	**20.568**	**2**	**2.974**	**4.112**	**19.472**	**38.973**	**119.865**	**-**	**119.865**
Total value of off balance sheet items subject to credit risk (b)	**6.581**	**17.121**	**3.577**	**21.725**	**42.017**	**14**	**3.187**	**5.749**	**31.960**	**40.279**	**172.210**	**-**	**172.210**
Total value of exposure subject to credit risk (a+b)	**558.648**	**71.196**	**83.947**	**663.733**	**168.153**	**115.214**	**13.295**	**86.580**	**125.578**	**1.681.828**	**3.568.172**	**856.529**	**2.711.643**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FINANCIAL ASSETS SUBJECT TO CREDIT RISK – Analysis by sector

	31.12.2015												
	Financial institutions & other financial services	Manufacturing and crafts	Real estate developments	Construction	Wholesale and retail trade	Public sector	Transport	Tourism	Other sectors	Individuals and small businesses	Total	Provisions	Total net value
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Credit risk exposure associated with balance sheet items:													
Balances with Central Banks	339.981	-	-	-	-	-	-	-	-	-	**339.981**	-	**339.981**
Due from banks	58.814	-	-	-	-	-	-	-	-	-	**58.814**	-	**58.814**
Loans and advances to customers	52.939	61.989	83.705	645.433	146.954	468	7.999	90.470	108.396	1.636.440	**2.834.793**	798.246	**2.036.547**
Derivative financial assets	2.885	-	-	-	-	-	-	-	-	-	**2.885**	-	**2.885**
Investment securities available for sale	1.651	-	-	-	-	96.907	-	-	-	-	**98.558**	-	**98.558**
Total value of on balance sheet items subject to credit risk (a)	**456.270**	**61.989**	**83.705**	**645.433**	**146.954**	**97.375**	**7.999**	**90.470**	**108.396**	**1.636.440**	**3.335.031**	**798.246**	**2.536.785**
Other on balance sheet items not subject to credit risk	52.037	-	-	-	-	-	-	-	-	-	52.037	-	52.037
Total assets	**508.307**	**61.989**	**83.705**	**645.433**	**146.954**	**97.375**	**7.999**	**90.470**	**108.396**	**1.636.440**	**3.387.068**	**798.246**	**2.588.822**
Credit risk exposure related to off-balance sheet items:													
Letters of guarantee, Letters of Credit	**4.908**	**1.729**	**5**	**12.744**	**18.762**	**22**	**339**	**1.849**	**15.505**	**1.521**	**57.384**	**-**	**57.384**
Undrawn facilities and credit limits that cannot be revoked	**1.248**	**14.540**	**1.810**	**15.982**	**22.528**	**110**	**6.743**	**3.896**	**19.190**	**49.137**	**135.184**	**-**	**135.184**
Total value of off balance sheet items subject to credit risk (b)	**6.156**	**16.269**	**1.815**	**28.726**	**41.290**	**132**	**7.082**	**5.745**	**34.695**	**50.658**	**192.568**	**-**	**192.568**
Total value of exposure subject to credit risk (a+b)	**462.426**	**78.258**	**85.520**	**674.159**	**188.244**	**97.507**	**15.081**	**96.215**	**143.091**	**1.687.098**	**3.527.599**	**798.246**	**2.729.352**

35. RISK MANAGEMENT (cont.)

35.2 Market risk

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

The management policy followed for market risk as well as the accepted limits, are set by the Asset and Liability Committee (ALCO), within which the Treasury Division operates. The Asset and Liability Committee acts within the parameters set by the relevant policies of Alpha Bank Group and in particular according to the Policy manuals and Procedures in areas of market risk and the management of assets and liabilities.

The Bank has set limits for the following risks:

- Currency risk position for spot & forwards
- Interest rate risk
- Credit risk on interbank transactions and bonds

Positions held in these products are monitored continuously and are examined for the corresponding limit percentage cover and for any limit excess.

35.2.1 Interest rate risk

Interest rate risk arises from the interest rates mismatch between the interest bearing assets and liabilities of the Bank.

The Bank analyses the interest rate gaps for each time period for each currency (interest rate gap analysis) for all interest bearing elements and uses this analysis to measure the effects of the change in interest rates.

From the Interest Rate Gap Analysis and from the application of alternative scenarios regarding the changes in market interest rates or changes in the Bank's base interest rates, the Bank is able to calculate the immediate changes in net interest income and equity relating to available for sale assets. In the interest rate decrease scenarios the change is assessed up to a feasible point (interest rate set to zero) in accordance with the effective yield curves per currency.

Interest rate variation scenario (parallel fall or rise in yield curves)	**Sensitivity for net interest income (annual) (€'000)**	**Sensitivity of Equity (€'000)**
+100 basis points	10.415	-894
-100 basis points	2.341	0

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.1 INTEREST RATE RISK AT 31 DECEMBER 2016

ASSETS	Less than 1 month €000	1 to 3 months €000	3 to 6 months €000	6 to 12 months €000	1 to 5 years €000	> 5 years €000	Non-interest bearing €000	Total €000
Cash and balances with central banks	182.871	-	-	-	-	-	9.002	191.873
Due from banks	82.770	209.459	-	-	-	-	-	292.229
Investment securities available for sale	15.318	58.746	-	-	31.214	9.000	3.551	117.829
Derivative financial assets	144	-	-	-	-	-	-	144
Loans and advances to corporates	272.345	396.863	55.741	11.758	74.525	-	-	811.232
Loans and advances to individuals	720.199	366.352	29.268	7.471	11.838	-	-	1.135.128
Property, plant and equipment and Intangible assets	-	-	-	-	-	-	25.706	25.706
Deferred tax assets and other assets	-	-	-	-	-	-	22.274	22.274
Total Assets	**1.273.647**	**1.031.420**	**85.009**	**19.229**	**117.577**	**9.000**	**60.533**	**2.596.415**
LIABILITIES								
Due to banks	62.738	13.697	22.627	3.501	-	-	-	102.563
Due to customers	315.008	316.213	355.774	478.870	420.816	53.947	-	1.940.628
Subordinated bonds	-	116.331	-	-	-	-	-	116.331
Derivative financial liabilities	7.467	-	-	-	-	-	-	7.467
Other liabilities and provisions	-	-	-	-	-	-	18.597	18.597
Total Liabilities	**385.213**	**446.241**	**378.401**	**482.371**	**420.816**	**53.947**	**18.597**	**2.185.586**
EQUITY								
Share capital	-	-	-	-	-	-	148.303	148.303
Convertible capital securities	-	-	-	-	-	-	64.000	64.000
Share premium	-	-	-	-	-	-	90.467	90.467
Reserves	-	-	-	-	-	-	921	921
Retained earnings	-	-	-	-	-	-	107.138	107.138
Total Equity	**-**	**-**	**-**	**-**	**-**	**-**	**410.829**	**410.829**
Total Liabilities and Equity	**385.213**	**446.241**	**378.401**	**482.371**	**420.816**	**53.947**	**429.426**	**2.596.415**
OPEN EXPOSURE	**888.434**	**585.179**	**(293.392)**	**(463.142)**	**(303.239)**	**(44.947)**	**(368.893)**	**-**
CUMULATIVE EXPOSURE	**888.434**	**1.473.613**	**1.180.221**	**717.079**	**413.840**	**368.893**	**-**	**-**

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.1 INTEREST RATE RISK AT 31 DECEMBER 2015

ASSETS	Less than 1 month €000	1 to 3 months €000	3 to 6 months €000	6 to 12 months €000	1 to 5 years €000	> 5 years €000	Non-interest bearing €000	Total €000
Cash and balances with central banks	339.981	-	-	-	-	-	9.776	349.757
Due from banks	58.814	-	-	-	-	-	-	58.814
Investment securities available for sale	27.397	68.545	1.028	-	-	-	1.588	98.558
Derivative financial assets	2.885	-	-	-	-	-	-	2.885
Loans and advances to corporates	265.965	430.500	98.580	9.651	59.249	-	-	863.945
Loans and advances to individuals	673.171	417.524	50.358	9.710	21.839	-		1.172.602
Property, plant and equipment and Intangible assets	-	-	-	-	-	-	26.987	26.987
Deferred tax assets and other assets	-	-	-	-	-	-	15.274	15.274
Total Assets	**1.368.213**	**916.569**	**149.966**	**19.361**	**81.088**	**-**	**53.625**	**2.588.822**
LIABILITIES								
Due to banks	104.370	9.960	42.901	3.500	-	-	-	160.731
Due to customers	309.492	310.019	428.479	411.263	342.168	50.367	-	1.851.788
Subordinated bonds	-	114.984	1.350	-	-	-	-	116.334
Derivative financial liabilities	379	-	-	-	-	-	-	379
Other liabilities and provisions	-	-	-	-	-	-	18.293	18.293
Total Liabilities	**414.241**	**434.963**	**472.730**	**414.763**	**342.168**	**50.367**	**18.293**	**2.147.525**
EQUITY								
Share capital	-	-	-	-	-	-	148.303	148.303
Convertible capital securities	-	-	-	-	-	-	64.000	64.000
Share premium	-	-	-	-	-	-	90.467	90.467
Reserves	-	-	-	-	-	-	616	616
Retained earnings							137.911	137.911
Total Equity	**-**	**-**	**-**	**-**	**-**	**-**	**441.297**	**441.297**
Total Liabilities and Equity	**414.241**	**434.963**	**472.730**	**414.763**	**342.168**	**50.367**	**459.590**	**2.588.822**
OPEN EXPOSURE	**953.972**	**481.606**	**(322.764)**	**(395.402)**	**(261.080)**	**(50.367)**	**(405.965)**	**-**
CUMULATIVE EXPOSURE	**953.972**	**1.435.578**	**1.112.814**	**717.412**	**465.332**	**405.965**	**-**	**-**

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.2 Foreign currency risk

The Bank undertakes foreign currency risk due to the volatility of foreign exchange rates. The management of foreign currency position is centralized. The policy of the Bank is the positions to be closed immediately using spot transactions or currency derivatives. In case that positions are still open, they are daily monitored by the competent department and they are subject to limits. Indicatively the largest exposure of the bank is for the equivalent of Eur80 th. in the currency of GBP. As a result, the impact on the Bank's income from exchange rate changes is negligible and therefore no alternative exchange rate scenarios are deemed necessary.

35.3 Liquidity risk

Liquidity risk relates to the Bank's ability to maintain sufficient funds to cover its planned or extraordinary obligations. This risk includes the possibility of renewing liabilities at higher cost or the sale of assets at a discount.

Liquidity management is done through the timely identification of the needs, the identification of all available sources and the most cost effective way to meet the liquidity needs.

The Bank monitors the maturity of its assets and liabilities and takes measures to manage liquidity risk under the current economic conditions. It also ensures that all regulatory prudential liquidity ratios are met.

Using a Liquidity Gap Analysis the bank calculates the cash flows arising from all Assets and Liabilities and classifies them in time periods according to the contractual maturity date or the estimated maturity date based on a statistical analysis. An exception to the above is the securities portfolios, which can contribute instantly to liquidity, and are allocated in the first period, provided that they have not been used to raise liquidity either from the Central Bank or through interbank repo agreements.

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk

31.12.2016	Less than 1 month €΄000	1 to 3 months €΄000	3 to 6 months €΄000	6 to 12 months €΄000	More than 1 year €΄000	Total €΄000
Assets						
Cash and balances with Central Banks	191.873	-	-	-	-	191.873
Due from banks	62.101	230.128	-	-	-	292.229
Investment securities available for sale	106.378	-	-	-	11.451	117.829
Derivative financial assets	-	-	-	-	144	144
Loans and advances to customers	211.548	83.957	88.371	115.094	1.447.390	1.946.360
Other assets	8.110	-	-	-	-	8.110
Total Assets	**580.010**	**314.085**	**88.371**	**115.094**	**1.458.985**	**2.556.545**
Liabilities						
Subordinated bonds	-	1.109	704	2.980	121.220	126.013
Due to banks	2.106	5.458	17	54	95.762	103.397
Due to customers	167.523	334.484	367.638	502.064	583.207	1.954.916
Derivative financial liabilities	7.467	-	-	-	-	7.467
Other liabilities	14.784	-	-	-	-	14.784
Total liabilities	**191.880**	**341.051**	**368.359**	**505.098**	**800.189**	**2.206.577**
Off balance sheet items						
Letter of guarantees	14.900	3.819	18.682	3.989	5.463	46.853
Undrawn Credit facilities	25.071	100.286	-	-	-	125.357
	39.971	**104.105**	**18.682**	**3.989**	**5.463**	**172.210**

Liabilities are stated based on the estimated payment on maturity.

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk

31.12.2015	Less than 1 month €΄000	1 to 3 months €΄000	3 to 6 months €΄000	6 to 12 months €΄000	More than 1 year €΄000	Total €΄000
Assets						
Cash and balances with Central Banks	349.757	-	-	-	-	349.757
Due from banks	53.920	4.894	-	-	-	58.814
Investment securities available for sale	93.660	-	-	-	4.898	98.558
Derivative financial assets	-	-	-	-	2.885	2.885
Loans and advances to customers	233.388	94.838	94.426	125.670	1.488.225	2.036.547
Other assets	3.213	-	-	-	-	3.213
Total Assets	**733.938**	**99.732**	**94.426**	**125.670**	**1.496.008**	**2.549.774**
Liabilities						
Subordinated bonds	-	1.183	1.891	2.478	126.119	131.671
Due to banks	55.189	6.977	102	3.640	95.611	161.519
Due to customers	168.507	328.376	440.156	432.734	491.543	1.861.316
Derivative financial liabilities	379	-	-	-	-	379
Other liabilities	17.580	-	-	-	-	17.580
Total liabilities	**241.655**	**336.536**	**442.149**	**438.852**	**713.273**	**2.172.465**
Off balance sheet items						
Letter of guarantees	6.281	11.544	10.455	22.861	781	51.922
Undrawn Credit facilities	28.513	112.133	-	-	-	140.646
	34.794	**123.677**	**10.455**	**22.861**	**781**	**192.568**

Liabilities are stated based on the estimated payment on maturity.

35. RISK MANAGEMENT (cont.)

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

- the organisational structure to manage operational risk,
- the collection and process of data relating to operational risk events,
- the monitoring of key operational risk indicators in the business activity sectors,
- the evaluation of the operational risk and the determination of risk mitigation action.

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

Within the above framework, all data is recorded in the specialized system which is located at the parent company Alpha Bank S.A. This is the tool used for input and processing of operational risk data that is classified according to banking activity sector as defined by Basel agreement

Simultaneously the Bank in cooperation with Alpha Bank Group has established a number of Risk Indicators for which it collects data. These indicators help to monitor operational risk.

In managing operational risk, structured self-assessments are conducted by business units as well as infrastructure and support units with the aim of identifying, recording, and evaluating potential operational risk and action plans are drafted to counter it.

35.5 Regulatory compliance

The Bank operates an independent Regulatory Compliance Division as required by the provisions of the Central Bank of Cyprus directive "Framework of Principles of Operation and Criteria of Assessment of Bank's Organisational structure, Internal Governance and Internal Control Systems".

The Compliance Division is administratively independent of other units responsible for risk management, or executive duties, or other audit / internal audit duties. The division reports directly to the Managing Director, is supervised by the Alpha Bank Group Compliance Head and reports to the Board of Directors of the Bank through the Audit Committee.

35. RISK MANAGEMENT (cont.)

35.5 Regulatory compliance (cont.)

The aim of the Compliance Division 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 Bank. This can be achieved through the establishment of adequate policies and processes, and the adoption of recognition control, monitoring mechanism of relevant controls, aiming at the preservation of the integrity and reputation of the Bank.

Additionally, through the Compliance officer, as defined in the Central Bank for the “Prevention of money laundering and terrorism financing”, it implements appropriate procedures to ensure timely and on-going compliance of the Bank with the supervisory framework, in relation to the prevention of the financial system being used for money laundering and terrorism financing.

35.6 Transfers – Pledge of financial assets

On 31 December 2016, the bank had encumbered “Loans and advances to customers” of net book value €231 mil. to Alpha Bank A.E. to obtain liquidity. (31.12.2015: €259 mil.)

35.7 Offsetting financial assets / liabilities

On 31 December 2016, there were no transactions for which the Bank was required to offset its financial assets or financial liabilities in accordance with the requirements of IAS 32.

36. ECONOMIC ENVIRONMENT

Cyprus economy

Achievements
In March 2016, Cyprus managed to successfully complete the adjustment program under the three-year Memorandum of Understanding agreed with the European Commission, the European Central Bank and the International Monetary Fund (collectively the "Troika") by which the Republic of Cyprus ensured the financing of its financial needs for the three-year period 2013-2015 up to the sum of 10 billion, from which only 7 million were withdrawn.

The economy recorded remarkable performance in 2016. GDP grew by 2.8% in 2016 compared to 1.7% in 2015. Inflation still remains negative at -1.4% while unemployment fell to 13% compared to 15% in 2015.

Growth is driven mainly from the private consumption, the reduction of unemployment, the increase in households' disposable income, but above all the improvement of the services sector, especially tourism. Compared to 2015, tourism increased by 19.8% in 2016. Tourism benefited from the unsafe environment of other competitive destinations in the region (Turkey, Egypt).

Forecasts
According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 2.5% in 2017 and 2.3% in 2018. At the same time, unemployment is projected to fall to 12% in 2017 and 11% in 2018. Inflation is expected to record a positive sign on a yearly basis. It is estimated that in 2017 it will rise to 1.2% and to 1.1% in 2018, mainly due to the expected increase in oil prices internationally and to the increase in the local consumption.

Due to the performance of the Cyprus economy, it is expected that the international rating agencies will upgrade the Republic of Cyprus to an investment grade, which will bring positive results both to borrowing from international markets and to its borrowing costs. Today, Cyprus remains two notches below investment grade.

Moody's rating agency predicts growth for the Cyprus economy of 2.7% for 2017 and 2.5% for 2018.

Banking environment

The banking system in Cyprus seems to recover its confidence that has been deteriorated in the period 2013-2015 when it lost a large part of its customer deposits, through the bail in process. In 2016 deposits grew by 6.2% compared to 2015 despite the low deposit interest rates. The increased confidence in the banking system is the result of positive performance of the economy, and the credit upgrade by international rating agencies.

Banks continue the deleveraging efforts, which resulted in an 11% decrease in lending compared to 2015. A large percentage of the decline is due to the Debt to Asset swap solutions.

36. ECONOMIC ENVIRONMENT (cont.)

Banking environment (cont.)

Systemic banks maintain high capital adequacy ratios (CET1).

In its latest assessment of the banking system in Cyprus (February 2017), the Moody's rating agency assessed the banking system with a positive outlook, based on the assessment that further improvement is expected on the bank's financial base and loan portfolio.

The challenges of the financial sector are mainly related to high non-performing exposures and the high private debt. Intensified efforts to restructure non-performing loans are being pursued with a view to consolidating bank portfolios. At the same time, attempts are being made to deleverage and reduce the banking sector, by selling assets and withdrawing from other markets.

New challenges are anticipated from the implementation of the new standard IFRS9, which will replace IAS 39 from 1.1.2018, which differentiates the way in which financial assets are classified, measured and impaired.

Greek Economy - Operating Environment of the Parent Company

The completion of the negotiations of the Hellenic Republic with the European Commission and the International Monetary Fund in the third quarter of 2015 to meet the financing needs of the Greek economy, led to an agreement on granting new financial support from the European Stability Mechanism. This agreement provides for the financing of the Hellenic Republic's medium-term financing needs, subject to the implementation of economic reforms, and the provision of funds to cover the recapitalization needs of credit institutions as a result of their assessment by the European Supervisory Mechanism. In particular, with regard to the Alpha Bank Group, the recapitalization, totaling € 2.563 million, was made in the fourth quarter of 2015, exclusively from private funds.

In June 2016 the first evaluation of the Hellenic Republic financial support program was completed and the partial disbursement of the second installment of the program, amounting to € 10.3 billion, was approved. The first disbursement of € 7.5 billion took place in June and covered the short-term public debt servicing needs as well as the clearance of part of amounts overdue by the Hellenic Republic to individuals. The remaining amount of € 2.8 billion was disbursed in October 2016 after the completion of the prerequisite actions that had been set. The completion of the first evaluation and the disbursement of installments contributed to the enhancement of the real economy and the improvement of the economic environment. Meanwhile, in the fourth quarter of 2016 the second evaluation of the financial support program begun and is expected to be completed in the near time. The above, combined with the continuation of reforms and the measures described in the Eurogroup statement for the enhancement of the sustainability of the Greek debt, are expected to contribute to the gradual improvement of the economic environment in Greece and to the return of the economy to positive growth rates, noting, however, the negative consequences that would have in these sectors any further delay in the completion of the second evaluation of the program.

36. ECONOMIC ENVIRONMENT (cont.)

Challenges and uncertainties

Non-performing exposures and private debt remain volatile factors for the banking sector and the economy in general.

The economic reforms need to be maintained, regardless of the completion of the Cyprus Economy Adjustment Program, as any prevailing conditions of complacency would have a negative impact on the ratings of international firms and the efforts of the Republic of Cyprus to further revive investment interest and economic activity.

The exit of the United Kingdom from the European Union, which is the largest trading partner of Cyprus, is expected to affect the Cyprus economy, but the effect of this event cannot be predicted at this time with accuracy.

Any developments of the political problem will consequently affect the economy as well.

37. FAIR VALUE

The fair value represents the amount that an entity would have received upon the disposal of an asset or the amount that the entity would have paid in order to transfer a liability, in an ordinary transaction between market participants, at the valuation date.

The table below depicts the fair value of financial instruments which are not measured at fair value based on the fair value hierarchy assessment but instead using amortizing method.

Fair value hierarchy of financial assets and liabilities not measured at fair value

	31.12.2016				
	Level 1	Level 2	Level 3	Total fair value	Total book value
	€΄000	€΄000	€΄000	€΄000	€΄000
Financial assets					
Loans and advances to customers	-	-	2.012.771	2.012.771	1.946.360
Financial liabilities					
Subordinated bonds	-	91.980	15.960	107.940	116.331
Due to customers	-	-	1.936.932	1.936.932	1.940.628

	31.12.2015				
	Level 1	Level 2	Level 3	Total fair value	Total book value
	€΄000	€΄000	€΄000	€΄000	€΄000
Financial assets					
Loans and advances to customers	-	-	1.976.376	1.976.376	2.036.547
Financial liabilities					
Subordinated bonds	-	54.000	17.729	71.729	116.334
Due to customers	-	-	1.847.853	1.847.853	1.851.788

The fair value of deposits and subordinated bonds is calculated on the basis of interbank interest rate curve after subtracting the margin of each type of deposit. The future cash flows are discounted depending on the duration of the deposit and the corresponding interest rates.

The fair value of loans is calculated on the basis of interbank interest rate curve to which both the liquidity premium and the credit risk spread are added.

The fair value of all other financial assets and liabilities measured at amortized cost does not materially differ from the respective carrying amount.

37. FAIR VALUE (cont.)

Fair value hierarchy of financial assets and liabilities measured at fair value

	31.12.2016			
	Level 1	Level 2	Level 3	Total fair value
	€΄000	€΄000	€΄000	€΄000
Financial Assets				
Investment securities available for sale	-	116.178	1.651	117.829
Derivative financial assets	-	144	-	144
Financial liabilities				
Derivative financial liabilities	-	7.467	-	7.467

	31.12.2015			
	Level 1	Level 2	Level 3	Total fair value
	€΄000	€΄000	€΄000	€΄000
Financial Assets				
Investment securities available for sale	-	96.907	1.651	98.558
Derivative financial assets	-	2.885	-	2.885
Financial liabilities				
Derivative financial liabilities	-	379	-	379

To determine the fair value of the investment in the company JCC Payments Systems Limited at Level 3, the equity method has been used.

The various levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

37. FAIR VALUE (cont.)

The table below presents the reconciliation of the opening balance with the closing balance of fair values categorized in Level 3 of the fair value hierarchy.

	Investment securities available for sale €΄000
1 January 2016	1.651
Transfers To/From Level 3	-
Purchases/Disposals	-
Changes in fair value	-
31 December 2016	1.651

	Investment securities available for sale €΄000
1 January 2015	1.651
Transfers To/From Level 3	-
Purchases/Disposals	-
Changes in fair value	-
31 December 2015	1.651

Throughout the period there were no transfers to/from Level 3 hierarchy of fair values.

38. CAPITAL ADEQUACY

The capital adequacy of the Bank is supervised by the parent company Alpha Bank S.A., which is considered to be a systemic credit institution by the Single Supervisory Mechanism of the European Central Bank. Supervision is overseen along with the support of local supervisory authorities. The Central Bank of Cyprus within the context of its supervisory role, has adopted the European Guidelines for banking supervision.

Since 1 January 2014, a new regulation is in force, known as CRR and a new directive known as CRD IV, which constitute the European regulations framework in implementing Basel III.

CRR Regulation, which is binding to all member states of the European Union, defines the new requirements with regard to capital, liquidity and leverage. Furthermore, the regulation brings changes in the definition of capital, the calculation of risk weighted assets and introduces new measures relating to the calculation of leverage and liquidity.

The CRD Directive, which should be adopted by each member state, defines the capital buffers and the minimum capital requirements which financial institutions must maintain, as well as the practices that should be followed in respect to governance, compensations, and transparency. The Central Bank of Cyprus, with a view to harmonize with CRD IV, has proceeded to transfer the provisions of the above Directive by amending the Banking law and by introducing the new Macro-Prudential Oversight Law of 2015, which was amended in early February 2017 with retrospective effect from 1.1.2016. Based on the amended law, the capital conservation buffer rate has been set to gradually increase over a period of 4 years (0.625% per annum).

Pursuant to the provisions of the Macro-Prudential Oversight Law of 2015, the Central Bank of Cyprus as the competent authority responsible for macro-prudential oversight of the financial system, determines on a quarterly basis the levels of countercyclical capital buffer, according to the methodology described in the Law. Central Bank of Cyprus set the countercyclical buffer for local exposures to 0% for the year 2016, and for the 1st and 2nd quarters of 2017.

Central Bank of Cyprus has been designated as the competent authority for the classification and calculation of buffer rate for other systemically important banks (O-SII). On 1.2.2016 the Central Bank of Cyprus informed the Bank that it has been classified as Other Systemically Important Institution (O-SII) with a buffer rate of 0.5%. The O-SII requirement is implemented gradually over a period of 4 years, starting from January 1st, 2019.

In June 2016, the European Central Bank (ECB) notified to the Bank its final decision on the Minimum Common Equity Capital Requirement (CETI) to be kept on a continuous basis for the year of 2016. This ratio was set at 4,5% for Pillar I requirements, 0.625% for the conservation buffer as that applied in 2016 and 6.875% for Pillar II prudential requirements.

According to the European Central Bank's decision for 2017, notified to the Bank in December 2016, the Total Supervisory Capital Ratio (TSCR) was set at 8% for Pillar I, 1,25% for the conservation buffer and 3.0% for Pillar II requirements (to be maintained in the form of common equity Tier I).

38. CAPITAL ADEQUACY (cont.)

For the capital requirements of Pillar I, the bank applies the standardized approach for credit risk, while for operational risk it applies the basic indicator approach. The Bank is not required to maintain capital for market risk. The capital adequacy ratios according to the CRR with transitional provisions set by the Central Bank of Cyprus for 31 December 2016 are analyzed below:

	31.12.2016 €΄000 Basel III	31.12.2015 €΄000 Basel III
Regulatory Capital		
Transitional Common Equity Tier I	**334.361**	**370.175**
Additional Tier I	63.772	63.616
Total Tier I	**398.133**	**433.791**
Tier II	38.347	63.061
Total transitional capital	**436.480**	**496.852**
Total risk weighted assets	**2.025.743**	**2.119.784**
Transitional Common Equity Tier I ratio	**16,5%**	**17,5%**
Transitional Tier I ratio	**19,7%**	**20,5%**
Transitional total capital adequacy ratio	**21,5%**	**23,4%**

38. CAPITAL ADEQUACY (cont.)

The table below gives a breakdown of the risk weighted assets of the Bank by exposure category with the minimum capital requirements (8% of risk weighted assets) for credit risk, market risk and operational risk.

	31.12.2016 €΄000		31.12.2015 €΄000	
Exposure category	**Risk weighted asset**	**Capital requirement**	**Risk weighted asset**	**Capital requirement**
Exposures to governments and central banks	-	-	-	-
Exposures to institutions	54.445	4.356	40.609	3.249
Exposures to corporates	305.451	24.436	148.943	11.915
Exposures to retail	160.307	12.825	215.527	17.242
Exposures in default	874.272	69.942	822.978	65.838
Exposures secured by immovable property collateral	117.475	9.398	122.325	9.786
Exposures to high risk	259.994	20.800	492.754	39.420
Other	33.824	2.706	30.048	2.404
Total credit risk	**1.805.768**	**144.463**	**1.873.184**	**149.854**
Total market risk	**-**	**-**	**-**	**-**
Total operational risk	**219.975**	**17.598**	**246.600**	**19.728**
Total	2.025.743	162.061	2.119.784	169.582

Under CRR provisions a leverage ratio has been adopted, which is calculated as the relation between total assets plus the off balance sheet assets to the Tier I capital. The leverage ratio is an additional measure of capital adequacy assessment which will become a binding ratio from 2018. The leverage ratio for 2016 stands at 15.2% (with transitional provisions) compared to 16.4% for 2015. The minimum leverage ratio of 3%, which is expected to be official from 1.1.2018, means that the Bank does not undertake excessive leverage risk.

39. PARTICIPATION OF DIRECTORS IN THE BANK'S SHARE CAPITAL

The Board of Directors members, their spouses and their children do not hold directly or indirectly any interest in the Bank's share capital in accordance with article 60(4) of the Cyprus Stock Exchange Law at 31 December 2016.

During the period covering from 31 December 2016 and 30 days before the notification for convening the Annual General Meeting, there were no fluctuations on the above.

40. RELATED PARTY TRANSACTIONS

All transactions with the board members, the key management personnel and their related parties are performed at arm's length.

a) Transactions with Directors of the Board

	31.12.2016 €΄000	31.12.2015 €΄000
Loans and advances to Board of Directors members and related parties	58	91
Deposits by Board of Directors members and related parties	806	436
	From 1 January to	
	31.12.2016	31.12.2015
Non executive Directors		
Board members fees	138	113
Executive Directors		
Salaries and benefits	459	433
Social insurance contributions by employer etc.	19	18
Retirement benefits	10	9
Total remuneration for executive directors	488	460

Credit facilities to executive and non-executive directors, per director, do not exceed 1% of the Bank's net assets.

40. RELATED PARTY TRANSACTIONS (cont.)

b) Transactions with Key Management Personnel

The Bank considers the members of the Executive committee as key management personnel.

	31.12.2016 €´000	31.12.2015 €´000
Loans and advances to key management personnel and related parties	493	578
Deposits by key management personnel and related parties	911	1.158
	From 1 January to	
	31.12.2016	31.12.2015
Salaries and benefits	570	631
Social insurance contributions by employer etc.	54	61
Retirement benefits	27	35
Total remuneration to key management personnel	651	727

(c) Transactions with parent company

During the year, the parent company Alpha Bank S.A. has granted guarantees totaling €27.416 thous. (2014: €30.199 thous.) in relation to loans and advances granted to specific clients.

	31.12.2016 €΄000	31.12.2015 €΄000
Assets		
Due from banks	233.512	9.838
Derivative financial assets	144	2.885
	233.656	12.723
Liabilities		
Due to banks (Note 23)	83.172	155.434
Derivative financial liabilities	7.467	379
Subordinated bonds	29.725	27.683
Convertible capital securities	64.000	64.000
Other liabilities	206	187
	184.570	247.683

	From 1 January to	
	31.12.2016 €΄000	31.12.2015 €΄000
Income		
Interest and similar income	3.304	3.272
Gain on financial transactions	421	-
	3.725	3.272
Expenses		
Interest expense and similar income	1.680	1.622
Loss on financial transactions	-	417
Staff costs	393	336
	2.073	2.375

On 14.5.2015 the bank pledged in favor of Alpha Bank AE "Loans and advances to customers" as collateral for liquidity obtained. On 31.12.2016, the book value of the collateral amounted to €231 mil.

40. RELATED PARTY TRANSACTIONS (cont.)

(d) Transactions with Alpha Bank Group companies

	31.12.2016	31.12.2015
	€΄000	€΄000
Assets		
Due from banks	28	35
Other assets	198	1.015
	226	1.050
Liabilities		
Due to customers	47.456	230.611
Subordinate bonds	29.736	10.269
Other liabilities	1.998	2.933
	79.190	243.813

	From 1 January to	
	31.12.2016	31.12.2015
	€΄000	€΄000
Income		
Interest and similar income	-	2
Fees and commission income	2	-
Other income	3.135	562
	3.137	564
Expenses		
Interest expense and similar charges	1.851	1.356
Fees and commission expense	-	-
Other expenses	106	87
	1.957	1.443

(e) Transactions with the Hellenic Financial Stability Fund (HFSF) and its subsidiaries

The Bank did not have any transactions with the HFSF or its subsidiaries during the year 2016.

41. ACQUISITION OF EMPORIKI BANK

In the first quarter of 2015, the Bank acquired Emporiki Bank Cyprus Ltd, which was a subsidiary of Alpha Bank AE. For the completion of the transaction, the details of which are shown in note 41 of the financial statements of 31.12.2015, the Bank issued new ordinary shares, which were exchanged with the shares of the existing shareholders of Emporiki Bank Cyprus Ltd.

42. EVENTS AFTER THE BALANCE SHEET DATE

There were no other material events after the reporting period that would affect the financial statements at 31 December 2016.

The Annual Financial Report was approved for issue by the Board of Directors of the Bank on
15 March 2017.

Additional Risk Disclosures 2016
(Unaudited)

Additional Risk Disclosures
(Unaudited)

According to the Central Bank of Cyprus Directive which came into force on 21 February 2014, "Loan Impairment and Provisioning Procedures" financial institutions should disclose specific information regarding the quality of their loan portfolio. Tables A and B below depict non performing loans according to the reporting standards of European Banking Authority (EBA) as these have been adopted by Central Bank of Cyprus since February 2015.

Tables A and B for 31.12.2016 and 31.12.2015 have been prepared using different definitions to those used for the preparation of note 35 "Risk Management" and therefore these figures are not comparable.

According to the EBA technical standards on Forbearance and Non Performing exposures the following definitions were used:

Definition of non-performing exposure

An exposure is considered non-performing when:

- it is materially past due more than 90 days (according to the materiality definitions given by the Central Bank of Cyprus),
- the debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past due amount or of the number of days past due,
- it is considered as being in "default" according to CRR definition, or is considered as impaired according to IFRS.

Exposures include all on and off balance sheet exposures without the use of collaterals, excluding held for trading exposures

Definition of forborne exposure

An exposure is considered forborne when:

- the forbearance measure includes concessions towards a debtor facing or about to face financial difficulties.

Additional risks disclosures (cont.)
(Unaudited)
LOAN PORTFOLIO ANALYSIS – TABLE A

31 December 2016

	Total Credit Facilities				Provision for impairment			
			of which exposures with forbearance measures				of which exposures with forbearance measures	
	Gross Loans and advances[1]	of which non performing	Exposures with forbearance measures	of which non performing	Total provision for impairment[2]	of which non performing	Exposures with forbearance measures	of which non performing
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
General Governments	**686**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial corporations	**75.085**	**15.821**	**10.837**	**10.773**	**4.020**	**3.930**	**865**	**-**
Non-financial corporations	**1.146.675**	**733.553**	**186.047**	**120.241**	**385.854**	**376.469**	**41.880**	**40.091**
of which: Small and medium-sized enterprises	1.146.675	733.553	186.047	120.241	385.854	376.469	41.880	40.091
of which: Commercial real estate	862.384	549.341	140.568	87.622	273.463	269.563	27.966	27.094
Non-financial corporations per sector	1.146.675	733.553			385.854			
Construction	659.886	439.463			245.689			
Wholesale and retail trade	139.683	88.441			48.044			
Hotel and restaurants	83.020	44.229			11.521			
Real estate	90.029	48.247			19.891			
Manufacturing	59.040	40.647			20.598			
Other	115.017	72.526			40.111			
Households	**1.580.443**	**1.052.729**	**555.278**	**429.859**	**466.655**	**446.162**	**130.417**	**125.677**
of which: Residential mortgage loans	1.422.139	944.488	521.683	402.777	403.980	385.991	116.277	112.161
of which: credit for consumption	159.756	111.042	24.604	18.465	54.703	52.340	5.104	4.728
Total	**2.802.889**	**1.802.103**	**752.162**	**560.873**	**856.529**	**826.561**	**173.162**	**165.768**

1. Excluding loans and advances to central banks and credit institutions.
2. For the purposes of the presentation of above disclosures , the accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 17 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)

(Unaudited)

ANALYSIS OF LOAN PORTFOLIO – TABLE A
31 December 2015

	Total Credit Facilities				Provision for impairment			
	Gross Loans and advances[1]	of which non performing	of which exposures with forbearance measures		Total provision for impairment[2]	of which non performing	of which exposures with forbearance measures	
			Exposures with forbearance measures	of which non performing			Exposures with forbearance measures	of which non performing
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
General Governments	**691**	**-**	**-**	**-**	**61**	**-**	**-**	**-**
Other financial corporations	**54.158**	**22.121**	**10.366**	**1.940**	**19.400**	**18.671**	**743**	**743**
Non-financial corporations	**1.162.658**	**693.833**	**131.284**	**103.979**	**339.528**	**324.808**	**26.283**	**25.272**
of which: Small and medium-sized enterprises	1.162.658	693.833	131.284	103.979	339.528	324.808	26.283	25.272
of which: Commercial real estate	866.614	516.812	108.353	85.827	230.452	226.852	19.940	19.269
Non-financial corporations per sector	1.162.658	693.833			339.528			
Construction	657.739	414.247			199.781			
Wholesale and retail trade	145.884	85.369			48.084			
Hotel and restaurants	89.149	41.327			11.821			
Real estate	91.818	41.656			16.897			
Manufacturing	62.810	41.728			22.093			
Other	115.258	69.506			40.852			
Households	**1.617.286**	**1.019.311**	**605.584**	**413.692**	**439.257**	**412.987**	**130.187**	**118.954**
of which: Residential mortgage loans	1.430.233	894.780	565.768	379.874	370.112	346.517	115.820	105.191
of which: credit for consumption	170.318	112.189	25.304	20.800	53.598	51.379	6.032	5.390
Total	**2.834.793**	**1.735.265**	**747.176**	**519.611**	**798.246**	**756.464**	**157.215**	**144.969**

1. Excluding loans and advances to central banks and credit institutions.
2. For the purposes of the presentation of above disclosures , the accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 17 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS PER LOAN ORIGINATION DATE – TABLE B

31 December 2016

Loan origination date	Total loans portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	73.529	6.561	3.143	9.885	4.976	2.222	57.153	-	-	6.490	1.585	921
1 - 2 years	30.447	9.944	4.065	14.095	826	446	12	-	1	16.341	9.118	3.618
2 - 3 years	81.469	47.165	22.642	22.989	8.641	4.592	141	141	103	58.339	38.384	17.948
3 - 5 years	274.340	173.768	89.912	114.977	60.828	29.921	618	618	442	158.745	112.322	59.549
5 - 7 years	360.762	247.415	120.321	164.094	124.437	62.748	2.246	1.780	957	194.422	121.198	56.617
7 - 10 years	1.360.499	935.260	448.587	495.808	342.331	191.413	4.718	3.602	1.136	859.973	589.327	256.038
Over 10 years	621.157	381.990	167.859	324.827	191.514	94.512	10.197	9.680	1.381	286.133	180.795	71.964
Total	2.802.203	1.802.103	856.529	1.146.675	733.553	385.854	75.085	15.821	4.020	1.580.443	1.052.729	466.655
General Governments	686	-	-									
Total	2.802.889	1.802.103	856.529									

For the purposes of the presentation of above disclosures, accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 17 «Loans and advances to customers» this adjustment has been deducted from the balances before provision.

Additional Risk Disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS PER LOAN ORIGINATION DATE – TABLE B

31 December 2015

	Total Loans Portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Loan origination date	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Loan origination date	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Loan origination date	Gross loans and advances	Non performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	35.614	11.680	2.896	19.741	3.506	941	13	-	1	15.860	8.174	1.954
1 - 2 years	85.941	52.952	21.270	26.242	16.059	4.898	187	135	107	59.512	36.758	16.265
2 - 3 years	117.143	71.913	32.781	33.640	24.621	8.702	583	569	419	82.920	46.723	23.660
3 - 5 years	299.626	157.961	77.927	136.547	57.220	27.023	84	56	15	162.995	100.685	50.889
5 - 7 years	424.767	303.477	139.601	177.829	140.514	67.822	2.183	1.673	793	244.755	161.290	70.986
7 - 10 years	1.501.903	940.735	423.206	553.585	340.341	169.867	25.803	2.815	1.618	922.515	597.579	251.721
Over 10 years	369.108	196.547	100.502	215.074	111.572	60.275	25.305	16.873	16.445	128.729	68.102	23.782
Total	2.834.102	1.735.265	798.185	1.162.658	693.833	339.528	54.158	22.121	19.400	1.617.286	1.019.311	439.257
General Governments	691	-	61									
Total	2.834.793	1.735.265	798.246									

Additional Risk Disclosures (cont.)
(Unaudited)

The table below presents the encumbered and unencumbered assets of the Bank to the extent that these assets are pledged for the financial needs of the bank.

An asset is considered as encumbered if it has been pledged as collateral, either to obtain funding or in any transaction that requests collateral. Such asset is no longer available for the bank to be pledged as collateral to obtain funding.

CARRYING AND FAIR VALUE OF ENCUMBERED AND UNENCUMBERED ASSETS

31 December 2016	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€'000	€'000	€'000	€'000
Assets				
Equity instruments	-	-	3.315	3.315
Debt securities	-	-	114.514	114.514
Other assets	230.806	230.806	2.247.780	2.314.191
Total	230.806		2.365.609	

31 December 2015	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€'000	€'000	€'000	€'000
Assets				
Equity instruments	-	-	1.651	1.651
Debt securities	-	-	96.907	96.907
Other assets	259.879	259.879	2.230.385	2.170.214
Total	259.879		2.328.943	

Additional Risk Disclosures (cont.)
(Unaudited)

CARRYING AND FAIR VALUE OF ENCUMBERED AND UNENCUMBERED COLLATERALS

31 December 2016

	Fair value of encumbered collateral received or own debt securities issued	Fair value collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	209.388
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	209.388

31 December 2015

	Fair value of encumbered collateral received or own debt securities issued	Fair value collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	-
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	-

Additional Risk Disclosures (cont.)
(Unaudited)

ENCUMBERED ASSETS AND COLLATERALS RECEIVED BY THE BANK AND ASSOCIATED COMPANIES

31 December 2016	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	49.091	-
Total	49.091	-

31 December 2015	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	70.958	-
Total	70.958	-