ALPHA BANK CYPRUS LIMITED

ANNUAL REPORT
For the period from 1 January to 31 December 2017

Nicosia,
23 March 2018

ANNUAL REPORT FOR THE YEAR 2017

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	A. M. Michaelides, Chairman
	Ch. C. Giampanas, Vice-Chairman
	G. A. Georgiou, Managing Director (Resigned on 31 January 2017)
	Dr. A. K. Kritiotis
	C. N. Papadopoulos
	N. Mavrogenis
	L. Georgiadou (Appointed on 31 January 2017)
	K. D. Koutentakis Managing Director (Appointed on 28April 2017)
Secretary	N.Alkiviades
Legal Advisers	Chryssafinis & Polyviou LLC
Independent Auditors	Deloitte Limited
Registered Office	Corner of Chilonos & Gladstonos Street Stylianou Lena Square, Nicosia
Head Office	Alpha Bank Building 3, Limassol Avenue Nicosia

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 2017, confirm that, to the best of our knowledge:

a) the annual financial statements which are presented on pages 41 - 165:

(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

K. D. Koutentakis – 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, 23 March 2018

MANAGEMENT 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 2017.

PRINCIPAL ACTIVITIES

During 2017, 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 A.E, 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	**31.12.2017**	**31.12.2016**
In Euro mil.			
Net interest income	-27,7%	64,0	88,5
Total income	-28,7%	77,1	108,2
Total expenses	-33,7%	(54,5)	(82,2)
Profit before impairment	-13,1%	22,6	26,0
Impairment losses and provisions to cover credit risk	83,1%	(107,3)	(58,6)
Loss after income tax	181,5%	(86,7)	(30,7)
Loss per share		(49,7) cent	(17,6) cent
In Euro mil.		**31.12.2017**	**31.12.2016**
Loans and advances to customers	-10,9%	1.734,8	1.946,4
Due to customers	13,6%	2.204,9	1.940,6
Transitional common equity tier I ratio (CET I)	-270 basis points	13,8%	16,5%

Net Interest income in 2017 amounted to Euro 64,0 million, presenting a decrease of 27,7% compared to Euro 106,0 million in 2016. The decrease is mainly attributed to the decrease of the loan portfolio, the increase of the deposit base and the decrease of the loans spreads.

Total income of the Bank amounted to Euro 77,1 million in 2017, compared to Euro 108,2 million in 2016. It is noted that 2016 income includes a non recurring profit of Euro 6,6 million from the sale of Visa Europe shares. The total decrease of income during 2017 (excluding non-recurring income) amounted to 24,1%, which is mainly attributed to the decrease of the loan portfolio, the increase of the deposit base and the decrease of loans interest rates.

Total expenses of the Bank for 2017, amounted to Euro 54,5 million, compared to Euro 82,2 million for the previous year. Expenses include the cost of a voluntary retirement programme, offered in 2016 amounting to Euro 31,6 million. During 2017 the bank recognized a non recurring expense of Euro 1,5 million imposed by the Cyprus Commission for the Protection of Competition relating to charges on local banking commissions. The Bank has appealed to the Administrative Court for the cancellation of the fine. Although the case is still pending, the Bank has recognized a provision in the 2017 financial statements. Excluding the above, total expenses in 2017 experience an increase of 4,7%. Cost to income ratio, is 70,7% in 2017 compared to 76,0% in 2016.

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

Impairment loss and provisions to cover credit risk amounted to Euro 107,3 million in 2017 compared to Euro 58,6 million in 2016, representing an increase of 83,1%, thus allowing a more active management of the portfolio in arrears.

Accumulated impairments to cover credit risk amounted to Euro 893,8 million on 31 December 2017, covering 34,0% of gross loans, increased by 4,4% compared to 31 December 2016. Accumulated impairments include the fair value adjustment of the loan portfolio, acquired at fair value.

Net loans and advances to customers on 31 December 2017 amounted to Euro 1.734,8 million, a decrease of 10,9% compared to Euro 1.946,4 million on 31 December 2016.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood on 31 December 2017 at Euro 1.724,8 million representing 65,6% of gross loans, compared to 64,3% a year ago. On 31 December 2017, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 51,8% compared to 47,5% on 31 December 2016.

Loans over 90 days past due stood on 31 December 2017 at Euro 1.446,7 million representing 55,0% of gross loans. On 31 December 2016, they stood at Euro1.468,0 million representing 52,4% of gross loans.

Amounts due to customers on 31 December 2017 amounted to Euro 2.204,9 million, compared to Euro 1.940,6 million on 31 December 2016, presenting an increase of 13,6%. The net loans to deposits ratio was improved to 78,7% on 31 December 2017, from 100,3% on 31 December 2016.

On 31 December 2017, Common Equity Tier I ratio (CET I) stood at 13,8%, Tier I ratio at 17,3% and Total Capital Adequacy ratio at 18,1%. The capital adequacy ratios are in accordance with transitional provisions for the year.

FINANCIAL REULTS

The results of the Bank are presented in the Statement of Comprehensive Income on page 41 of the financial statements.

The losses for the year attributable to the owners amounted to €86.660 thous. (2016: losses €30.773 thous.)

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year 2017 (2016: €nil).

MANAGEMENT REPORT (cont.)

RISK MANAGEMENT

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

The main objective of the Bank during 2017 was to maintain high standards in corporate governance and compliance with regulatory risk rules and retain confidence in the conduct of its business activities through sound provision of suitable services.

Since November 2014, the Alpha Bank Group falls within the Single Supervisory Mechanism (SSM) - the new financial supervision system which involves the European Central Bank (ECB) and the Bank of Greece - and as a major banking institution is directly supervised by the European Central Bank (ECB). The Single Supervisory Mechanism is working with the European Banking Authority (EBA), the European Parliament, the Eurogroup, the European Commission and the European Systemic Risk Board (ESRB) within their respective competences.

Moreover, since January 1st, 2014, EU Directive 2013/36/ EU of the European Parliament and of the Council dated June 26, 2013 along with the EU Regulation 575/2013/EU dated June 26, 2013 ("CRD IV") are effective. The Directive and the Regulation gradually introduce the new capital adequacy framework (Basel III) of credit institutions.

In this new regulatory and supervisory risk management framework, Alpha Bank Group strengths its internal governance and its risk management strategy and redefining its business model in order to achieve full compliance within the increased regulatory requirements and the extensive guidelines.

The Bank's new approach constitutes 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 4.8.2017, classified 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, 2017 Common Equity Tier I (CETI) ratio of the Bank was 13,8% ,Tier I ratio was 17,3% and total Capital Adequacy ratio was 18,1%.

The capital adequacy of the Bank on December 31, 2017, exceeds the minimum capital requirements for Pillar I and Pillar II, allowing the Bank to have a capital buffer.

The above-mentioned ratios do not differentiate from 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 its approved risk appetite framework.

In December 2016, the European Central Bank (ECB) notified to the Bank its final decision on the Overall Capital Ratio (OCR) to be kept on a continuous basis for the year of 2017. This ratio was set at 8,0% for Pillar I requirements, for the conservation buffer and 3% for Pillar II.

Accordingly for 2018, the requirements under the ECB Decision have not changed except for the addition of 0,625% for the gradual increase of the capital conservation reserve.

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 31.12.2017 stood with transitional provisions at 13,8%. 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 2017 was set at 5,75% 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 2017 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.

The European Central Bank (ECB) will run a stress-testing exercise in 2018. This will be conducted by European Banking Authority (EBA) for the largest European banks and by ECB for the banks which are not included in the first group. The results of the stress testing exercise will be factored into the overall assessment within the 2018 Supervisory Review and Evaluation Process (SREP). Alpha Bank Group has been selected to participate in the stress test exercise of ECB, which is expected to be launched at the beginning of 2018 while results are to be announced in May 2018.

IMPLEMENTATION OF IFRS 9

The new accounting standard IFRS 9 will replace IAS 39, for annual periods on or after 1 January 2018, which impose fundamental changes in the way financial instruments are classified and measured. For the application of the new standard, the Bank has launched an Implementation Program, which was organised around two main work streams, the classification and measurement work stream and the impairment work stream.

MANAGEMENT REPORT (cont.)

IMPLEMENTATION OF IFRS 9 (cont.)

On the completion of the Implementation Program, new policies have been developed for the classification, measurement and impairment of financial instruments which have been approved by the Board of Directors. New methodologies and procedures have also been implemented to support the new policies.

Estimated impact of the implementation of IFRS 9 amounts to Euro 56 million. The Bank continues to assess, test and refine the new accounting processes, internal controls and governance framework necessitated by the adoption of IFRS 9. The new accounting policies, assumptions, judgments and estimations remain subject to change until the Bank finalises its audited financial statements as at 31.12.2018. Therefore, the impact disclosed in these financial statements may be amended during 2018.

For capital adequacy purposes, the Bank will make use of the transitional arrangements foreseen for the calculation of capital adequacy, under which the impact from the application of the new standard will be absorbed within a period of five years. As a result, Common Equity Tier 1 (CET 1) ratio is estimated to be affected approximately by 10 basis points for the first year, while the impact from the full implementation is estimated at approximately 270 basis points based on 31.12.2017 results.

A detailed description of IFRS 9 implementation as well as the effect from its adoption is included in note 41 of the financial statements.

SIGNIFICANT FACTS

In 2017, the Bank entered into a partnership with the European Bank for Reconstruction and Development (EBRD) with which the Bank participates in the Trade Finance Programme (TFP) with which the EBRD provides guarantees to international confirming banks for on-lending to local exporters, importers and distributors.

The Bank continues to participate in the project of SMEs lending with the support of the European Investment Bank.

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 2017 repossessed properties worth Euro 2,3 million.

DEVELOPMENTS AND PROSPECTS

DEVELOPMENTS

Cyprus economy

Achievements

Cyprus, following its exit from the Economic Adjustment Program in 2016, is experiencing a very strong economic recovery. It is worth noting that it has achieved positive rates of change in GDP over the last 12 consecutive (12) quarters.

The economy recorded remarkable performance in 2017. GDP grew by 3,9% compared with 3,4% in 2016. Debt fell marginally below 100% of GDP, unemployment fell below 11%, compared with 13% in 2016, while inflation recorded for the first time positive sign, resulting in 0,7%.

The strong performance of the economy is attributable to the strong private consumption, strong growth in exports and, to a lesser extent, the public consumption. Private consumption benefited from the rapid expansion of employment across all sectors of the economy, which led to a significant fall in unemployment.

Tourism, services and shipping are the main contributors of the growth. Tourism records new high returns of both arrivals and revenues. The arrivals increased by 15,0% while the revenue by 11,7%.

In September 2017, the Cyprus economy was upgraded by the International rating agency Standard and Poor's to BB +, keeping them only one notch below investment grade. BB+ rating has been confirmed through an updated rating in March 2018. It is noted that the remaining rating agencies preserve the Cyprus economy one notch below the rating of S&P.

Forecasts

According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,2% in 2018 and 2,8% in 2019. It is also expected that investments will increase mainly in tourism and constructions.

Inflation is projected to increase to 1,2% in 2018 and to 1,3% in 2019, mainly due to rising oil prices as well as increase in consumption driven by the stronger wages.

Due to the performance of the Cypriot economy, it is expected that the international rating agencies will keep the Republic of Cyprus close to the investment grade, resulting in positive results both in borrowing from international markets and in lending costs

According to Moody's international rating agency forecasts, a positive economic environment will support the reduction of non-performing loans.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans.

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Operating environment of the parent company

2017 is considered a year of recovery for the Greek economy, as economic activity strengthened, especially after the successful conclusion of the 2nd Review, the 5-year government bond issuance - after three years of the Greece's absence from the markets - and the country's credit ratings upgrade from international rating agencies. The GDP growth rate in 2017 stood at 1,4% (ELSTAT, first estimate), from -0,2% in 2016 (constant prices 2010, seasonally adjusted data).

The main factors that supported the economy in 2017 were the following:

- The Greek economy exporting dynamics, mainly in the services sector. Exports of goods and services increased by 13,5% yoy in 2017, against a fall by 6,1% in 2016.
- The strengthening of the industrial production. In 2017, industrial production increased by 4,1%, yoy, against a smaller increase by 2,5% in 2016.
- The unemployment rate decline. The unemployment rate in Greece, though it remains at a high level compared to the EU average, is on a downward trend since its peak in July 2013.

Despite the positive development of short-term indicators, the current favorable international environment, as it is defined by the enhanced growth prospects of Europe and the supportive monetary policy of ECB, main challenges arise ahead for the Greek economy, which will determine its recovery prospects in the long run. These challenges are the following:
First, the specification of the debt relief measures, as described at the Eurogroup in spring 2016. Second, the above development, combined with the creation of a cash buffer in order for Greece to cover its financing needs at least until the end 2019, will set the scene for a smooth and sustainable access of the Greek state to the markets. Third, the speed-up of the privatization programme and the projected infrastructure projects, in combination with the absorption of the EU structural funds. This will trigger the attraction of new investments and lead to the revival of Greek businesses.

In 2018, the prospects of the Greek economy appear to be positive. The conclusion of the 3rd Review and the positive assessment for the closure of the third Economic Adjustment Programme in August, are expected to strengthen confidence in the economy. GDP growth rate is expected to hover at 2,4% (Bank of Greece's estimate, Feb. 2018) and the economic expansion will be supported by exports, investment and private consumption. The increase of private investment will be strengthened, reflecting the further restoration of confidence and the easing of liquidity conditions in the economy. Significant challenges though do exist, relating to both internal and external factors. In the domestic environment, possible delays in the implementation of the reforms and privatization programme could hurdle recovery prospects. In the external environment, risks and uncertainties arise from potential geopolitical tensions.

Challenges and uncertainties

Non-performing exposures and private debt remain the main factor of instability for banking sector and the economy. Public debt is also a challenge, despite its decline below 100% of GDP

MANAGEMENT REPORT (cont.)

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

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 a political level, will accordingly affect the economic environment.

PROSPECTS

The Cypriot economy is expected to continue growing in the coming years, according to the forecasts of the European Commission and international rating agencies. The Bank, under the current circumstances, has prepared a Business Plan to consolidate its Balance Sheet and enhance its profitability. At the same time, the Bank recognizes the risks and challenges of the facing the Cypriot economy as well as the specificities related to the geopolitical stability of the region and the interconnection with the economic stability of Greece and Eurozone.

Bank priorities

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

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

- enhance the effectiveness of non-performing loans management
- streamline the cost of financing from deposits,
- containment of operating costs and increase productivity, while improving the quality of service to customers through new technologies,
- targeted launch of new services and new credit facilities to boost commission income and interest income.

MANAGEMENT REPORT (cont.)

CORPORATE RESPONSIBILITY - NON FINANCIAL REPORT

Alpha Bank Cyprus Ltd, as a subsidiary of Alpha Bank A.E. and is included in the report for non financial data of Alpha Bank A.E. and Alpha Bank Group.

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July, 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15 July 2016 the 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. A relevant analysis and table with the APMs is presented in the Annual Director's report in the Financial Statements as at 31.12.2017.

Alternative Performance Measures

Ratio	Definition	Formula	31.12.2017	31.12.2016
			€'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	54.545 77.143 Ratio 70,7%	82.207 108.216 Ratio 76,0%
			31.12.2017	31.12.2016
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.	2.628.626 - 724.644 – 169.147 2.204.910 Ratio 78,7%	2.802.889 - 667.320 - 189.209 1.940.628 Ratio 100,3%
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	1.446.706 2.628.626 Ratio 55,0%	1.467.964 2.802.889 Ratio 52,4%
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	1.724.821 2.628.626 Ratio 65,6%	1.802.103 2.802.889 Ratio 64,3%
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	724.644 + 169.147 2.628.626 Ratio 34,0%	667.320 + 189.209 2.802.889 Ratio 30,6%
NPEs coverage in accordance with the European Banking Authority (EBA) definition	The ration states how much of non performing exposures are covered with provisions.	Provisions plus fair value of loans acquired / Non Performing exposures according to EBA definition	724.644 + 169.147 1.724.821 Ratio 51,8%	667.320 + 189.209 1.802.103 Ratio 47,5%

MANAGEMENT REPORT (cont.)

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 A.E. 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 (2016:22) and other specialized units which are effectively supported by ATMs, internet banking and mobile banking.

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT - 2017

Introduction

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

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

The Board of Directors of the Bank is obliged to apply the corporate governance framework which is followed by the Bank and aims to ensure that the Bank is operating correctly and efficiently.

Primary purpose for the implementation of the Corporate Governance Framework is the Bank's compliance with the legal and regulatory requirements that requires the Bank to follow the provisions of the relative Directive issued by Central Bank of Cyprus ("Corporate Governance Directive").

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

1. Code of Conduct

The Bank applies the best practices in its activities, management, and code of conduct for Management and Employees between each other and towards clientele, shareholders and other relevant stakeholders in accordance with the commitments, principles and obligations that are stated in the Code of Conduct.

1.1. Commitments

Alpha Bank Cyprus Ltd and it's Group base their business on the following fundamental commitments:

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

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

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

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

Towards the Shareholders, the Group is permanently committed to:

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

Towards its Personnel, the Group undertakes to:

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

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

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

1.2. Principles

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

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

1.3. Obligations

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

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

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

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

2. External Auditors

During 2017, Deloitte Ltd has been appointed as the new independent external auditor of the Bank. Deloitte's objectivity and independence, required by the regulatory framework, is assured.

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

3. Board of Directors

3.1 Overall purpose/objectives

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

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

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

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

Given that the Bank is a member of a Group and constitutes a subsidiary company, its Board of Directors implements the arrangements of its administration, procedures and mechanisms that have been developed at 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

3.1.1 Chairperson of the Board of Directors

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

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

3.1.2 Executive Members of the Board of Directors

The Executive Members of the Board of Directors are employed by the Bank and perform their duties as part of the Management of the Bank. They are responsible for proposing strategies to the Board of Directors and for executing the agreed strategies to the highest possible standards.

3.1.3 Non-Executive Members of the Board of Directors

The Non- Executive Directors are responsible for monitoring executive activity and contributing to the development of strategies. They need to carry combined sufficient skills, knowledge and experience in order to maintain, under all circumstances, their independence of thought and opinion. The effectiveness of the Board of Directors depends on ensuring a balanced skill set of expertise in banking or financial services of the Directors.

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

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

During 2017 and until the date of the current Report, the Board of Directors in order to comply with the relevant regulatory framework has reviewed and/or examined and/or amended and/or issued and/or approved, a number of Policies

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

3.4. Composition of the Board of Directors

The following provisions apply regarding the structure of the Board:

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

From 1 January 2017 to 30 January 2017, the composition of the Board of Directors was as follow:

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

* Mrs. Irene Rouvitha Panou handed in her resignation from 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 – 2017 (cont.)

From 31 January 2017 to 28 April 2017, 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	Executive-Managing Director	Bank Employee – Alpha Bank Cyprus Ltd
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee – Alpha Bank Cyprus Ltd
	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

3.4.1 Changes in the composition of the Board of Directors during 2017

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 Corporate Governance Directive 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.

In April 2017, the Board of Directors ratified the appointment of Mr. Konstantinos Koutentakis as the Managing Director and Executive Member of the Board of Directors, in replacement of Mr. George Georgiou who retired.

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.

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	Konstantinos Koutentakis	Executive-Managing Director	Bank Employee – Alpha Bank Cyprus Ltd
	Nicholas Mavrogenis	Executive – Senior Manager Operations	Bank Employee – Alpha Bank Cyprus Ltd
	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

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

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

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.

***Service* –** Appointed to the Board of Directors on 20 July 2011

***Independent* –**Yes

***Member of a Board Committee* –** Risk Committee and Nominations Committee

Christos Giampanas (Vice Chairman of the Board of Directors- Non Executive Member)

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 joinied 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.

***Service* –** Appointed to the Board of Directors on 11 October 2007

***Independent* –**No

***Member of a Board Committee* –** Risk Committee and Nominations Committee

Konstantinos Koutentakis (Executive Member- Managing Director)

He was born in 1964 in Athens. He graduated from Stanford University (BSc in Electrical Engineering and MSc in Engineering Economic Systems), and also holds an MBA from INSEAD Business School. He joined Alpha Bank Group in 2002. Initially, he worked at Alpha Mutual Funds, a Group Company of Alpha Bank A.E. In 2007, he joined Alpha Bank A.E. where he has held various managerial positions, among others, the positions of Head of Retail Distribution Strategy, Head of Asset Gathering, Personal Banking Segment, Mass Segment & CRM, and the position of Executive General Manager – Asset Gathering Management. On 28.04.2017 he was appointed Managing Director of Alpha Bank Cyprus Ltd.

***Service* –** Appointed to the Board of Directors on 28 April 2017

***Independent* –**No

***Member of a Board Committee* –** No

Nicholas Mavrogenis (Executive Member- General Manager of Operations)

He was born in 1969. He graduated from Imperial College of Science and Technology, University of London with a BEng in Electrical and Electronics Engineering (1991), an MSc in Engineering and Physical Science in Medicine (1993) and an MBA (1994). He started his career 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.

***Service* –** Appointed to the Board of Directors on 26 April 2013

***Independent* –**No

***Member of a Board Committee* –** No

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

Andreas Kritiotis (Senior Independent Member of the Board of Directors)

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.

***Service* –** Appointed to the Board of Directors on 7 April 2010

***Independent* –**Yes

***Member of a Board Committee* –** Audit Committee and Nominations Committee

Constantinos Papadopoulos (Non Executive Member)

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.

***Service* –** Appointed to the Board of Directors on 23 October 2015

***Independent* –**Yes

***Member of a Board Committee* –** Audit Committee and Risk Committee

Lenia Georgiadou (Non Executive Member)

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 inthe 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.

***Service* –** Appointed to the Board of Directors on 31 January 2017

***Independent* –**Yes

***Member of a Board Committee* –** Audit Committee

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

3.5 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 kept 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 – 2017 (cont.)

3.6 Meetings of the Board of Directors

The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively. During 2017, thirteen (13) Board meetings were held.

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

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

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

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

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

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

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

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

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

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

3.7 Board performance evaluation

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

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

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

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

In December 2015 and in March 2018, external independent advisors executed an evaluation of the performance of the Board and its Committees and recorded their findings in a specific report, complying with the regulatory requirement.

4. Internal Audit System

The Board of Directors confirms that during 2017 the Bank was maintaining an adequate and effective internal control system.

The Board thought 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 Manager Mr. Vasilios Papademetriou. Currently, eleven (11) employees are working in the Internal Audit Division.

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

5. Conflict of Interest

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

6. Remuneration of Board Members

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

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

7. Board Committees

The Audit Committee, Risk Committee and the Nominations Committee were active throughout the course of 2017. 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.

7.1 Audit Committee

7.1.1 Main Responsibilities

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

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

7.1.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2017 the Committee convened nine (9) times.

7.1.3 Composition

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

Already being 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.

From the date of Mrs. Irene Rouvitha Panou’s resignation 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.

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

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

- Andreas Kritiotis, Chairman
- Lenia Georgiadou
- Constantinos Papadopoulos

7.1.4. Audit Committee Conclusions

The Audit Committee confirms its satisfaction with the independence of internal control procedures. This conclusion is based on the following:

• The Bank's governance and the meetings with the Internal Auditor.
• the assessment of the effectiveness of Internal Audit.
• the evaluation of the results of other audits.

7.2 Risk Committee

7.2.1 Main Responsibilities

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

- The configuration and monitoring of risk taking strategies of all kinds, within the broader framework of strategy and policies of the Group

- Development and monitoring of the adequacy and effectiveness of the framework and the functioning of the Risk Management and Information Security.

- The evaluation on an annual basis of, the adequacy and effectiveness of risk management policies and acceptable limits, the adequacy of provisions and in general the capital adequacy in relation to the amount and type of risk exposure.

7.2.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2017 the Committee convened eleven (11) times.

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

7.2.3 Composition

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

Already being 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.

From 31st of January 2017 to 31st of December 2017, the composition of the Risk Committee was the following:

- Andreas Michaelides, Chairman
- Christos Giampanas
- Constantinos Papadopoulos

7.3 Nominations/Internal Governance Committee

7.3.1 Main Responsibilities

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

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

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

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

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

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

7.3.2 Meetings

The Committee convenes at least once a year or more frequently depending on the circumstances. During 2017 the committee met seven (7) times.

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

7.3.3 Composition

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

From 1 January 2017 to 31 December 2017, the composition of the Nominations Committee was as follow:

- Christos Giampanas, Chairman
- Andreas Kritiotis
- Andreas Michaelides

7.4 Summary table of the meetings of the Board and the Committees during 2017 (physically presence and via videoconference)

Name	Board of Directors	Risk Committee	Audit Committee	Nominations/ Internal Governance Committee
Andreas Michaelides	13/13	11/11		7/7
Christos Giampanas	12/13	9/11		7/7
George Georgiou*	4/13			
Konstantinos Koutentakis**	9/13			
Nicholas Mavrogenis	13/13			
Andreas Kritiotis	12/13		9/9	7/7
Constantinos Papadopoulos	13/13	11/11	9/9	
Lenia Georgiadou ***	12/13		9/9	
Total number of meetings	13	11	9	7

* Resigned on 28 April 2017
** Appointed on 28 April 2017
***Appointed on 31 January 2017

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2017 (cont.)

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

As at 31 December 2017 and 31 December 2016, 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 2017	31 December 2016
	%	%
Alpha Bank A.E.	100	100

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

The direct or indirect shareholding in the Bank held by members of the Board of Directors is described in note 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 independent auditors of the Bank, Deloitte Ltd, have expressed their willingness to continue in office. A resolution authorising the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board of Directors,

Nikitas Alkiviades
Secretary

Nicosia, 23 March 2018

Deloitte.

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This is a translated version of the Independent Auditors' report of the Greek Financial Report of Alpha Bank Cyprus Limited for the year ended 31 December 2017 as issued on 23 March 2018.

Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alpha Bank Cyprus Limited (the "Bank), which are presented in pages 41 to 165 and comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We remained independent of the Bank throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements 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 incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional 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.

Deloitte.

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

Key audit matter	How our audit addressed the key audit matter

Allowance for loans and advances to customers
 	
Loans and advances to customers for the Bank amounted to € 1.735 million as at 31 December 2017 compared to € 1.946 million as at 31 December 2016, net of allowance for impairment losses for the Bank amounting to € 725 million as at 31 December 2017, compared to € 667 million as at 31 December 2016.
 	
Measurement of the allowance for impairment on loans and advances to customers is deemed a key audit matter as the determination of the assumptions used by Management in estimating the allowance is highly subjective due to the high degree of judgment applied.
 	
The Bank establishes an allowance for impairment on loans and advances to customers for incurred credit losses on both an individual and on a collective basis.
 	
The most significant judgements are:
• Methodologies and policies selected by Management, valuation of collaterals and assumptions of discounted cash flows used for the individually assessed loans.
• Methodologies and policies selected by Management as well as assumptions made to support the calculation of collective allowance for impairment losses, relating to loans with similar characteristics, including segmentation, Probability of Default and Loss Given Default.
 	
Management has disclosed further information about principles and accounting policies for determining the allowance for impairment losses on loans and advances to customers and management of credit risk in Notes 1.5, 9 and 35.1 of the financial statements.
 	
From 1 January 2018, the Bank has adopted IFRS 9 "Financial Instruments", resulting in credit losses being recognized when they are expected rather than when they have incurred as defined by International Accounting Standard 39 (IAS 39). Management has disclosed information regarding the estimated impact of IFRS 9 in Note 1.1 "Basis of presentation" and Note 41 of financial statements.
	Our audit procedures included the following:
	
	<u>Methodology and policies</u>
	• Evaluation of the appropriateness of the methodologies and policies chosen by Management in relation to the allowance for impairment losses on loans and advances to customers.
	
	<u>For individually assessed loans</u>
	• Assessing design and implementation of internal controls relevant to the audit, including the internal controls over the significant assumptions, inputs, calculation and methodologies used.
	• Assessing the appropriateness of provisioning methodologies and policies selected by Management.
	• Assessing the identification of loans having evidence of impairment, by selecting a sample of performing loans and assessing whether any IAS 39 loss indicators were present.
	• For a sample of loans,
	  o Testing appropriateness and reasonableness of significant assumptions for impairment charges, cash flow assumptions, exit strategies, as well as assessment of collaterals.
	  o Re-performing the expected discounted cash flow calculations and comparing our results with those arrived by the Management and investigating any differences arising.
	• Assessing the completeness and accuracy of disclosures against the relevant accounting standards.
	
	<u>For collectively assessed loans:</u>
	• Assessing design and implementation of internal controls relevant to the audit, including the internal controls over the significant assumptions, inputs, calculation and methodologies used by Management.
	• Assessing the appropriateness of the policy and methodologies selected, testing the significant credit risk factors selected by Management, with the assistance of our internal credit risk specialists, for the loans grouped under similar characteristics including the Probability of Default and the Loss Given Default.

	• Assessing the completeness and accuracy of disclosures against the relevant accounting standards.

Estimated impact of the implementation of IFRS 9

- Assessing the estimated impact of IFRS 9 with particular focus on the methodology, policies and assumptions used by Management to determine the expected future credit losses, with the assistance of our internal credit risk specialists.
- With the assistance of our internal credit risk specialists, we have independently recalculated the risk parameters applied to the collectively assessed of the allowance for impairment losses Bank's portfolio, as well as the assessment of the appropriateness of the assumptions applied by the Bank.
- Assessing the completeness and accuracy of IFRS 9 transitional disclosures.

Reporting on 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 auditor's 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.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 in this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance 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 International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the 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 Banks's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 auditor's 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 auditor's 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Bank on 26 May 2017 by the Bank's Board of Directors. Our appointment is renewed annually by shareholders' resolution.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 23 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

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

Other Legal Requirements

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

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

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Other Matters

Auditor's responsibility

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Alexis Agathocleous.

Comparative figures

The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements on 15 March 2017.

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

Deloitte Limited
Certified Public Accountants and Registered Auditors
Maximos Plaza, Block 1, 3rd Floor
Arch. Makarios III Avenue 213
CY-3030 Limassol, Cyprus

23 March 2018

Statement of Comprehensive Income

	Note.	From 1 January to 31.12.2017 €'000	31.12.2016 €'000
Interest and similar income	2	100.757	121.720
Interest expense and similar charges	2	(36.711)	(33.238)
Net interest income	2	64.046	88.482
Fees and commission income		7.349	7.036
Commission expense		(1.159)	(1.115)
Net fee and commission income	3	6.190	5.921
Dividend income	4	696	1.963
Gains less losses on financial transactions	5	3.137	8.715
Other income	6	3.074	3.135
		6.907	13.813
Total income		**77.143**	**108.216**
Staff costs	7	(31.186)	(32.742)
Voluntary Retirement Program	7	-	(31.655)
General administrative expenses and other expenses	8	(21.601)	(15.855)
Depreciation and amortization	19 &20	(1.758)	(1.955)
Total expenses		**(54.545)**	**(82.207)**
Impairment losses and provisions to cover credit risk	9	(107.339)	(55.585)
Loss before tax		(84.741)	(32.576)
Tax	11	(1.919)	1.803
Loss after tax		**(86.660)**	**(30.773)**
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	4.266	305
Total amounts that may be reclassified in the statement of comprehensive income		4.266	305
Total comprehensive expense for the period attributable to the owners of the Bank		(82.394)	(30.468)
Earnings/(losses) per share :			
Basic and diluted (€ cents)	12	(49,67)	(17,64)

The notes on pages 45 to 165 form an integral part of the financial statements.

Balance Sheet

	Note	31.12.2017 €´000	31.12.2016 €´000
ASSETS			
Cash and balances with central banks	13	249.793	191.873
Due from banks	14	566.768	292.229
Derivative financial assets	16	6.942	144
Loans and advances to customers	17	1.734.835	1.946.360
Investment securities available for sale	15	137.777	117.829
Investment property	18	2.023	2.023
Property, plant and equipment	19	22.580	23.113
Intangible assets	20	540	570
Deferred tax assets	21	12.245	14.164
Other assets	22	11.301	8.110
Total assets		2.744.804	2.596.415
LIABILITIES			
Due to banks	23	70.493	102.563
Derivative financial liabilities	16	18	7.467
Due to customers	24	2.204.910	1.940.628
Subordinated bonds	25	116.262	116.331
Other liabilities and provisions	26	24.686	18.597
Total liabilities		2.416.369	2.185.586
EQUITY			
Share capital	27	148.303	148.303
Share premium	29	90.467	90.467
Reserves	30	5.187	921
Retained earnings	31	20.478	107.138
Convertible capital securities	28	64.000	64.000
Total equity		328.435	410.829
Total liabilities and equity		2.744.804	2.596.415
Off balance sheet items	32	184.321	172.210

The financial statements were approved and authorized for issue by the Board of Directors on 23 March 2018.

A.M.Michaelides
Chairman

K. D. Koutentakis
Managing Director

Y.Tofarides
Head of Financial Services Division

The notes on pages 45 to 165 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 1.1.2017	**148.303**	**90.467**	**921**	**107.138**	**64.000**	**410.829**
Changes for the period 1.1 – 31.12.2017						
Profit for the year, after tax	-	-	-	(86.660)	-	(86.660)
Other comprehensive income recognized directly in equity	-	-	4.266	-	-	4.266
Total comprehensive income for the period, after tax	**-**	**-**	**4.266**	**(86.660)**	**-**	**(82.394)**
31 December 2017	**148.303**	**90.467**	**5.187**	**20.478**	**64.000**	**328.435**
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**

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

The notes on pages 45 to 165 form an integral part of the financial statements.

Statement of Cash Flows

		From 1 January to	
		31.12.2017	31.12.2016
	Note	€΄000	€΄000
Cash flow from operating activities			
Profit/(Loss) before tax		(84.781)	(32.576)
Adjustment for gain/(losses) before tax:			
Depreciation of property, plant and equipment	19	1.470	1.603
Amortization of intangible assets	20	288	352
Write off of property, plant and equipment	19	-	95
(Gains)/losses from disposal of investment securities available for sale	15&30	-	(1.511)
(Gains)/losses from disposal of property, plant and equipment	6	-	(6)
Dividends received	4	(696)	(1.963)
Interest payable of subordinated loans	25	4.777	5.068
Reversal of provisions for litigation or arbitration disputes	26	16	(3)
Impairment losses and provisions to cover credit risk	9	111.719	65.884
Net (increase) / decrease in assets:		**32.833**	**36.943**
Cash and balances with central banks		(2.650)	(18.799)
Loans and advances to customers		99.806	24.303
Derivative financial assets		(6.798)	2.741
Other assets		(3.191)	(4.897)
Net increase / (decrease) in liabilities:			
Due to banks		(24.248)	(20.974)
Derivative financial liabilities		(7.449	7.088
Due to customers		264.282	88.840
Other liabilities		6.329	7
Net cash flows from continuing operations before taxes		**358.914**	**115.252**
Tax paid		(257)	-
Net cash flows from continuing operations		**358.657**	**115.252**
Net cash flows from investing activities:			
Purchase of investment securities available for sale	15	(251.488)	(433.278)
Disposal of investment securities available for sale	15	235.806	415.823
Acquisition of property, plant and equipment	19	(936)	(488)
Disposal of property, plant and equipment		-	6
Acquisition of intangible assets	20	(258)	(281)
Dividends received	4	696	1.963
Net cash flows from investing activities		**(16.180)**	**(16.255)**
Net cash flows from financing activities:			
Repayments on subordinated loans	25	(4.846)	(5.071)
Net cash flows from financing activities		**(4.846)**	**(5.071)**
Net increase/(decrease) in cash and cash equivalents		377.631	93.926
Cash and cash equivalents at the beginning of the year	33	389.363	295.437
Cash and cash equivalents at the end of the year	33	726.994	389.363

The notes on pages 45 to 165 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 A.E. 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 – 31.12.2017 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 2016 and 2017, 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 1.1.2017:

- **Amendment to International Accounting Standard 7** "Statement of Cash Flows": Disclosure Initiative (Regulation 2017/1990/6.11.2017)

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.

As a result of the above amendment, the aforementioned disclosure has been added to the note 25.

- **Amendment to International Accounting Standard 12** "Income Taxes": Recognition of Deferred Tax Assets for Unrealised Losses (Regulation 2017/1989/6.11.2017)

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

- **Annual Improvements to IFRS Standards** cycle-2014-2016 (Regulation 2018/182/7.2.2018)

As part of the annual improvements project, the International Accounting Standards Board issued, on 8.12.2016, amendments to IFRS 12 with which it clarified that entities are not exempt from all of the disclosure requirements in IFRS 12 with respect to interests in entries classified as held for sale (or included in a disposal group) or as discontinued operations but only from specific disclosures.

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.)

Except for the standards mentioned above, the European Union has adopted the following new standards and amendments to standards which are effective for annual periods beginning after 1.1.2017 and have not been early adopted by the Company.

- **Amendment to International Financial Reporting Standard 2** "Share-based Payment": Classification and Measurement of Share-based Payment Transactions (Regulation 2018/289/26.2.2018)

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,
- 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.

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* (Regulation 2017/1988/3.11.2017)

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 until 1.1.2021 and
- following full adoption of IFRS 9 and until applying IFRS 17, 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 above amendment does not apply to the financial statements of the Bank.

- **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:

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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. Three categories of Business Models are defined:

- Hold to collect contractual cash flows
- Hold to collect and sell
- Other

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 contact 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.

Impairment

Contrary to the existing IAS 39, under which an entity recognizes only incurred credit losses, the new standard requires the recognition of expected credit losses. In particular, on initial recognition of an asset, 12-month expected credit losses are recognized. However, in case the credit risk of the issuers has increased significantly since initial recognition as well as in cases of purchased or originated credit impaired assets lifetime expected credit losses are recognized.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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.

The impact from the application of IFRS 9 to the financial statements of the Bank is presented in note 41.

- **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.

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.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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”.

- **Amendment to International Financial Reporting Standard 15** “Revenue from Contracts with Customers”: Clarifications to IFRS 15 Revenue from Contracts with Customers (Regulation 2017/1987/31.10.2017)

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 clarified mainly 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 will apply the new standard from 1.1.2018 without reforming the comparative information of 2017. The differences that will result from the adoption of IFRS 15 will be recognized directly in the equity of 1.1.2018.

The bulk of the Bank's income is the net interest income, which will not be affected by the application of IFRS 15.

The contracts that are most affected by the new standard relate to the banking operations

The income from commisssion is recognised as soon as the service is provided to the customer.

If an obligation is not met over time, then it is satisfied at a certain point in time. In the case of services such as executing customer client order (eg. foreign currency conversion, purchase/sale of titles etc) the execution and completion of the transaction triggers the point at which the service is transferred to the customer and where the revenue is recognized.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

The assessment of the accounting treatment used so far to identify the revenue generated by the above contracts is in the process of completion, however, given that the Bank's existing accounting practices are broadly in line with the requirements of the new standard, the Bank does not expect that the application of the new standard will have a material impact on its financial statements.

- **International Financial Reporting Standard 16** "Leases" (Regulation 2017/1986/31.10.2017)

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 the above standard 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.

- **Improvements to International Accounting Standards** – cycle 2014-2016 (Regulation 2018/182/7.2.2018)

Effective for annual periods beginning on or after 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 IFRS 1 and IAS 28.

The above amendments are not expected to have any impact on the financial statements of the Bank.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

In addition, the International Accounting Standards Board has issued the following standards and amendments to standards as well as IFRIC 22 and IFRIC 23 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 9** “Financial Instruments”**:** Prepayment Features with Negative Compensation

Effective for annual periods beginning on or after 1.1.2019

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

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

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

Effective date: To be determined

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

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

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

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

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

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

- **International Financial Reporting Standard 17** "Insurance Contracts"

Effective for annual periods beginning on or after 1.1.2021

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

An entity:

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendments to IAS 19** "Employee Benefits":- Plan Amendment, Curtailment or Settlement

Effective for annual periods beginning on or after 1.1.2019

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

The amendment is not expected to have an impact on the Bank's financial statements.

- **Amendment to International Accounting Standard 28** "Investments in Associates": Long-term Interests in Associates and Joint Ventures

Effective for annual periods beginning on or after 1.1.2019

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

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

- **Improvements to International Accounting Standards –** cycle 2015-2017

Effective for annual periods beginning on or after 1.1.2019

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

The 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.)

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

- **IFRIC Interpretation 23** "Uncertainty over Income Tax Treatments"

Effective for annual periods beginning on or after 1.1.2019

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

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

The 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. For the cash flow statement this category excludes the mandatory placements with the Central Bank of Cyprus for liquidity purposes.

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.

ACCOUNTING POLICIES APPLIED (cont.)

1.5 Classification and measurement of financial instruments (cont.)

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.

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**

In line with the Alpha Bank Group's impairment policy and the relevant Central Bank Directive, the Bank examines for impairment on an individual basis the loans that it considers important. The perimeter includes loans from the Wholesale Banking sector as well as loans from the Retail Banking sector.

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

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

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.

ACCOUNTING POLICIES APPLIED (cont.)

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

<u>Loans and receivables (cont.)</u>

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).

(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

Bad Debt Write-off is defined as the reduction of the gross carrying amount of a financial asset, when there is no reasonable expectation of recovery. The write-off refers to the accounting write-off of a debt or a portion of it, i.e. the removal of the financial asset or part of it from the balance sheet, which does not necessarily entail the waiver of the legal right to recover the debt. In the event that the Bank decides to waive its legal right to recover the debt, this is called Debt Forgiveness and this waiver may include either on or off-balance sheet items as well.

Bad Debt Write-down is defined as the definitive reduction of a debt or portion of it, as a result of a legally binding decision or agreement (court judgment, contractual agreement etc.), which is not further claimable. It is noted that this encompasses Definitive write-downs which are unconditional and Conditional Write-Downs (Contingent Write-Down) subject to the achievement by the Customer of a specific performance (usually, upon the successful implementation of a specific repayment program

(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 2017 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	10 - 50 years
Plant and equipment	4 - 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 <u>Investment property</u>

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 <u>Intangible assets</u>

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 <u>Operating leases</u>

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 <u>Impairment losses on non financial assets</u>

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 company's activities.

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

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

1.14 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.

ACCOUNTING POLICIES APPLIED (cont.)

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.

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.

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

1.24 Dividend Income

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

1.25 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 <u>Related parties definition</u>

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

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

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

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

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

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 <u>Comparatives</u>

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

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. Additional disclosures to determine the fair value of assets and liabilities are given in note 1.7

b) Impairment losses of financial assets

The Bank tests for impairment advances and loans to customers to assess whether it is required to recognise a provision in the income statement. Under this exercise the Bank uses estimates that are based on assumptions relevant to the parameters that might influence the value of the expected future cash flows. Especially :

- <u>Determination of mortgage value</u>
    - A price index is used to calculate the current value of mortgages. For the calculation of their future value, relevant projections are used which are based on future macroeconomic conditions.
    - The percentage decrease in the value of mortgages varies depending on the type of property and the location of the property.

- <u>Time horizon for the liquidation of collateral</u>
    - The timing of liquidation of mortgages used for impairment purposes varies according to the particular characteristics of each case.

ACCOUNTING POLICIES APPLIED (cont.)

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

c) Impairment losses of financial assets (cont.)

- <u>Management costs for liquidating collaterals</u>
  - A different rate of expense on the value of mortgages is used, depending on the type of property and the particular characteristics of each case.

For loans that are individually assessed, the Bank takes into account all relevant parameters that affect expected future cash flows, such as the borrower's financial position, any other sources of income, as well as the net realizable value of the collateral.

With respect to the calculation of the impairment on facilities assessed on a collective basis, the Bank applies a specific approach that includes the probability of default, as well as loss given default rates. These parameters are calculated on each portfolio category by applying appropriate methodologies based on recent historical data, which may be adjusted on the basis of estimates made by the Bank's Management. The estimation of potential future impairment losses is uncertain because of the Bank's operating environment and the subjectivity that exists in the determination of certain assumptions.

Considering that these estimates are influenced by a number of factors such as the borrower's financial position, the net realizable value of the collateral, the historical loss indicators per portfolio, actual results may differ from the estimates.

Appropriate estimates are also used to measure the existence of impairment losses on bonds, notes and shares classified as available-for-sale.

d) 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 , other intangible assets and assets from auctions and settlements with customers. 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. Additional disclosures to determine the fair value of assets and liabilities are given in note 1.7

e) 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, as described in note 21.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.)

f) 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 31.12.2017 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 A.E. operates, and the high level of non-performing loans in the banking system of Cyprus.

The Bank, in preparing the financial statements of 31.12.2017, 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 Tier 1 ratio (CET1) on 31.12.2017 stood with transitional provisions at 13,8%. 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 2017 was set at 5,75% 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 2017 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.

Regarding the impact of the application of IFRS 9, the Bank will make use of the transitional provisions under which the impact of the application of the new standard will be absorbed within five years. Based on these, the Common Equity Tier 1 Capital (CETI) is estimated to be affected by 10 basis points for the first year and the future impact from full implementation is estimated at 270 bps, on the balances of 31.12.2017. With the full application of IFRS 9 with data 31.12.2017, the Bank exceeds the minimum requirements of Pillar I and Pillar II.

ACCOUNTING POLICIES APPLIED (cont.)

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

1.29.1 Going concern (cont.)

Capital Adequacy (cont.)

The European Central Bank (ECB) will run a stress-testing exercise in 2018. This will be conducted by European Banking Authority (EBA) for the largest European banks and by ECB for the banks which are not included in the first group. The results of the stress testing exercise will be factored into the overall assessment within the 2018 Supervisory Review and Evaluation Process (SREP). Alpha Bank Group has been selected to participate in the stress test exercise of ECB, which is expected to be launched at the beginning of 2018 while results are to be announced in May 2018.

- **Liquidity**

During 2017, the Bank increased its deposits by Euro 264 million, or 13,6%. This allows to the Bank more flexibility on liquidity management.

- **Cyprus economy**

Achievements

Cyprus, following its exit from the Economic Adjustment Program in 2016, is experiencing a very strong economic recovery. It is worth noting that it has achieved positive rates of change in GDP over the last 12 consecutive (12) quarters.

The economy recorded remarkable performance in 2017. GDP grew by 3,9% compared with 3,4% in 2016. Debt fell marginally below 100% of GDP, unemployment fell below 11%, compared with 13% in 2016, while inflation recorded for the first time positive sign, resulting in 0,7%.

The strong performance of the economy is attributable to the strong private consumption, strong growth in exports and, to a lesser extent, the public consumption. Private consumption benefited from the rapid expansion of employment across all sectors of the economy, which led to a significant fall in unemployment.

Tourism, services and shipping are the main contributors of the growth. Tourism records new high returns of both arrivals and revenues. The arrivals increased by 15,0% while the revenue by 11,7%.

ACCOUNTING POLICIES APPLIED (cont.)

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

1.29.1 Going concern (cont.)

In September 2017, the Cypriot economy was upgraded by the International rating agency Standard and Poor's to BB +, keeping them only one notch below investment grade. BB+ rating has been confirmed through an updated rating in March 2018. It is noted that the remaining rating agencies preserve the Cyprus economy one notch below the rating of S&P.

Forecasts
According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,2% in 2018 and 2,8% in 2019. It is also expected that investments will increase mainly in tourism and constructions.

Inflation is projected to increase to 1,2% in 2018 and to 1,3% in 2019, mainly due to rising oil prices as well as increase in consumption driven by the stronger wages.

Due to the performance of the Cypriot economy, it is expected that the international rating agencies will keep the Republic of Cyprus close to the investment grade, resulting in positive results both in borrowing from international markets and in lending costs.

According to Moody's international rating agency forecasts, a positive economic environment will support the reduction of non-performing loans.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans.

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

2017 is considered a year of recovery for the Greek economy, as economic activity strengthened, especially after the successful conclusion of the 2nd Review, the 5-year government bond issuance - after three years of the Greece's absence from the markets - and the country's credit ratings upgrade from international rating agencies. The GDP growth rate in 2017 stood at 1,4% (ELSTAT, first estimate), from -0,2% in 2016 (constant prices 2010, seasonally adjusted data).

The main factors that supported the economy in 2017 were the following:

- The Greek economy exporting dynamics, mainly in the services sector. Exports of goods and services increased by 13,5% yoy in 2017, against a fall by 6,1% in 2016.
- The strengthening of the industrial production. In 2017, industrial production increased by 4,1%, yoy, against a smaller increase by 2,5% in 2016.
- The unemployment rate decline. The unemployment rate in Greece, though it remains at a high level compared to the EU average, is on a downward trend since its peak in July 2013.

Despite the positive development of short-term indicators, the current favorable international environment, as it is defined by the enhanced growth prospects of Europe and the supportive monetary policy of ECB, main challenges arise ahead for the Greek economy, which will determine its recovery prospects in the long run. These challenges are the following:

ACCOUNTING POLICIES APPLIED (cont.)

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

1.29.1 Going concern (cont.)

First, the specification of the debt relief measures, as described at the Eurogroup in spring 2016. Second, the above development, combined with the creation of a cash buffer in order for Greece to cover its financing needs at least until the end 2019, will set the scene for a smooth and sustainable access of the Greek state to the markets. Third, the speed-up of the privatization programme and the projected infrastructure projects, in combination with the absorption of the EU structural funds. This will trigger the attraction of new investments and lead to the revival of Greek businesses.

In 2018, the prospects of the Greek economy appear to be positive. The conclusion of the 3rd Review and the positive assessment for the closure of the third Economic Adjustment Programme in August, are expected to strengthen confidence in the economy. GDP growth rate is expected to hover at 2,4% (Bank of Greece's estimate, Feb. 2018) and the economic expansion will be supported by exports, investment and private consumption. The increase of private investment will be strengthened, reflecting the further restoration of confidence and the easing of liquidity conditions in the economy. Significant challenges though do exist, relating to both internal and external factors. In the domestic environment, possible delays in the implementation of the reforms and privatization programme could hurdle recovery prospects. In the external environment, risks and uncertainties arise from potential geopolitical tensions.

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 capital adequacy ratios of the Bank on 31.12.2017,
- 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, for the preparation of the Financial Statements

2. NET INTEREST INCOME

	Note	From 1 January to 31.12.2017 €´000	31.12.2016 €´000
Interest and similar income			
Due from banks		1.601	162
Loans and advances to customers		96.750	118.006
Derivatives held for risk mitigation		1.536	2.685
Government bonds	15	870	1.396
Total		**100.757**	**122.249**
Interest expense and similar charges			
Deposits with Central Banks		(234)	(529)
Due to banks		(87)	(226)
Due to customers		(31.613)	(27.944)
Subordinated bonds	25	(4.777)	(5.068)
Total		**(36.711)**	**(33.767)**
Net interest income		**64.046**	**88.482**

The decrease is attributed mainly to the decrease of loans and advances to customers and the decrease of interest rates. (Note 17)

3. NET FEE AND COMMISSION INCOME

	From 1 January to 31.12.2017 €´000	31.12.2016 €´000
Loans	32	130
Letters of guarantee	536	500
Imports – Exports	228	246
Credit cards	695	818
Transfers of funds	1.665	1.485
Foreign exchange	488	495
Insurance	687	610
Deposits	1.859	1.637
	6.190	5.921

4 . DIVIDEND INCOME

	From 1 January to	
	31.12.2017	31.12.2016
	€΄000	€΄000
Available for sale securities	696	1.963
	696	1.963

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

5. GAINS LESS LOSSES ON FINANCIAL TRANSACTIONS

	From 1 January to	
	31.12.2017	31.12.2016
	€΄000	€΄000
Foreign exchange differences	2.175	814
Investment securities:		
- Bonds and Treasury bills	-	10
-Shares	-	6.625
Derivative financial instruments	(24)	103
Other financial instruments	986	1.163
	3.137	8.715

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	
	31.12.2017	31.12.2016
	€΄000	€΄000
Profit from sale of fixed assets	-	6
Income from services offered to group companies	3.074	3.129
	3.074	3.149

7. STAFF COSTS

	From 1 January to	
	31.12.2017	31.12.2016
	€΄000	€΄000
Wages and salaries	27.915	29.715
Other staff costs	1.269	740
Contributions to employee's provident fund	2.002	2.287
Voluntary Retirement Program	-	31.655
	31.186	64.397

The total number of employees as at 31.12.2017 were 662 (31.12.2016 : 654)
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	
	31.12.2017	31.12.2016
	€΄000	€΄000
Advertisement and promotion expenses	1.772	1.243
Rents payable	1.318	1.379
Special tax levy on customer deposits	2.882	1.936
Contributions to the resolution fund	244	913
Repairs and maintenance	328	340
Professional expenses	3.034	1.461
Legal fees	1.382	1.387
Subscriptions for card use (VISA)	1.082	652
Computer maintenance and supplies	782	772
Insurance	325	503
Electricity	572	509
Telecommunication expenses	590	670
Stationery and printing	365	369
Value added tax	2.107	1.463
Other	4.818	2.258
	21.601	15.855

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 2017, the Bank contributed €244 thousand, (2016: €913 th.) which was covered by the contributions made to the "Special tax levy on customer deposits". Other expenses in 2017 include a penalty imposed by the Commission for the Protection of Competition at the Bank of € 1.545 thousand for charges in domestic interbank commissions. The Bank has appealed to the Administrative Court for the cancellation of the fine.

9. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

		From 1 January to	
		31.12.2017	31.12.2016
	Note	€΄000	€΄000
Impairment losses on loans and advances to customers	17	111.719	65.884
Recoveries from loans written off		(4.380)	(7.299)
		107.339	58.585

10. LOSSES BEFORE TAX

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

		From 1 January to	
	Note	31.12.2017 €´000	31.12.2016 €´000
Directors' remuneration:			
Executive Directors	40(a)	351	488
Non-Executive Directors	40(a)	148	138
Independent auditors' remuneration for statutory audit of annual accounts		129	76
Independent auditors' remuneration for other non-audit services		-	48
Depreciation of property, plant and equipment	19	1.470	1.603
Amortization of intangible assets	20	288	352
Rent payable	8	1.318	1.379

11. TAX

		From 1 January to	
	Note	31.12.2017 €´000	31.12.2016 €´000
Provision for tax for previous years		-	300
Deferred tax - debit/(credit)	21	1.919	(2.103)
Debit/(Credit) for the year		1.919	(1.803)

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			
	%	31.12.2017 €´000	%	31.12.2016 €´000
Accounting loss before tax		(84.741)		(32.576)
Tax calculated at applicable tax rates (nominal tax rate)	12,50	(10.593)	12,50	(4.072)
Tax effect of expenses not deductible for tax purposes	(3,97)	3.366	(1,93)	628
Tax effect of allowances and income not subject to tax	0,37	(316)	4,13	(1.346)
Tax effect of loss for the year	(11,16)	9.462	(9,17)	2.987
Tax as per statement of comprehensive income (effective tax rate)	(2,26)	1.919	(5,53)	(1.803)

The Bank has not recognized deferred tax assets amounting to € 36.156 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	
	31.12.2017 (€´000)	31.12.2016 (€´000)
Profit / (Losses) attributable to the owners	(86.660)	(30.773)
Issued shares on 1 January	174.474.178	174.474.178
Weighted average number of shares for the year	174.474.178	174.474.178
Basic and diluted earnings /(losses) per share (€ cent)	(49,67)	(17,64)

13. CASH AND BALANCES WITH CENTRAL BANKS

	31.12.2017 €΄000	31.12.2016 €΄000
Cash and cash equivalents	18.655	9.002
Balances with Central Bank of Cyprus	231.138	182.871
	249.793	191.873

Deposits with the Central Bank of Cyprus bear interest based on the interbank rate of the relative period and currency.
Deposits with Central Bank include mandatory deposits for liquidity purposes on 31.12.2017 amounted to Eur21.449 thous. (2016 : Eur18.799 thous)

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

	31.12.2017 €΄000	31.12.2016 €΄000
Placements with Alpha Bank Group	530.712	233.540
Placements with other financial institutions	36.056	58.689
	566.768	292.229

Amounts Due from banks include an amount of €426,9 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

	31.12.2017 €΄000	31.12.2016 €΄000
Government bonds and treasury bills	131.789	114.514
Corporate bonds and shares	5.988	3.315
	137.777	117.829
Listed	133.917	116.178
Non Listed	3.860	1.651
	137.777	117.829
Geographical analysis based on issuer's region:		
- Cyprus	135.649	116.165
- USA	2.128	1.664
	137.777	117.829

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:

2017	Government bonds and treasury bills €΄000	Corporate bonds and shares €΄000	Total €΄000
Balance 1 January	114.514	3.315	117.829
Additions	251.488	-	251.488
Matured/Disposed Securities	(235.759)	-	(235.759)
Interest receivable	870	-	870
Interest received	(917)	-	(917)
Revaluation transferred to equity (Note 30)	1.593	2.673	4.266
Balance 31 December	131.789	5.988	137.777

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
Matured/Disposed Securities	-	1.501	1.501
Interest receivable	(417.158)	-	(417.158)
Interest received	1.396	-	1.396
Revaluation transferred to equity (Note 30)	(61)	-	(61)
	152	163	315
Balance 31 December	114.514	3.315	117.829

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives nominal value	€´000	€´000	€´000	€´000
Foreign exchange derivatives				
Currency swaps	506.886	4.255	36.631	565.390
	506.886	4.255	36.631	565.390
Total derivatives	506.886	4.255	36.631	565.390

Fair value of derivatives

	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
	€´000	€´000	€´000	€´000
Foreign exchange derivatives				
Currency swaps	6.942	18	144	7.467
	6.942	18	144	7.467
Total derivatives	6.942	18	144	7.467

17. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2017	31.12.2016
	€´000	€´000
Loans and advances to customers	2.459.479	2.613.680
Allowance for impairment losses	(724.644)	(667.320)
	1.734.835	1.946.360

	31.12.2017	31.12.2016
	€´000	€´000
Analysis by industry sector		
Manufacturing	47.611	56.799
Tourism	78.588	82.309
Trade	123.736	128.933
Buildings and construction	623.451	686.271
Business and loans to individuals	1.372.293	1.459.722
Other sectors	213.800	199.646
	2.459.479	2.613.680
Analysis by geographical region		
Cyprus	1.801.248	1.939.611
Greece	28.595	9.651
Other European countries	541.524	591.924
Other countries	88.112	72.494
	2.459.479	2.613.680

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
2017	
1 January	667.320
Impairment losses and provisions to cover credit risk (note 9)	111.719
Unwinding of interest	40.844
Amounts used for write offs	(73.391)
Exchange difference	(21.848)
	724.644
2016	583.282
1 January	65.884
Impairment losses and provisions to cover credit risk (note 9)	36.618
Unwinding of interest	(19.313)
Amounts used for write offs	849
Exchange difference	
	667.320

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 2017	2.023
Amortization	
31 December 2017	-
Net book value	
31 December 2016	2.023
31 December 2017	2.023

The fair value of investment property on 31.12.2017 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 2017	3.089	33.276	19.893	56.258
Additions	-	298	638	936
Disposals	-	-	(2.470)	(2.470)
Write offs	-	-	-	-
31 December 2017	3.089	33.574	18.061	54.724
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

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 2017	-	15.147	17.998	33.145
Charge for the year	-	807	663	1.470
Disposals	-	-	(2.471)	(2.471)
Write offs	-	-	-	-
31 December 2017	-	15.954	16.190	32.144
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
Net book value				
1 January 2016	3.089	18.917	2.317	24.323
31 December 2016	3.089	18.129	1.895	23.113
31 December 2017	3.089	17.620	1.871	22.580

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 2017	8.659
Additions	258
31 December 2017	8.917
1 January 2016	8.378
Additions	281
31 December 2016	8.659
Amortization	
1 January 2017	8.089
Charge for the year	288
31 December 2017	8.377
1 January 2016	7.737
Charge for the year	352
31 December 2016	8.089
Net book value	
1 January 2016	641
31 December 2016	570
31 December 2017	540

21. DEFERRED TAX ASSETS

2017	Tax losses €´000	Difference between depreciation and capital allowances €´000	Total €´000
1 January	15.074	(910)	14.164
Credit / (Debit) in the statement of comprehensive income	(1.677)	(242)	(1.919)
31 December	13.397	(1.152)	12.245
2016			
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

The deferred tax assets and liabilities arise from the following:

Deferred tax assets are recognized for unutilized tax losses, and deductible temporary differences, to the extent that future taxable profits are likely to be available against which they can be used. The most important category of deferred tax asset recognized by the Bank relate to tax losses. Deferred tax asset for the tax losses carried forward relate to the years 2013-2017.
Tax losses can be set off against taxable profits within five years of their recognition

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

22. OTHER ASSETS

	31.12.2017 €´000		31.12.2016 €´000	
Receivables from Alpha Bank Group companies (Note 40)		549		198
Other receivables and prepayments		2.928		2.028
Assets from auctions and agreements with customers	8.191		5.884	
Less impairment of assets from auctions and agreements with customers	(367)	7.824	-	5.884
		11.301		8.110

Assets acquired through auctions or from Debt for assets transactions 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. During 2016, the bank repossessed assets worthing Eur 2.3 million. (2016: Eur5.3 million). In 2017, an impairment loss of Eur 367 thous. (2016: Nil) was recorded in the "General administrative expenses and other expenses" in the Income Statement.

23. DUE TO BANKS

	31.12. 2017 €´000	31.12.2016 €´000
Amounts due to companies of Alpha Bank Group (Note 40c)	48.821	83.172
Amounts due to other financial institutions	21.672	19.391
	70.493	102.563

Amounts due to Alpha Bank A.E. are secured with «Loans and advances to customers» (Note 35.7)
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

	31.12.2017 €´000	31.12.2016 €´000
Deposits:		
Current	553.782	462.458
Savings	18.127	15.616
Fixed term or notice	1.633.001	1.462.554
	2.204.910	1.940.628

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

	Listed	Non - Listed	Total
	€΄000	€΄000	€΄000
1 January 2017	100.221	16.110	116.331
Interest payable	2.508	2.269	4.777
Payments	(2.509)	(2.337)	(4.846)
31 December 2017	100.220	16.042	116.262

	Listed	Non - Listed	Total
	€΄000	€΄000	€΄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

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.

25. SUBORDINATED BONDS (cont.)

Subordinated bonds at amortised cost (cont.)

Non - Listed

Non - listed securities are secondary capital (Tier II) issued by Emporiki Bank Cyprus Ltd and held by companies of the Alpha Bank Group. These securities were recognised at their fair value at the acquisition date of Emporiki Bank Cyprus Ltd for the amount of € 15.936 thous. The difference between the nominal value and the fair value at the acquisition date (1.3.2015) will be amortized until the maturity of the securities. An amount of Eur1.904 thous., in 2017 has been charged to the income statement. (2016 : Eur2.044 thous.)

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

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

Date of issue	Capital outstanding €000	Interest base	Margin
17.3.2008	400	Euribor 6m	1,5%
12.12.2008	270	Euribor 3m	3,5%
22.12.2009	2.600	Euribor 3m	1,45%
3.3.2011	16.000	Euribor 3m	2,16%
Total	19.270		

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:

	31.12.2017 € 000
Within one year	1.970
1 to 3 years	11.966
Over 3 years	5.334
Total	19.270

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

26. OTHER LIABILITIES AND PROVISIONS

	31.12.2017 €´000	31.12.2016 €´000
Accrued expenses	3.648	3.565
Provisions for litigation and arbitration (Note. i)	63	47
Other payables (Note. ii)	16.666	12.265
Amounts due to Alpha Bank Group companies (Note 40)	3.782	1.998
Taxes payables on behalf of clients	527	722
	24.686	18.597

(i) Provisions for litigation and arbitration

	2017 €´000	2016 €´000
1 January	47	50
Provision for the year	16	(3)
31 December	63	47

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 €63 thous. which is included in "Other Liabilities and provisions"

(ii) Other payables

Other payables include a penalty imposed by the Commission for the Protection of Competition at the Bank of €1.5 mil. for charges in domestic interbank commissions. The Bank has appealed to the Administrative Court for the cancellation of the fine.

27. SHARE CAPITAL

	2017		2016	
	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	174.474.178	148.303
31 December (Ordinary shares of €0,85 each)	174.474.178	148.303	174.474.178	148.303

Shareholders Structure

		31.12.2017		31.12. 2016	
	Shareholder	Number of shares	%	Number of shares	%
1.	Alpha Bank A.E.	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
	Total	**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 A.E.

28. CONVERTIBLE CAPITAL SECURITIES

	31.12.2017 €΄000	31.12.2016 €΄000
Issue of convertible capital securities	64.000	64.000

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

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

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

The Bank has cancelled the payment of interest for 2016 and 2017.

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

	2017 €´000	2016 €´000
Opening balance 1 January	**90.467**	**90.467**
Balance 31 December	**90.467**	**90.467**

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.

	2017 €´000		2016 €´000	
Opening balance 1 January		**321**		**16**
Changes for the period 1.1 - 31.12				
Revaluation of investments available for sale	4.266		315	
Transfer to retained earnings	-		(10)	
Total		4.266		305
Balance 31 December		**4.587**		**321**

b) Reserve from the conversion of share capital

	2017 €´000	2016 €´000
Balance 31 December	**600**	**600**

Reserves total (a+b)	**5.187**	**921**

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

	31.12.2017 €´000	31.12.2016 €´000
Contingent liabilities		
Bank guarantees	48.165	46.853
Commitments		
Letters of credit and letters of guarantees	5.453	5.492
Undrawn credit facilities	130.703	119.865
	136.156	125.357
Total off balance sheet liabilities	184.321	172.210

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. Loan and facility limits include overdraft limits that are granted for a specific time period and may be cancelled by the Bank at any time.

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

32.1 OFF BALANCE SHEET LIABILITIES (cont.)

31.12.2017	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	8.956	1.712	9.088	23.967	1.651	7.068	1.176	53.618
Undrawn credit facilities	1.016	20.875	15.825	30.040	3.854	19.166	39.927	130.703
Total	9.972	22.587	24.913	54.007	5.505	26.234	41.103	184.321
31.12.2016								
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

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:

	31.12.2017 €´000	31.12.2016 €´000
Within one year	1.309	1.249
Between one to five years	3.644	3.389
More than five years	4.121	4.896
	9.074	9.534

32.3 LEGAL

As at 31 December 2017, 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	31.12.2017 €´000	31.12.2016 €´000
Cash and balances with Central Banks	13	228.344	173.074
Due from banks	14	566.768	292.229
Due to banks		(68.118)	(75.940)
		726.994	389.363

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.-31.12.2017				
	Retail Banking €000	Corporate Banking €000	Treasury €000	Other €000	Total €000
Net interest income	39.159	23.472	1.415	-	64.046
Net fee and commission income	5.440	1.164	-	(414)	6.190
Other income	1.061	406	2.847	2.593	6.907
Total income	45.660	25.042	4.262	2.179	77.143
Total expenses	(22.208)	(9.636)	-	(22.701)	(54.545)
Impairment losses and provisions to cover credit risk	(55.401)	(51.938)	-	-	(107.339)
Net profit / (loss) before tax	(31.949)	(36.532)	4.262	(20.522)	(84.741)
Tax	-	-	-	-	(1.919)
Profit / (loss) after tax	(31.949)	(36.532)	4.262	(20.522)	(86.660)
Total assets 31.12.2017	1.042.184	692.651	954.338	55.631	2.744.804
Total liabilities 31.12.2017	2.046.383	158.527	170.493	40.966	2.416.369
Capital expenditure	-	-	-	1.194	1.194
Depreciation and amortization	(1.023)	(680)	-	(55)	(1.758)

34. OPERATING SEGMENTS (cont.)

	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)
Net profit / (loss) before tax	18.336	(10.663)	10.531	(50.780)	(32.576)
Tax	-	-	-	-	1.803
Profit / (loss) after tax	18.336	(10.663)	10.531	(50.780)	(30.773)
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)

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

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

The Bank’s critical focus in 2017 was to maintain high standards in corporate governance and compliance with regulatory risk rules and retain confidence in the conduct of its business activities through sound and robust provision of financial services.

Risk Management Organization

Board of Directors (BoD)

The Board of Directors has the overall responsibility for defining, approving, and supervising the implementation of the Risk Appetite Framework, ensuring that they are consistent with the Bank's short-term and long-term objectives, its capital planning and all its supervisory and other requirements.

At the same time, the management body periodically approves and reviews all strategies and policies for undertaking, managing, monitoring and mitigating the risks to which the institution is exposed and is informed through the Risk Committee of any changes in the Bank’s risk profile, actions and decisions that involve significant risks to the institution and deficiencies identified in relation to the Risk Management Framework,

Risk Committee

The Board of Directors' Risk Committee recommends to the Board the risk and capital management strategy that meet the Bank's business objectives and is responsible for monitoring the implementation.
In addition, it monitors, the implementation of risk management policies and procedures and ensures that the risk management framework is integrated into the business decision-making process.

Risk Management Sector

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

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

35. RISK MANAGEMENT (cont.)

Risk Management Organization (cont.)

The Credit Risk Division is separated in the following departments:

- Policies
- Supervision Requirements and Corporate Governance
- 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

The Risk General Manager and the Group Chief Risk Officer have under their supervision the "Risk Management Models Validation " department

35.1 Credit Risk

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

The credit risk is derived from the Bank's activities and the offered products and services.

The Credit Risk Management is implemented on the basis of the Credit Risk Management Framework defined by the Alpha Bank Group and adopted by the Bank. This Framework includes all policies, procedures , systems and methodologies used to identify, assess and monitor credit risk and effectively implement mitigation measures. It is ensured through the Credit Risk Management Framework that the Bank and the Group not only complies with the supervisory guidelines but also adopts best banking practices with the ultimate goal of effective management and limitation of credit risk.

The provisions of the Credit Risk Management Framework are implemented through an appropriate governance structure that establishes clear roles and responsibilities in each bank hierarchy that is involved in credit risk activities.

For credit risk management purposes the facilities are separated into Wholesale and Retail. 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.)

Credit risk measurement 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, a credit rating scale is used to assess loan applications from existing clients in accordance with the customer behavior in existing products.

In relation to the Wholesale portfolio, the credit rating of borrowers and their classification in credit risk categories is performed through rating systems.

The classification of the borrowers of the Bank through the use of credit risk rating systems is a key tool for:

- The decision of the competent committees to issue / renew a credit limit and for the application of an appropriate pricing policy (interest rate margins, etc.).
- Predicting the future behavior of customers belonging to a group with common characteristics
- Detecting at early stages problematic loans and take measures to minimize possible losses to the Bank.
- Assessing the quality of the Bank's loan portfolio and the associated risk.

The purpose of credit risk rating systems is to assess the probability of non-fulfillment of the obligations of the borrowers against the Bank.

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

In order to assess the probability of non-fulfillment of the borrowers of the Bank, the credit risk rating models assess a series of parameters, which can be grouped as follows:

For the estimation of the probability of default of the obligors of the Group the credit risk rating models evaluate a series of parameters, which can be grouped as follows:

- Obligor’s Financial Ability (liquidity’s ratios, debt to income, etc.)
- Peers’ Analysis: Obligor’s comparative position in the market in which it operates mostly compared to its peers.
- Behavioral status and history of the obligor with the Group and with third parties (debt in arrears, adverse transaction records, etc).
- Obligor’s qualitative characteristics (solid and healthy administration, management succession, appropriate infrastructure and equipment etc.).

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Credit risk measurement and internal ratings (cont.)

The credit rating models which are currently employed by the Group are differentiated according to:

- The turnover of the company.
- The level of the total credit risk exposure.
- The credit facility's specific characteristics.
- The available information for the obligor's assessment. Specifically, for the financial analysis the differentiation relates to the type of the local accounting standards and the International Financial Reporting Standards.

For each of the credit rating models, different parameters may be used, each of which contributes in a specific manner to the relevant assessment.

The statistical validation of the credit risk rating models is reviewed regularly in order to ensure the maximum predictive ability according to the best international practices.

Obligors Rating Scale

Borrowers are rated in the following rating scales:

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

For presentation purposes of the table "Analysis of neither past due nor impaired Loans and Advances to customers", the "strong" rating includes the rating scales AA, A+, A, A- and BB+, "satisfactory" rating includes the rating scales BB, BB-, B+, B, B-, CC+ and CC and "under close monitoring" (higher risk) includes the rating scales CC- and lower than CC-.

The Bank has also developed statistical models for the assessment of client loan applications which have been incorporated in the approval procedure.

For special purpose finance (Structured and Shipping Financing) special models have been designed (slooting) with the following categorization scale:

Strong (Class 1), Good (Class 2), Satisfactory (Class 3), Weak (Class 4), Default (Category 5).

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.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

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.

In addition to the above, the Bank reviews on an individual basis credit facilities of groups of related persons, which exceed 3% of the share capital and reserves of the Bank, as set out in the Central Bank of Cyprus Directive " The Loan Impairment and Provisioning Procedures Directives of 2014 to 2016 ".

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,
- In cases where the impairment allowance under individual assessment was zero, these loans will be assessed for impairment on a collective basis, 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 government authorities against the borrower (Retail customers),
- adverse changes in the shareholders’ structure or the management of the company or serious management issues/problems (Wholesale customers),
- occurrence of unforeseen, extreme events,
- Past due between 30 to 90 days in at least one account of a customer

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".
- Exposures that have been individually assessed and were found not to be impaired on an individual basis -the impairment allowance estimated was zero- are subsequently assessed for impairment on a collective basis, after they are grouped in pools based on common credit risk characteristics.
- Exposures with no impairment triggers and therefore are assessed collectively in pools formed based on similar credit risk characteristics.

The need for objective evidence in order for the loss to be recognized and effectively the impairment loss to be identified on individual loans, may lead to a delay in the recognition of a loan's impairment, which has already occurred. Within this context and in accordance with IAS 39, it is appropriate to recognize impairment losses for those losses "which have been incurred but have not yet been reported» (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 time horizon 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.)

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.

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.

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.

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
- Difference in terms of market terms for debtors with similar risk profile.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Write-Offs And Write-Downs Of Bad Debts

Bad Debt Write-off is defined as the reduction of the gross carrying amount of a financial asset, when there is no reasonable expectation of recovery. The write-off refers to the accounting write-off of a debt or a portion of it, i.e. the removal of the financial asset or part of it from the balance sheet, which does not necessarily entail the waiver of the legal right to recover the debt. In the event that the Bank decides to waive its legal right to recover the debt, this is called Debt Forgiveness and this waiver may include either on or off-balance sheet items as well.

Bad Debt Write-down is defined as the definitive reduction of a debt or portion of it, as a result of a legally binding decision or agreement (court judgment, contractual agreement etc.), which is not further claimable. It is noted that this category encompasses Definitive write-downs which are unconditional and Conditional Write-Downs (Contingent Write-Down) subject to the achievement by the Customer of a specific performance (usually, upon the successful implementation of a specific repayment program).

Indicative conditions for the submission of proposals for writing-off a part or the whole of bad debts include, but are not limited to, the following:

- The relevant Agreements with the Customers have been terminated.
- Payment Orders have been issued against all liable parties to such Agreements.
- The actions regarding the investigation of immovable property have been completed without any results.
- The procedure for the registration of encumbrances has been completed.
- At least one real estate property has been auctioned, so that the preferential claims (through the final creditor's classification list) and, by extension, the Bank's potential losses, are finalised.
- In cases where the likelihood of further recovery of the debt is considered to be particularly low, due to:
  - the fact that the debtors are placed under special liquidation;
  - the proven existence of preferential claims of a significant amount and the adoption of a decision to cease litigation actions, in order to avoid non-collectable enforcement costs;
  - the fact that further litigation actions seeking collection of the claim is economically unprofitable (e.g. low-value collateral);

The write-off requires the existence of an impairment provision in the same amount, established no later than in the quarter preceding the submission of the proposal.

Credit Control

The Bank has adopted a Credit Control mechanism so as to provide assurance that the credit policy and forbearance frameworks are being consistently followed.

More, specifically, on site credit controls are conducted in Wholesale Banking Business Units of the Bank as well as desktop controls that cover the adherence and the compliance to the Bank's Credit Policy, the portfolio analysis and the confirmation of the completeness and correctness of the data in the Bank's systems through sample checks.

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.

A non-performing exposure with forbearance measures include the following:

- Exposures which were non-performing prior to the extension of forbearance measures; and
- Forborne exposures which have been reclassified from the performing exposures category, including exposures under probation (forborne performing having been reclassified out of the Forborne Non Performing Loan (FNPL) status) having been re-forborne or that are more than 30 days past-due.

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.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

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.

Impaired Exposures

Impaired exposures are defined as follows:

- Exposures for which an impairment amount has been allocated following the individual assessment for impairment;
- Exposures in arrears more than 90 days or under legal workout status, for which an impairment amount has been allocated following the collective assessment for impairment;
- Unlikely to pay exposures; and
- Forborne Non Performing Exposures that are up to 89 days past due.

Accumulated provision for impairment

The accumulated provision for impairment, for disclosure purposes of credit risk as well as for the monitoring of credit risk, includes the adjustment for the contractual loans which were acquired at fair value during the acquisition of Emporiki Bank Cyprus Ltd, since the Bank monitors the respective adjustment as part of the provisions. The amount for 2017 is Eur169.147 thous. (2016: 189.209 thous.) It is noted that in note 17 “Loans and Advances to customers”, this adjustment is deducted from the gross balance of loans before impairment.

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

	31.12.2017			31.12.2016		
	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	231.138	-	231.138	182.871	-	182.871
Due from banks	566.768	-	566.768	292.229	-	292.229
Loans and advances to customers	2.628.626	893.791	1.734.835	2.802.889	856.529	1.946.360
Derivative financial assets	6.942	-	6.942	144	-	144
Available for sale securities :						
- Available for sale (government)	131.789	-	131.789	114.514	-	114.514
- Available for sale (other)	5.988	-	5.988	3.315	-	3.315
Other assets	3.477	-	3.477	2.226	-	2.226
Total amount of balance sheet items exposed to credit risk (a)	3.574.728	893.791	2.680.937	3.398.188	856.529	2.541.659
Other balance sheet items not exposed to credit risk	64.234	367	63.867	54.756	-	54.756
Total assets	3.638.962	894.158	2.744.804	3.452.944	856.529	2.596.415
B. Credit risk exposure relating to off balance sheet items:						
Letters of guarantee, letters of credit and other guarantees	53.618	-	53.618	52.345	-	52.345
Undrawn loan agreements and credit limits that cannot be recalled (committed)	130.703	-	130.703	119.865	-	119.865
Total amount of off balance sheet items exposed to credit risk (b)	184.321	-	184.321	172.210	-	172.210
Total credit risk exposure (a+b)	3.759.049	893.791	2.865.258	3.570.398	856.529	2.713.869

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)

	31.12.2017								
	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	340.511	62.327	93.535	711.572	1.207.945	42.276	337.120	828.549	745.611
Consumer	50.163	6.994	41.489	151.905	250.551	22.253	80.619	147.679	80.000
Credit cards	7.569	439	770	5.935	14.713	529	3.442	10.742	1.287
Small Business Loans	16.910	1.893	5.644	42.240	66.687	2.576	17.799	46.312	31.739
	415.153	71.653	141.438	911.652	1.539.896	67.634	438.980	1.033.282	858.637
Corporate lending									
Large	420.166	23.764	442.176	8.266	894.372	260.216	9.893	624.263	523.794
SME's	9.039	10.503	161.874	12.348	193.764	109.728	7.340	76.696	81.556
	429.205	34.267	604.050	20.614	1.088.136	369.944	17.233	700.959	605.350
Public sector	594	-	-	-	594	-	-	594	590
Total	844.952	105.920	745.488	932.266	2.628.626	437.578	456.213	1.734.835	1.464.577

An amount of €22.884 thous. that is included in accumulated impairment allowance under "Collectively assessed" relates to IBNR provisions. An amount of €247.179 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.)

	31.12.2016								
	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.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

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

	31.12.2017				
	Strong €´000	Satisfactory €´000	Watch list (higher risk) €´000	Total neither past due nor impaired €´000	Value of collateral €´000
Retail lending					
Mortgage	-	340.511	-	340.511	289.514
Consumer	-	50.163	-	50.163	20.043
Credit cards	8	7.504	57	7.569	1.026
Small Business Loans	-	16.910	-	16.910	10.780
	8	415.088	57	415.153	321.363
Corporate lending					
Large	55.030	326.515	38.621	420.166	308.159
SME's	4	4.892	4.143	9.039	7.558
	55.034	331.407	42.764	429.205	315.717
Public sector	-	543	51	594	591
Total	55.042	747.038	42.872	844.952	637.671

	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

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

31.12.2017

	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	40.106	5.342	248	1.485	3.136	411	50.728
31 - 60 days	14.838	684	112	259	203	367	16.463
61 - 90 days	7.383	968	79	149	1.300	202	10.081
91 - 180 days	-	-	-	-	345	-	345
181 - 360 days	-	-	-	-	6.190	1.105	7.295
> 360 days	-	-	-	-	12.590	8.418	21.008
Total	62.327	6.994	439	1.893	23.764	10.503	105.920
Value of collateral	49.286	2.784	42	831	21.207	10.055	84.205

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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

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

31.12.2017	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	48.447	14.193	9	3.268	16.929	2.791	85.637
1 - 30 days	28.664	3.358	-	1.272	1.639	-	34.933
31 - 60 days	19.889	3.842	11	1.121	2.855	43	27.761
61 - 90 days	24.237	6.062	-	3.132	6.525	1.237	41.193
91 - 180 days	14.498	2.455	19	324	4.813	1.083	23.192
181 - 360 days	10.776	2.496	16	598	8.600	1.316	23.802
> 360 days	291.288	60.564	2.798	18.337	145.699	51.643	570.329
Net value of impaired loans and advances	437.799	92.970	2.853	28.052	187.060	58.113	806.847
Value of collateral	406.810	57.173	219	20.128	194.428	63.943	742.701

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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

MOVEMENT OF IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

	2017						
	Retail Lending				Corporate Lending		Total
	Mortgages	Consumer	Credit cards	Small business loans	Large businesses	SMEs businesses	
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2017	**862.103**	**183.359**	**6.246**	**46.397**	**465.735**	**164.089**	**1.727.929**
Value of loans categorized as impaired within the period	63.660	22.283	677	5.242	41.046	22.294	155.202
Value of loans removed from impaired category	(34.088)	(5.924)	(76)	(2.762)	(10.816)	(2.883)	(56.549)
Proceeds from impaired loans	(4.317)	(1.730)	-	(299)	(2.735)	(510)	(9.591)
Write off of impaired loans and Advances	(40.214)	(3.136)	(142)	(579)	(35.574)	(7.696)	(87.341)
Exchange differences and other movement	(42.037)	(1.458)	-	(115)	(7.214)	(1.072)	(51.896)
Balance 31.12.2017	**805.107**	**193.394**	**6.705**	**47.884**	**450.442**	**174.222**	**1.677.754**
Accumulated impairment provision	(367.308)	(100.424)	(3.852)	(19.832)	(263.382)	(116.109)	(870.907)
Net value of impaired loans and advances	**437.799**	**92.970**	**2.853**	**28.052**	**187.060**	**58.113**	**806.847**

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)
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.)

Credit Risk Mitigation

Collaterals are received in order to mitigate credit risk that may arise from the obligor’s inability to fulfill his contractual obligations.
Collaterals include all kind of assets and rights which are made available to the Group either by their debtors or by third parties, in order to be used as complementary liquidity sources of relative loans.

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.

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk (cont.)

Credit risk mitigation techniques (cont.)

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

(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

Concentration Risk is a specific form of credit risk and arises due to the low degree of diversification between counterparties, products or group of counterparties, sectors, geographic regions, or collaterals.
The Bank monitors on a regular basis concentration risk through detail reporting which informs senior management and the Board of Directors. According to the supervisory framework, the Bank complies with the regulatory directives regarding large exposures, while the capital requirements for single name and sector concentration risks are estimated in the context of Pillar 2 of Basel II.

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	
	31.12.2017 €΄000	**31.12.2016** €΄000
< 50%	111.597	169.351
50% - 70%	98.450	167.626
71% - 80%	58.638	92.973
81% - 90%	61.623	83.364
91% - 100%	57.186	72.069
101% - 120%	117.577	171.303
121% - 150%	170.936	191.039
> 150%	531.936	371.396
Total exposure	1.207.943	1.319.121
Average LTV (%)	93,0%	77.6%

BREAKDOWN OF COLLATERAL AND GUARANTEES

	31.12.2017 Value of collateral received			
	Real estate collateral €΄000	Financial collateral €΄000	Other collateral €΄000	Total €΄000
Retail lending	836.177	19.498	2.962	858.637
Corporate lending	548.296	10.160	46.894	605.350
Public sector	-	540	50	590
Total	1.384.473	30.198	49.906	1.464.577

	31.12.2016 Value of collateral received			
	Real estate collateral €΄000	Financial collateral €΄000	Other collateral €΄000	Total €΄000
Retail lending	1.032.624	18.686	2.956	1.054.266
Corporate lending	623.739	49.915	5.779	679.433
Public sector	-	551	135	686
Total	1.656.363	69.152	8.870	1.734.385

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

31.12.2017							
			Balance sheet balances			**Disposals**	
	Value of collaterals repossessed 31.12.2017	of which in 2017	Accumulated impairment allowance 31.12.2017	of which in 2017	Carrying amount of collaterals repossessed 31.12 2017	Net disposal Value	Net gain/(loss) on disposal
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Real Estate	8.191	2.307	367	367	7.824	-	-

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	-	-

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

31.12.2017	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	**903.079**	**591.606**	**277.990**	**1.631**	**1.260**	**617**	**575.337**	**421.546**	**214.308**	**59.849**	**38.678**	**13.700**
Mortgage	584.431	356.350	157.930	1.458	1.150	557	563.398	409.932	207.892	58.658	37.675	13.018
Consumer	237.732	181.007	95.894	152	103	55	11.561	11.352	6.281	1.106	932	642
Credit cards	14.317	6.365	3.791	21	7	5	290	262	135	85	71	40
Small business loans	66.599	47.884	20.375	-	-	-	88	-	-	-	-	-
Corporate lending	**1.025.802**	**623.080**	**383.904**	**28.528**	**376**	**2.585**	**3.105**	**1.208**	**323**	**30.701**	**-**	**364**
Financial institutions	57.877	7.553	4.312	-	-	-	-	-	-	-	-	-
Manufacturing	41.625	34.198	19.254	326	-	18	1.896	-	-	-	-	-
Real estate development	77.762	32.254	19.422	-	-	-	-	-	-	-	-	-
Construction	577.122	381.212	250.100	396	-	133	1.209	1.208	323	440	-	-
Wholesale and retail trade	114.732	72.210	45.877	5.639	366	1.605	-	-	-	-	-	-
Transportation	3.892	3.813	2.160	20.504	-	251	-	-	-	-	-	-
Tourism	5.935	-	107	-	-	-	-	-	-	30.261	-	364
Services	75.704	40.699	12.666	1.279	2	544	-	-	-	-	-	-
Other sectors	22.480	21.360	11.215	31	7	7	-	-	-	-	-	-
Public sector	**594**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1.929.475**	**1.214.686**	**661.894**	**30.159**	**1.636**	**3.202**	**578.442**	**422.754**	**214.631**	**90.550**	**38.678**	**14.064**

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.)

31.12.2016	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.)

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

	31.12.2017		
	Interest income on non impaired loans and advances €´000	Interest income on impaired loans and advances €´000	Total interest income €´000
Retail lending	18.212	37.678	55.890
Corporate lending	20.906	19.954	40.860
Total interest income	39.118	57.632	96.750

	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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

ANALYSIS OF FORBORNE LOANS AND ADVANCES TO CUSTOMERS

	31.12.2017		
	Total amount of loans and advances €´000	Total amount of forborne loans and advances €´000	Forborne loans and advances (%)
Neither past due nor impaired	844.952	162.142	19,18
Past due but not impaired	105.920	49.555	46,78
Impaired	1.677.754	543.919	32,41
Total (before impairment)	2.628.626	755.616	28,74
Individual impairment allowance	(437.577)	(61.900)	14,14
Collective impairment allowance	(456.214)	(123.108)	26,98
Total net amount	1.734.835	570.608	32,89
Value of collateral	1.464.578	474.072	32,36

	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**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF FORBEARANCE

	31.12.2017 €΄000
Deferral of interest payment	3.945
Reduced payment schedule	13.294
Grace period	98.736
Extension of repayment schedule	22.756
Capitalisation of arrears	318.610
Partial write off of debt	31.850
Extension of repayment schedule and interest payment only	39.510
Other	41.907
Total net value	570.608

	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

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT LINE

	31.12.2017 €΄000	31.12.2016 €΄000
Retail lending		
Mortgage	363.855	382.671
Consumer	53.708	43.928
Credit card	-	1
Small business loans	15.557	13.553
	433.120	440.153
Corporate lending		
Large	127.783	130.351
SME's	9.705	8.496
	137.488	138.847
Total net value	570.608	579.000

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FORBORNE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHIC AREA

	31.12.2017 €΄000
Cyprus	416.776
Greece	386
Other European countries	128.011
Other countries	25.435
Total net value	570.608

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

OTHER RECEIVABLES

31.12.2017	**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	-	171	-	-	171
A- to A+	-	35.806	-	2.128	37.934
Lower than A-	231.138	530.791	6.942	131.789	900.660
Unrated	-	-	-	3.860	3.860
Not past due nor impaired	**231.138**	**566.768**	**6.942**	**137.777**	**942.625**
31.12.2016					
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**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

BALANCES WITH CENTRAL BANKS – DUE FROM BANKS – DERIVATIVE FINANCIAL INSTRUMENTS – BASED ON CREDIT RATING

	31.12.2017				
	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	231.138	566.768	6.942	137.777	942.625
Past due but not impaired	-	-	-	-	-
Impaired	-	-	-	-	-
Exposure value before impairment	231.138	566.768	6.942	137.777	942.625
Less:					
Accumulated impairments	-	-	-	-	-
Net exposure value	231.138	566.768	6.942	137.777	942.625

	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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FINANCIAL ASSETS SUBJECT TO CREDIT RISK – Analysis by sector

	31.12.2017												
	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	231.138	-	-	-	-	-	-	-	-	-	**231.138**	-	**231.138**
Due from banks	566.768	-	-	-	-	-	-	-	-	-	**566.768**	-	**566.768**
Loans and advances to customers	58.143	49.066	78.952	586.060	135.124	594	25.233	80.809	119.366	1.495.279	**2.628.626**	893.791	**1.734.835**
Derivative financial assets	6.942	-	-	-	-	-	-	-	-	-	**6.942**	-	**6.942**
Investment securities available for sale	5.988	-	-	-	-	131.789	-	-	-	-	**137.777**	-	**137.777**
Total value of on balance sheet items subject to credit risk (a)	**872.456**	**49.066**	**78.952**	**586.060**	**135.124**	**132.383**	**25.233**	**80.809**	**119.366**	**1.495.279**	**3.574.728**	**893.791**	**2.680.937**
Other on balance sheet items not subject to credit risk	64.234	-	-	-	-	-	-	-	-	-	**64.234**	367	**63.867**
Total assets	**936.690**	**49.066**	**78.952**	**586.060**	**135.124**	**132.383**	**25.233**	**80.809**	**119.366**	**1.495.279**	**3.638.962**	**894.158**	**2.744.804**
Credit risk exposure related to off-balance sheet items:													
Letters of guarantee, Letters of Credit	**8.956**	**1.712**	**1.547**	**7.541**	**23.967**	**-**	**184**	**1.651**	**6.884**	**1.176**	**53.618**	**-**	**53.618**
Undrawn facilities and credit limits that cannot be revoked	**1.015**	**20.874**	**3.438**	**12.388**	**30.040**	**-**	**1.205**	**3.854**	**17.961**	**39.928**	**130.703**	**-**	**130.703**
Total value of off balance sheet items subject to credit risk (b)	**9.971**	**22.586**	**4.985**	**19.929**	**54.007**	**-**	**1.389**	**5.505**	**24.845**	**41.104**	**184.321**	**-**	**184.321**
Total value of exposure subject to credit risk (a+b)	**882.427**	**71.652**	**83.937**	**605.989**	**189.131**	**132.383**	**26.622**	**86.314**	**144.211**	**1.536.383**	**3.759.049**	**893.791**	**2.865.258**

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**
Other assets	2.226	-	-	-	-	-	-	-	-	-	**2.226**	-	**2.226**
Total value of on balance sheet items subject to credit risk (a)	**554.293**	**54.075**	**80.370**	**642.008**	**126.136**	**115.200**	**10.108**	**80.831**	**93.618**	**1.641.549**	**3.398.188**	**856.529**	**2.541.659**
Other on balance sheet items not subject to credit risk	54.756	-	-	-	-	-	-	-	-	-	**54.756**	-	**54.756**
Total assets	**609.049**	**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)	**560.874**	**71.196**	**83.947**	**663.733**	**168.153**	**115.214**	**13.295**	**86.580**	**125.578**	**1.681.828**	**3.570.398**	**856.529**	**2.713.869**

35. RISK MANAGEMENT (cont.)

35.2 Market risk

Market risk is the risk of losses arising from unfavourable changes in the value or volatility of interest rates, foreign exchange rates, stock exchange indices, equity prices and commodities. Losses may also occur either from the trading portfolio or from the Assets-Liabilities management.

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

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.
Interest rate risk management is carried out on a monthly basis and in accordance with policies and procedures for the management of assets and liabilities.

The 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. In addition, receivables or payables that do not have a contractual maturity date or interest redefinition date are spread over a period of time based on a statistical study of the movement of those accounts.

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)	Equity sensitivity (€'000)
+200 basis points	23.379	-2.238
-200 basis points	1.907	-

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.1 INTEREST RATE RISK AT 31 DECEMBER 2017

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	231.138	-	-	-	-	-	18.655	249.793
Due from banks	566.707	61	-	-	-	-	-	566.768
Investment securities available for sale	32.088	56.157	62	-	30.003	9.000	10.467	137.777
Derivative financial assets	6.942	-	-	-	-	-	-	6.942
Loans and advances to corporates	266.742	344.098	55.545	10.226	66.317	-	-	742.928
Loans and advances to individuals	617.608	317.921	26.036	6.902	23.440	-	-	991.907
Property, plant and equipment and Intangible assets	-	-	-	-	-	-	25.143	25.143
Deferred tax assets and other assets	-	-	-	-	-	-	23.546	23.546
Total Assets	**1.721.225**	**718.237**	**81.643**	**17.128**	**119.760**	**9.000**	**77.811**	**2.744.804**
LIABILITIES								
Due to banks	65.478	2.640	2.375	-	-	-	-	70.493
Due to customers	342.953	253.677	369.781	872.695	300.821	64.983	-	2.204.910
Subordinated bonds	247	116.015	-	-	-	-	-	116.262
Derivative financial liabilities	18	-	-	-	-	-	-	18
Other liabilities and provisions	-	-	-	-	-	-	24.686	24.686
Total Liabilities	**408.696**	**372.332**	**372.156**	**872.695**	**300.821**	**64.983**	**24.686**	**2.416.369**
EQUITY								
Share capital	-	-	-	-	-	-	148.303	148.303
Convertible capital securities	-	-	-	-	-	-	64.000	64.000
Share premium	-	-	-	-	-	-	90.467	90.467
Reserves	-	-	-	-	-	-	5.187	5.187
Retained earnings	-	-	-	-	-	-	20.478	20.478
Total Equity	**-**	**-**	**-**	**-**	**-**	**-**	**328.435**	**328.435**
Total Liabilities and Equity	**408.696**	**372.332**	**372.156**	**872.695**	**300.821**	**64.983**	**353.121**	**2.744.804**
OPEN EXPOSURE	**1.312.529**	**345.905**	**(290.513)**	**(855.567)**	**(181.061)**	**(55.983)**	**(275.310)**	**-**
CUMULATIVE EXPOSURE	**1.312.529**	**1.658.434**	**1.367.921**	**512.354**	**331.293**	**275.310**	**-**	**-**

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.)

35.2.2 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.

The open foreign exchange position during 2017 was low, therefore the impact on the Bank's income from exchange rate fluctuations is negligible and therefore no preparation of alternative exchange rate scenarios is deemed necessary.

Foreign currency position (€'000) 31.12.2017							
	USD	**GBP**	**JPY**	**CHF**	**Other**	**Euro**	**Total**
Total assets	81.743	66.266	37.698	726.259	1.344	1.831.494	2.744.804
Total liabilities and equity	(70.895)	(25.686)	(16.550)	(294.620)	(1.205)	(2.335.848)	(2.744.804)
On balance sheet fx position	10.848	40.580	21.148	431.639	139	(504.354)	
Derivatives forward foreign exchange position	(10.840)	(40.576)	(21.110)	(431.550)	-	504.076	
Total Foreign exchange position	**8**	**4**	**38**	**89**	**139**	**(278)**	

Foreign currency position (€'000) 31.12.2016							
	USD	**GBP**	**JPY**	**CHF**	**Other**	**Euro**	**Total**
Total assets	71.510	83.703	42.796	828.490	1.259	1.568.657	2.596.415
Total liabilities and equity	(82.886)	(26.393)	(26.549)	(304.241)	(1.177)	(2.155.169)	(2.596.415)
On balance sheet fx position	(11.376)	57.310	16.247	524.249	82	(586.512)	
Derivatives forward foreign exchange position	11.384	(57.231)	(16.208)	(524.257)	-	586.312	
Total Foreign exchange position	**8**	**79**	**39**	**(8)**	**82**	**(200)**	

35. RISK MANAGEMENT (cont.)

35.3 Counter party and country risk

Counterparty risk is the risk of default of the counterparty's contractual obligations prior to the final settlement of the cash flows of its existing transactions with the Bank.

Country risk concerns all the risks associated with investment in a country. The country risk relates to the direct exposure which includes the exposure to the Central Government, the Public Sector and the Central Bank and the indirect exposure which concerns the financing of companies or Group of companies in the country and the exposure to banking sector.

Loss will arise when all transactions have a positive value for the Bank at the time of default of the counterparty's contractual obligations.

35.4 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.

During 2017, all supervisory liquidity ratios fluctuated beyond the minimum supervisory limit.

The Bank calculates and monitors the euro and foreign currency liquidity ratios as well as the Liquidity Coverage Ratio (LCR) according to the relevant instructions of the Central Bank of Cyprus and the European Banking Authority.

The liquidity ratio calculates the liquid assets as a percentage of customer deposits and other liabilities with maturity up to 12 months. The foreign currency liquidity ratio calculates the net liquid assets as a percentage of foreign currency customer deposits.

The liquidity coverage ratio (LCR) examines the adequacy of liquid assets as a percentage of net outflows over the next 30 days under stressed conditions. Liquid assets should be sufficient to cover outflows for a minimum of 30 days.

35. RISK MANAGEMENT (cont.)

35.4 Liquidity risk (cont.)

2017	31.12.2017 %	Year highest %	Year lowest %	Year average %	Regulatory limit 31.12.2017 %
Euro	36,94	36,94	24,98	32,30	18,00
Foreign currency	74,22	77,01	74,06	74,77	50,00
Liquidity Coverage Ratio (LCR)	1164,70	1164,70	410,25	670,26	80,00

2016	31.12.2016 %	Year highest %	Year lower %	Year average %	Regulatory limit 31.12.2016 %
Euro	25,29	26,22	21,39	23,93	20,00
Foreign currency	74,02	74,02	70,46	72,65	70,00
Liquidity Coverage Ratio (LCR)	678,86	702,11	318,45	524,47	70,00

35. RISK MANAGEMENT (cont.)

35.4 Liquidity risk (cont.)

31.12.2017	Balance Sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
Assets	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	
Cash and balances with Central Banks	249.793	249.793	-	-	-	-	
Due from banks	566.768	565.604	1.164	-	-	-	
Investment securities available for sale	137.777	124.598	-	-	-	13.179	
Derivative financial assets	6.942	6.942	-	-	-	-	
Loans and advances to customers net of impairments	1.734.835	64.001	95.951	91.363	152.378	1.331.142	
Investment properties	2.023	2.023	-	-	-	-	
Property, plant and equipment	22.580	22.580	-	-	-	-	
Intangible assets	540	540	-	-	-	-	
Deferred tax asset	12.245	12.245	-	-	-	-	
Other assets	11.301	11.301	-	-	-	-	
Total Assets	**2.744.804**	**1.059.627**	**97.115**	**91.363**	**152.378**	**1.344.321**	
Liabilities							
Subordinated bonds	116.262	-	1.096	100.694	1.736	17.681	121.207
Due to banks	70.493	19.736	4.275	7	26	46.977	71.021
Due to customers	2.204.910	166.116	273.048	383.772	902.410	490.267	2.215.613
Derivative financial liabilities	18	-	-	-	-	-	-
Inflows		4.273					4.273
Outflows		(4.255)					(4.255)
Other liabilities	24.686	24.686	-	-	-	-	24.686
Total liabilities	**2.416.369**	**210.556**	**278.419**	**484.473**	**904.172**	**554.925**	**2.432.545**
Off Balance Sheet items							
Letter of guarantees	48.165	10.833	6.289	4.306	22.230	4.507	48.165
Undrawn Credit facilities	136.156	27.231	108.925	-	-	-	136.156
Total Off Balance sheet items	**184.321**	**38.064**	**115.214**	**4.306**	**22.230**	**4.507**	**184.321**

1. Liabilities are presented based on their estimated maturity payment date.

35. RISK MANAGEMENT (cont.)

35.4 Liquidity risk (cont.)

31.12.2016	Balance Sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
Assets	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	
Cash and balances with Central Banks	191.873	191.873	-	-	-	-	
Due from banks	292.229	62.102	230.127	-	-	-	
Investment securities available for sale	117.829	106.378	-	-	-	11.451	
Derivative financial assets	144	-	-	-	-	144	
Loans and advances to customers net of impairments	1.946.360	65.096	99.373	103.787	130.510	1.547.594	
Investment properties	2.023	2.023	-	-	-	-	
Property, plant and equipment	23.113	23.113	-	-	-	-	
Intangible assets	570	570	-	-	-	-	
Deferred tax asset	14.164	14.164	-	-	-	-	
Other assets	8.110	8.110	-	-	-	-	
Total Assets	**2.596.415**	**473.429**	**329.500**	**103.787**	**130.510**	**1.559.189**	
Liabilities							
Subordinated bonds	116.331	-	1.109	704	2.980	121.220	126.013
Due to banks	102.563	2.106	5.458	17	54	95.762	103.397
Due to customers	1.940.628	163.709	334.484	367.638	502.064	583.207	1.951.102
Derivative financial liabilities	7.467	-	-	-	-	-	-
Inflows		572.679					572.679
Outflows		(565.390)					(565.390)
Other liabilities	18.597	18.597	-	-	-	-	18.597
Total liabilities	**2.185.586**	**191.701**	**341.051**	**368.359**	**505.098**	**800.189**	**2.206.398**
Off Balance Sheet items							
Letter of guarantees	46.853	14.900	3.818	18.682	3.989	5.464	46.853
Undrawn Credit facilities	125.357	25.071	100.286	-	-	-	125.357
Total Off Balance sheet items	**172.210**	**39.971**	**104.104**	**18.682**	**3.989**	**5.464**	**172.210**

1. Liabilities are presented based on their estimated maturity payment date.

35. RISK MANAGEMENT (cont.)

35.5 Operational risk

Operational risk is the risk of loss from inadequate or failed internal processes and IT systems, people (intentionally or unintentionally) and external events. Operational risk also includes legal risk.

The Bank recognizes the need to identify, assess, monitor and reduce the inherent operational risk in its operations, as well as the need to provide sufficient capital to address this risk.

To this end, the Bank, in cooperation with the Group, has established an Operational Risk Management Framework which includes, inter alia, the following issues:

- Operational Risk Governance Structure under which the overall supervision of Operational Risk Management is exercised by the Board of Directors of the Bank
- The Operational Risk Management committee, which oversees the implementation of the Bank's Operational Risk Management Policy and the activities and actions related to the effective management of the operational risk
- Collection and management of operational risk events including the management of bankruptcy proceedings against the Bank
- Set and monitor of operational risk indicators for specific activities of the Bank
- Techniques for identifying and evaluating operational risks, including the process risk control self-assessment
- Introduction of operational risk mitigation techniques relating to both the implementation of action plans that improve the existing internal control system and the protection against specific risks
- Creation and submition of reports
- The calculation of the Bank's capital requirements against operational risks

The Framework is reviewed by the Bank's competent Division in cooperation with the relevant Division of the Group if deemed necessary.

In 2017, for the purpose of calculating capital requirements for the Operational Risk, the Bank has adopted the standardized approach and fulfils all qualify requirements set therein for the transition to the said approach.

Additionally, during the year, in the context of improving the operational risk management framework, the revision of the Fraud Risk Management Policy has been finalized, while the revised outsourcing policy has also been implemented, through which the assessment practices are strengthened.

Lastly, as a standard practice, the Bank implemented during the year the Risk Control Self-Assessment (RCSA) process in accordance with the overall planning . In the context of this process, potential operational risk exposures are identified and assessed and corrective action plans are introduced.

35. RISK MANAGEMENT (cont.)

35.6 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.

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.

35.7 Transfers – Pledge of financial assets

On 31 December 2017, the bank had encumbered “Loans and advances to customers” of net book value €198 mil. to Alpha Bank A.E. to obtain liquidity. (31.12.2016: €231 mil.). The Bank maintains mandatory placements with the Central Bank of Cyprus amounting to €21.449 thous. for liquidity purposes.

35.8 Offsetting financial assets / liabilities

At 31 December 2017 there were derivative transactions of receivables of €6.942 thous. (2016: 144 thous.) and payables of €18 thous. (2016: 7.467 thous), which are governed by ISDA, the International Swap and Derivatives Association, signed with Alpha Bank A.E.
Under the contract, the Bank may offset claims against its counterparty liabilities in the event of a credit event. In addition to the provisions of the above set-off transaction, the Bank has received a cash collateral covering the exposure for 2017. In 2016 there was no cash collateral.

36. ECONOMIC ENVIRONMENT

Cyprus economy

Achievements

Cyprus, following its exit from the Economic Adjustment Program in 2016, is experiencing a very strong economic recovery. It is worth noting that it has achieved positive rates of change in GDP over the last 12 consecutive (12) quarters.

The economy recorded remarkable performance in 2017. GDP grew by 3,9% compared with 3,4% in 2016. Debt fell marginally below 100% of GDP, unemployment fell below 11%, compared with 13% in 2016, while inflation recorded for the first time positive sign, resulting in 0,7%.

The strong performance of the economy is attributable to the strong private consumption, strong growth in exports and, to a lesser extent, the public consumption. Private consumption benefited from the rapid expansion of employment across all sectors of the economy, which led to a significant fall in unemployment.

Tourism, services and shipping are the main contributors of the growth. Tourism records new high returns of both arrivals and revenues. The arrivals increased by 15,0% while the revenue by 11,7%.

In September 2017, the Cypriot economy was upgraded by the International rating agency Standard and Poor's to BB +, keeping them only one notch below investment grade. BB+ rating has been confirmed through an updated rating in March 2018. It is noted that the remaining rating agencies preserve the Cyprus economy one notch below the rating of S&P.

Forecasts

According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,2% in 2018 and 2,8% in 2019. It is also expected that investments will increase mainly in tourism and constructions.

Inflation is projected to increase to 1,2% in 2018 and to 1,3% in 2019, mainly due to rising oil prices as well as increase in consumption driven by the stronger wages.

Due to the performance of the Cypriot economy, it is expected that the international rating agencies will keep the Republic of Cyprus close to the investment grade, resulting in positive results both in borrowing from international markets and in lending costs

According to Moody's international rating agency forecasts, a positive economic environment will support the reduction of non-performing loans.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans

36. ECONOMIC ENVIRONMENT (cont.)

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. Following the large increase in deposits by 6,2% in 2016, deposits grew by 0,8% despite the low deposit interest rates. The increased confidence in the banking system is the result of positive economic performance, and its upgrading by international rating agencies.

Banks continue the deleveraging efforts, which resulted in 7,1% decrease in lending compared to 2016. A large percentage of the decline is due to the Debt to Asset swap solutions.

In 2017, there is a significant disbursement of new credit facilities that support help significantly growth of the economy.

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

The application of the IFRS 9 from 1.1.2018, which differentiates the way in which financial assets are classified, measured and impaired, is a new challenge for the banking system.

Operating environment of the parent company.

2017 is considered a year of recovery for the Greek economy, as economic activity strengthened, especially after the successful conclusion of the 2nd Review, the 5-year government bond issuance - after three years of the Greece's absence from the markets - and the country's credit ratings upgrade from international rating agencies. The GDP growth rate in 2017 stood at 1,4% (ELSTAT, first estimate), from -0,2% in 2016 (constant prices 2010, seasonally adjusted data).

The main factors that supported the economy in 2017 were the following:

- The Greek economy exporting dynamics, mainly in the services sector. Exports of goods and services increased by 13,5% yoy in 2017, against a fall by 6,1% in 2016.

- The strengthening of the industrial production. In 2017, industrial production increased by 4,1%, yoy, against a smaller increase by 2,5% in 2016.

- The unemployment rate decline. The unemployment rate in Greece, though it remains at a high level compared to the EU average, is on a downward trend since its peak in July 2013.

Despite the positive development of short-term indicators, the current favorable international environment, as it is defined by the enhanced growth prospects of Europe and the supportive monetary policy of ECB, main challenges arise ahead for the Greek economy, which will determine its recovery prospects in the long run. These challenges are the following:

First, the specification of the debt relief measures, as described at the Eurogroup in spring 2016. Second, the above development, combined with the creation of a cash buffer in order for Greece to cover its financing needs at least until the end 2019, will set the scene for a smooth and sustainable access of the Greek state to the markets. Third, the speed-up of the privatization programme and the projected infrastructure projects, in combination with the absorption of the EU structural funds. This will trigger the attraction of new investments and lead to the revival of Greek businesses.

36. ECONOMIC ENVIRONMENT (cont.)

In 2018, the prospects of the Greek economy appear to be positive. The conclusion of the 3rd Review and the positive assessment for the closure of the third Economic Adjustment Programme in August, are expected to strengthen confidence in the economy. GDP growth rate is expected to hover at 2,4% (Bank of Greece’s estimate, Feb. 2018) and the economic expansion will be supported by exports, investment and private consumption. The increase of private investment will be strengthened, reflecting the further restoration of confidence and the easing of liquidity conditions in the economy. Significant challenges though do exist, relating to both internal and external factors. In the domestic environment, possible delays in the implementation of the reforms and privatization programme could hurdle recovery prospects. In the external environment, risks and uncertainties arise from potential geopolitical tensions.

Challenges and uncertainties

Non-performing exposures and private debt remain the main factor of instability for banking sector and the economy. Public debt is also a challenge, despite its decline below 100% of GDP

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.

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

	31.12.2017				
	Level 1	Level 2	Level 3	Total fair value	Total book value
	€΄000	€΄000	€΄000	€΄000	€΄000
Financial assets					
Loans and advances to customers	-	-	1.821.611	1.821.611	1.734.835
Financial liabilities					
Subordinated bonds	-	98.750	16.042	114.792	116.262
Due to customers	-	-	2.200.736	2.200.736	2.204.910

	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

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

	31.12.2017			
	Level 1	Level 2	Level 3	Total fair value
	€΄000	€΄000	€΄000	€΄000
Financial Assets				
Investment securities available for sale	-	133.917	3.860	137.777
Derivative financial assets	-	6.942	-	6.942
Financial liabilities				
Derivative financial liabilities	-	18	-	18

	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

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 different levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 2017	**1.651**
Total gain or loss recognized in Income Statement	
Total gain or loss recognized in equity	2.209
Purchases/Disposals	-
Transfers to/from Level 3	-
31 December 2017	**3.860**
Amounts included in the Income Statement for financial instruments held at the end of the reporting year.	-

	Investment securities available for sale €΄000
1 January 2016	1.651
Total gain or loss recognized in Income Statement	-
Total gain or loss recognized in equity	-
Purchases/Disposals	
Transfers to/from Level 3	-
31 December 2016	1.651
Amounts included in the Income Statement for financial instruments held at the end of the reporting year.	-

The fair value of non listed shares, as well as shares not traded in an active market is determined either with the multiple valuation or with the estimations made by the Group which relate to the future profitability of the issue, as well as the net equity of the issuer

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 A.E, which is considered to be a systemic credit institution by the Single Supervisory Mechanism of the European Central Bank. Supervision is overseen along with the support of local supervisory authorities. The Central Bank of Cyprus within the context of its supervisory role, has adopted the European Guidelines for banking supervision.

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 was incorporated into Cypriot legislation, sets out the capital requirements and minimum capital requirements that financial institutions should maintain, as well as the practices to be followed in governance, remuneration, 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 years 2016, 2017 and for the 1st and 2nd quarters of 2018.

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 4.8.2017 the Central Bank of Cyprus informed the Bank through a letter that it has been classified as Other Systemically Important Institution (O-SII) and set 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 December 2016, the European Central Bank (ECB) notified to the Bank its final decision on the Overall Capital Ratio (OCR) to be kept on a continuous basis for the year of 2017. This ratio was set at 8,0% for Pillar I requirements, 1,25% for the conservation buffer and 3% for Pillar II.

Accordingly for 2018, the requirements under the ECB Decision have not changed except for the addition of 0,625% for the gradual increase of the capital conservation reserve.

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 2017 are analyzed below:

	31.12.2017 €΄000 Basel III	31.12.2016 €΄000 Basel III
Regulatory Capital		
Transitional Common Equity Tier I	**251.758**	**334.361**
Additional Tier I	63.892	63.772
Total Tier I	**315.650**	**398.133**
Tier II	13.980	38.347
Total transitional capital	**329.630**	**436.480**
Total risk weighted assets	**1.821.713**	**2.025.743**
Transitional Common Equity Tier I ratio	**13,8%**	**16,5%**
Transitional Tier I ratio	**17,3%**	**19,7%**
Transitional total capital adequacy ratio	**18,1%**	**21,5%**

The European Central Bank (ECB) will run a stress-testing exercise in 2018. This will be conducted by European Banking Authority (EBA) for the largest European banks and by ECB for the banks which are not included in the first group. The results of the stress testing exercise will be factored into the overall assessment within the 2018 Supervisory Review and Evaluation Process (SREP). Alpha Bank Group has been selected to participate in the stress test exercise of ECB, which is expected to be launched at the beginning of 2018 while results are to be announced in May 2018.

Regarding the impact of the application of IFRS 9, the Bank will make use of the transitional provisions under which the impact of the application of the new standard will be absorbed within five years. Based on the above, the Common Equity Tier 1 (CET 1) ratio is estimated to be affected by approximately 10 basis points for the first year, while the impact from full implementation is estimated at approximately 270 basis points based on 31.12.2017 data.

A detailed description of the actions and decisions for IFRS 9 as well as the effect of its adoption is made in note 41 of the Financial Statements.

38. CAPITAL ADEQUACY (cont.)

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 2017 stands at 11,4% (with transitional provisions) compared to 15,2% for 2016. The minimum leverage ratio of 3%, which becomes effective 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 2017.

During the period covering from 31 December 2017 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

	31.12.2017 €΄000	31.12.2016 €΄000
Loans and advances to Board of Directors members and related parties	113	58
Deposits by Board of Directors members and related parties	516	806

	From 1 January to	
	31.12.2017	31.12.2016
Non executive Directors		
Board members fees	148	138
Executive Directors		
Salaries and benefits	325	459
Social insurance contributions by employer etc.	14	19
Retirement benefits	12	10
Total remuneration for executive directors	351	488

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.

	31.12.2017 €΄000	31.12.2016 €΄000
Loans and advances to key management personnel and related parties	382	493
Deposits by key management personnel and related parties	883	911
	From 1 January to	
	31.12.2017	31.12.2016
Salaries and benefits	576	570
Social insurance contributions by employer etc.	29	54
Retirement benefits	12	27
Total remuneration to key management personnel	617	651

(c) Transactions with parent company

During the year, the parent company Alpha Bank A.E. has granted guarantees totaling €25.839 thous. (2016: €27.416 thous.) in relation to loans and advances granted to specific clients.

	31.12.2017 €΄000	31.12.2016 €΄000
Assets		
Due from banks	530.682	233.512
Derivative financial assets	6.942	144
	537.624	233.656
Liabilities		
Due to banks (Note 23)	48.821	83.172
Derivative financial liabilities	18	7.467
Subordinated bonds	29.062	29.725
Convertible capital securities	64.000	64.000
Other liabilities	605	206
	142.506	184.570

40. RELATED PARTY TRANSACTIONS (cont.)

(c) Transactions with parent company (cont.)

	From 1 January to	
	31.12.2017	31.12.2016
	€´000	€´000
Income		
Interest and similar income	2.754	3.304
Gain on financial transactions	2.200	421
	4.954	3.725
Expenses		
Interest expense and similar income	736	1.680
Loss on financial transactions	-	-
Staff costs	604	393
	1.340	2.073

On 14.5.2015 the bank pledged in favor of Alpha Bank A.E, "Loans and advances to customers" as collateral for liquidity obtained. On 31.12.2017, the book value of the collateral amounted to €198 mil.

40. RELATED PARTY TRANSACTIONS (cont.)

(d) Transactions with Alpha Bank Group companies

	31.12.2017	31.12.2016
	€´000	€´000
Assets		
Due from banks	30	28
Other assets	549	198
	579	226
Liabilities		
Due to customers	13.661	47.456
Subordinate bonds	31.162	29.736
Other liabilities	3.782	1.998
	48.605	79.190

	From 1 January to	
	31.12.2017	31.12.2016
	€´000	€´000
Income		
Interest and similar income	1	-
Fees and commission income	21	2
Other income	3.074	3.135
	3.096	3.137
Expenses		
Interest expense and similar charges	988	1.851
Fees and commission expense	7	-
Other expenses	628	106
	1.623	1.957

(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 and 2017.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9

The new accounting standard IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018, which impose fundamental changes in the way financial instruments are classified and measured. For the application of the new standard, the Bank has launched an Implementation Program, which was organized around two main work streams, the classification and measurement work stream and the impairment work stream.

On the completion of the Implementation Program, new policies have been developed for the classification, measurement and impairment of financial instruments that have been approved by the Board of Directors. New methodologies and procedures have also been developed to support these new policies.

Key decisions taken are briefly described in the following paragraphs:

Classification and measurement work stream

In line with the new standard, the IAS 39 classification categories of financial assets (fair value through profit or loss, available for sale, held to maturity and amortized cost) will be replaced by:

- Financial assets measured at amortized cost
- Debt securities measured at fair value through other comprehensive income, with gain or losses recycled to profit or loss on derecognition
- Equity intsruments measured at fair value through other comprehensive income, with gain or losses on derecognition not recycled to profit or loss
- Financial assets measured at fair value through profit and loss.

Based on the above, the existing portfolio on 1.1.2018, has been classified as follows:

- Loans and advances to customers and due from banks will be included in business models that permit the classification of instruments at amortized cost (hold to collect), to the extent that from the assessment of their contractual terms it is concluded that their contractual cash flows meet the definition of principal and interest as defined by the new Standard (SPPI test). Upon transition, there were no Loans and advances to customers that failed the SPPI test.
- For bonds the Bank has identified the following business models:
  - business model that aims to hold the financial instruments in order to collect their contractual cash flows (hold to collect),
  - business model, that aims to both collect the contractual cash flows and sell the financial asset (hold to collect and sell)
  - trading portfolio

During the transition to the new standard, all bonds were classified into the business model, whose objective is achieved both by collecting contractual cash flows and by selling financial assets and, therefore, to the extent that their cash flows were solely principal and interest on the principal amount outstanding, were classified in the fair value through other comprehensive income category.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

The Bank has opted to measure at fair value through other comprehensive income, its equity instruments in the banking sector or private equity participations and long term equity holdings that meet the definition of an equity instruments. The changes in fair value as well as any gains or losses are recognized directly in equity without being recycled to profit or loss.

- Derivatives included in the trading portfolio have not been affected as they are measured at fair value through profit or loss both before and after the implementation of IFRS 9.

Financial liabilities are measured at amortized cost; thus they are not affected by the implementation of IFRS 9 and there was no need to separately measure or present changes in fair value due to credit risk.

It is noted that the Bank will reassess the business models at each reporting date. The reassessment of the business model has been established in order to verify whether there is a change in the inputs that determine the classification of the financial instruments. In this context, realized sales as well as expected future sales will be monitored and documented. Information on the frequency, value and cause of sales is collected for further assessment. Disposals performed due to credit risk deterioration do not affect the classification in the hold to collect business model. It is noted that the business models are determined by the Executive Committee (ExCo) which decide on the potential identification of a new business model for both the loan and the securities portfolio.

With regards to the assessment of retail loans contractual cash flows, these will be assessed at product level due to the standardization of these loans. On the other hand, for loans in the wholesale portfolio, the assessment will be performed at an individual level as part of the approval process. With regard to treasury products, the assessment of the contractual cash flows is carried out by the Finance Divisions in cooperation with the Treasury Management Division. It is noted that the granting of loans or the investment in debt securities, whose cash flows are not solely principal and interest on the principal amount outstanding, require the approval of the Executive Committee (ExCo).

Impairment work stream

The application of IFRS 9 significantly modifies the method of calculating the Bank's impairment losses on financial instruments. IFRS 9 introduces a model of expected credit loss that replaces the current IAS 39 incurred loss model. The new requirements eliminate the IAS 39 criterion according to which credit risk losses were recognized only after the occurrence of a credit event.

In accordance with IFRS 9, the Bank should recognize an allowance for expected credit losses for loans and other financial assets that are not classified in the fair value through profit and loss category, as well as for off-balance sheet exposures (Letters of Guarantee, Letters of Credit, and Undrawn Loan Commitments).

The loss allowance will be based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition.

In addition, if the financial asset falls under the definition of a purchased or originated credit-impaired (POCI) financial asset, a loss allowance equal to the lifetime expected credit loss will be recognized.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

i. Loans and advances to Customers

a. Change in default definition

In the context of the transition to IFRS 9, the Bank has harmonized the definition of Default for both accounting and regulatory purposes by adopting the definition of Non-Performing Exposures and satisfying in this way the regulatory requirements. The definition of Non-Performing Exposures takes into account the definition of default in accordance with Article 178 of the European Union Regulation 575/2013 as well as the EBA Guidelines (GL / 2016/07), the full application of which is applicable from the end of 2020.

The definition of default under IFRS 9 will be consistent with the one used for internal credit risk management purposes, i.e. all exposures classified as Non-performing will be considered impaired and will be classified as Stage 3 or as credit-impaired at initial recognition.
The definition of Non-Performing Exposures is used to develop models for estimating credit risk parameters (Probability of Default, Loss Given Default, Exposure at Default).

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

The new standard uses a Stages approach that will reflect the changes in the credit risk of an exposure since its initial recognition. The adoption of this approach aims at: a) the timely recognition and measurement of credit losses before they incur, b) the classification of exposures depending on whether there is a deterioration in credit risk.

Credit-impaired at initial recognition include the following:

• Exposures that at the time of acquisition meet the criteria to be classified as Non-Performing Exposures.

• Exposures for which there has been a change in repayment terms, due to financial difficulty or not, which resulted in derecognition and recognition of a new impaired asset (POCI). If the exposure before the derecognition was classified as impaired the new loan will also be classified as POCI.

It is noted that an exposure classified as POCI remains POCI throughout its life.
For the remaining exposures not classified as POCI, Stage allocation is determined as follows:

Stage 1: At initial recognition of a loan, a loss allowance is measured based on 12 months Expected Credit Losses. Stage 1 includes exposures that do not have a significant increase in credit risk since initial recognition. Stage 1 also includes exposures for which credit risk has improved and the loan has been reclassified from Stages 2 or 3.
Stage 2: If a loan has a significant increase in credit risk since initial recognition and is not classified as Non Performing Exposure, the Bank will measure Expected Credit Losses over its lifetime. Stage 2 also includes exposures for which credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3: Includes credit impaired exposures. In this stage, lifetime Expected Credit Loss are recognised.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

i. Loans and advances to Customers (cont.)

c. Significant Increase in Credit Risk

In determining the significant increase in credit risk of an exposure since initial recognition (SICR) and the recognition of Lifetime expected Credit Losses instead of 12 months Expected Credit Losses, the Bank assesses, at each reporting date, the risk of default compared to the risk of default at initial recognition for all its performing exposures including those with no delinquencies.

The assessment of the significant increase in Credit Risk is based on the following:

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

d. Calculation of Expected Credit Loss

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

The Bank will calculate the expected credit losses based on the weighted probability of three scenarios to estimate the expected cash flows, which will be discounted using the effective interest rate.

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

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

i. **Loans and advances to Customers (cont.)**

d. Calculation of Expected Credit Loss (cont.)

- Probability of Default (PD): It is an estimate of the probability of a Debtor to default over a specific time horizon. A default may occur only at a specific time of the period under review, if the exposure was not prior derecognised and if it remains in the loan portfolio.
- For assessing the probability of default, the credit risk rating models assess a series of parameters that can be grouped as follows:
  - Financial Analysis: The Borrower's Financial Capacity (Liquidity Indicators, Debt to Revenue etc.)
  - Competitor's analysis: the borrower's comparative position in the market in which operates, mainly in relation to its competitors (mainly applicable to debtors of Wholesale Banking)
  - Current and historical debtor's behavioural data either towards the Bank or towards third parties (delinquencies, repayment behavior, etc.), and
  - Qualitative characteristics of the debtor (strong and sound management, management succession, appropriate facilities and equipment, etc.).

Credit Ratings will constitute the main input in order to determine the probability of default. The Bank will use statistical models in order to analyze the collected data and make estimates of the remaining probability of default over the life of the exposures and how they will evolve over time based, among other things, on macroeconomic variables (e.g. changes in GDP growth, unemployment rate and property prices etc.)

- Exposure at default (EAD): Exposure at Default is an estimate of the amount of the exposure at the time of the default taking into account: (a) expected changes in the exposure after the reporting date, including principal and interest payments; (b) the expected use of credit limits and (c) accrued interest. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit exposure equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF). The Credit Conversion factor of credit exposure is calculated based on statistical models. Except for credit cards and other revolving exposures, the maximum period for which credit losses are calculated is the remaining contractual maturity of a financial instrument unless the Bank has the legal right to recall the financial instrument earlier.

- Loss given default (LGD): Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received, including the liquidation of collaterals. It is usually expressed as a percentage of the exposure at default (EAD). The Bank divides Corporate and Retail Banking portfolios into smaller similar portfolios, in line with the key features associated with the assessment of future cash flows. The data used are based on historically collected data and include a broad set of transactional characteristics (for example product type and type of collateral) as well as debtor's characteristics. Recent data and possible future scenarios are also used to determine the IFRS 9 Loss Given Default (LGD) for each group of financial instruments.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

i. **Loans and advances to Customers (cont.)**

d. Calculation of Expected Credit Loss (cont.)

In determining the expected credit losses, the Bank will take into account 3 scenarios, a Base Scenario, an Upside Scenario and a Downside Scenario, as well as the cumulative probabilities of their occurrence .

Each of these scenarios is linked to different Probabilities of Default and / or different Losses Given Defaults (LGD).

e. Undrawn commitments

Undrawn loan commitments and letters of credit / letters of guarantee were measured in accordance with IAS 39 at the higher value between the amount of the provision (determined in accordance with IAS 37) when the outflow was considered probable and a reliable estimate was available ; and the amount initially recognized less accumulated amortization. According to IFRS9, these contracts fall within the scope for expected credit losses recognition.

In estimating the expected credit losses over the life of an undrawn loan commitment, the Bank will assess the expected part of the loan commitment that will be used throughout its expected life.

Credit cards and revolving exposures include both a loan and an undrawn commitment, for which the expected credit losses will be calculated together with the loan. However, for undrawn loan commitments and letters of credit / letters of guarantee, the expected credit losses will be recognized in Provisions.

f. Information on future conditions

The Bank produces forecasts for the possible evolution of macroeconomic variables that affect the level of expected credit losses of loan portfolios under a baseline and under alternative macroeconomic scenarios and also generates the cumulative probabilities associated with these scenarios. The macroeconomic variables affecting the level of expected credit losses are the Gross Domestic product (GDP), the unemployment rate and forward looking prices of residential and commercial real estates.

The production of the baseline scenario, supported by a consistent economic description, will represent the starting point and will constitute the most likely scenario according to the current economic conditions and the Bank's basic assessment of the course of the economy.

The cumulative probabilities of the macroeconomic scenarios for the Greek economy will indicate that the economy performs better or worse than forecasts based on the baseline scenario and the alternative scenarios, i.e. the upside and downside scenario.

g. Governance

The Credit Risk Committee is responsible for approving the Expected Credit Losses as well as the methodologies developed by the Group for calculating the expected credit loss (ECL Methodology) for loan portfolio.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

ii. <u>Impairment on Treasury products</u>

For debt treasury instruments that are measured at amortized cost or at fair value through other comprehensive income under IFRS 9, the impairment loss will be based on the expected credit losses associated with the probability of default within the next twelve months, unless there has been a significant increase in credit risk since initial recognition in which case the impairment loss recognized will be equal to the lifetime expected credit loss.

Significant Increase in Credit Risk

The Bank defines as low credit risk all investment grade securities, which will be classified in Stage 1 provided that they remain in this grade. The Bank will apply specific methodology and criteria to determine whether significant increase in credit risk has occurred since initial recognition for all non-investment grade debt securities.

The classification into stages for the purpose of Expected loss computation is based on the credit rating of rating agencies or, for corporate securities which are also included in loan portfolio, on the issuer's internal rating.

Determining the significant credit risk increase for non-investment grade securities is based on the following two conditions:

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

Additionally, the Bank will monitor the change in the credit spread since the initial recognition date.

A change in the credit spread at the reporting date that exceeds a specific threshold compared to the credit margin prevailing at the date of initial recognition is a trigger for reviewing the securities classification stage. Based on the result of the above review, the security remains in Stage 1 or is transferred to Stage 2, regardless of whether the original Stage 2 criteria have been met or not.

Calculation of Expected Credit Loss

For the calculation of the expected credit loss, the following parameters will be used:

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

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

Calculation of Expected Credit Loss (cont.)

A debt security will be recognized as purchased or originated credit-impaired (POCI) in the following cases:

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

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

Transition

The Bank will not restate the comparative information for 2017 for financial instruments that are within the scope of IFRS 9 and the differences arising from the adoption of IFRS 9 will be recognized directly in equity as at 1 January 2018.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

Estimated Impact from the implementation of IFRS 9

The following table includes the reconciliation of the transition from IAS 39 to IFRS 9 as of 1 January 2018.

	Balance at 31.12.2017	Reclassification	Estimated Valuation Impact	Balance under IFRS 9 at 1.1.2018
	€΄000	€΄000	€΄000	€΄000
ASSETS				
Cash and balances with central banks	249.793			249.793
Due from banks	566.768		(1.235)	565.533
Derivative financial assets	6.942			6.942
Loans and advances to customers, at amortized cost	1.734.835		(52.704)	1.682.131
Investment securities				
- Available for sale	137.777	(137.777)		-
- Fair value through other comprehensive income		137.777		137.777
LIABILITIES				
Due to banks	70.493			70.493
Derivative financial liabilities	18			18
Due to customers	2.204.910			2.204.910
Subordinated bonds	116.262			116.262
Other liabilities and provisions	24.686		1.709	26.395

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

Estimated Impact from the implementation of IFRS 9 (cont.)

The following table presents the estimated impact of the transition to IFRS 9 on Reserves and Retained earnings.

	€΄000
Reserve of AFS portfolio balance (IAS 39) Balance as at 31.12.2017	**4.587**
Reclassification of shares of the investment portfolio to fair value through other comprehensive income	(2.836)
Recognition of expected credit loss in accordance with IFRS 9 for bonds at fair value through other comprehensive income	196
Tax	
Balance as at 1.1.2018 in accordance with IFRS 9	**1.947**
Retained earnings IAS 39 Balance as at 31.12.2017	**20.478**
Expected credit loss in accordance with IFRS 9	(55.844)
Reclassification in accordance with IFRS 9 of shares of the investment portfolio to fair value through other comprehensive income	2.836
Tax	-
Balance at 1.1.2018 in accordance with IFRS 9	**(32.530)**

The following table presents loans and advances to customers measured at amortised cost by IFRS 9 stage as reported after the estimated impact of IFRS 9:

	Stage 1		**Stage 2**		**Stage 3**		**Loans impaired at initial recognition**		**Total loans and advances to customers at amortized cost**		
	Gross amount	**Expected Credit Losses**	**Gross amount**	**Expected Credit Losses**	**Gross amount**	**Expected Credit Losses**	**Gross amount**	**Expected Credit Losses**	**Gross amount**	**Expected Credit Losses**	**Net Value after impairment**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Retail lending	285.158	794	174.651	12.771	816.398	410.562	254.358	135.400	1.530.565	559.528	971.037
Corporate lending	223.602	1.401	191.732	1.301	540.486	285.299	130.561	87.880	1.086.381	375.881	710.500
Public sector	40	-	554	-	-	-	-		594	-	594
Total	508.800	2.195	366.937	14.072	1.356.884	695.861	384.919	223.280	2.617.540	935.409	1.682.131

In addition to the estimated Expected credit losses presented in the above table, a provision for Expected credit losses for off-balance sheet items has been accounted for amounting to €1.709 thous. As a result, total estimated provision for Expected credit losses amounts to €937.118 thous.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

Estimated Impact from the implementation of IFRS 9 (cont.)

"Loans impaired at initial recognition" include loans amounting to €19.020 thous. which as at 1.1.2018 are not credit impaired / Non Performing Exposures.

The total value before impairment and accumulated expected credit loss include the fair value adjustment for the loans and advances acquired on their fair value balance of € 158.062 thous. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions,

The following table presents investment securities at Fair value through Other Comprehensive Income by IFRS 9 stage as reported after the estimated impact of IFRS 9.

	Investment securities at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Loans impaired at initial recognition	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance at 1.1.2018 in accordance with IFRS 9	137.973	-	-	-	137.973
Expected Credit Losses	(196)	-	-	-	(196)

The Bank is continuing to assess, test and refine the new accounting processes, internal controls and governance framework necessitated by the adoption of IFRS 9. The new accounting policies, assumptions, judgments and estimations remain subject to change until the Bank finalizes its audited financial statements as at 31.12.2018. Therefore, the impact disclosed in these financial statements may be amended during 2018.

The tax recognition of the impact from the transition to IFRS 9 has not yet been clarified.

41. ESTIMATED IMPACT OF THE IMPLEMENTATION OF IFRS 9 (cont.)

Impairment work stream (cont.)

Supervisory impact of the implementation of IFRS 9

On October 25, 2017 a political agreement was reached between the European Parliament, the European Council and the European Commission on the proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 575/2013 regarding the transition period to mitigate the impact of the introduction of IFRS 9 on regulatory capital. The regulation (2395/2017) was adopted by the European Parliament and the Council and was published in the Official Gazzete of the European Union on 12 December 2017.

In accordance with the transitional provisions, it is allowed that banks may, from the first date of application of IFRS 9 and for a period of five years, add to the CET1 ratio the post-tax amount of the difference in provisions that will result from the transition to the new IFRS 9 in relation to the provisions that would have been recognized at 31.12.2017 in accordance with IAS 39 ("Static" amount). The amount of the difference in provisions to be added to CET1 ratio will decrease annually on a weighting basis so that the amount of provisions added to the CET1 ratio gradually decreases, until the full impact of IFRS 9 is absorbed by the end of the five-year period (phase-in). The weighting factors were set per year at 0,95 in the first year, 0,85 in 2nd, 0,7 in 3rd, 0,5 in 4th and 0,25 in the last year.

In addition, for a period of five years from the first application of IFRS 9, banks may add/restore to the CET1 ratio the amount, weighted annually with the aforementioned weighting factors, of the post-tax provisions of the impairment categories 1 & 2 at the date of the annual financial statements, to the extent that it exceeds the amount of the corresponding provisions at the date of initial application of IFRS 9 (1.1.2018). Impairment categories 1 and 2 are respectively defined as the expected impairment losses based on the 12 month expected credit losses and the lifetime expected credit losses, excluding credit-impaired financial instruments.

Alpha Bank has decided to make use of Article 473a of the above Regulation and will apply the transitional provisions for the calculation of Capital Adequacy. Based on the above, the Common Equity Tier 1 (CET 1) ratio is estimated to be affected by approximately 10 basis points for the first year, while the impact from the full implementation is estimated at approximately 270 basis points based on 31.12.2017 data.

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 2017.

The Annual Financial Report was approved for issue by the Board of Directors of the Bank on 23 March 2018.

Additional Risk Disclosures 2017
(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 31.12.2017 and 31.12.2016 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 one of the following criteria is satisfied:

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

A non-performing exposure with forbearance measures include the following:

- Exposures which were non-performing prior to the extension of forbearance measures; and
- Forborne exposures which have been reclassified from the performing exposures category, including exposures under probation (forborne performing having been reclassified out of the Forborne Non Performing Loan (FNPL) status) having been re-forborne or that are more than 30 days past-due.

Exposures include all on and off balance sheet exposures without the use of collaterals, excluding held for trading exposures

Definition of forborne exposure

An exposure is considered forborne when:

- the forbearance measure includes concessions towards a debtor facing or about to face financial difficulties.

Additional risks disclosures (cont.)
(Unaudited)
LOAN PORTFOLIO ANALYSIS – TABLE A

31 December 2017

	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	**594**	-	-	-	-	-	-	-
Other financial corporations	**59.457**	**17.773**	**12.488**	**12.427**	**4.523**	**4.369**	**1.087**	**1.087**
Non-financial corporations	**1.089.476**	**699.534**	**186.726**	**123.817**	**404.208**	**398.236**	**45.696**	**44.736**
of which: Small and medium-sized enterprises	1.064.629	699.534	186.105	123.817	403.731	398.236	45.658	44.736
of which: Commercial real estate	821.619	559.773	147.762	98.135	323.693	322.259	35.007	34.725
Non-financial corporations per sector	1.089.476	699.534			404.208			
Construction	597.763	417.057			257.456			
Wholesale and retail trade	133.760	85.093			51.749			
Hotel and restaurants	79.222	45.437			14.028			
Real estate	87.009	46.899			23.519			
Manufacturing	49.383	38.988			20.775			
Other	142.339	66.060			36.681			
Households	**1.479.099**	**1.007.513**	**556.402**	**434.262**	**485.060**	**470.198**	**158.225**	**153.227**
of which: Residential mortgage loans	938.000	552.691	420.690	320.907	242.287	231.278	120.407	117.561
of which: credit for consumption	154.251	108.495	25.279	19.222	59.699	58.045	5.536	5.073
Total	**2.628.626**	**1.724.820**	**755.616**	**570.506**	**893.791**	**872.803**	**205.008**	**199.050**

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 2016

	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	**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)

LOAN PORTFOLIO ANALYSIS PER LOAN ORIGINATION DATE – TABLE B

31 December 2017

	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	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	63.661	254	869	52.310	253	834	1	-	-	11.350	1	35
1 - 2 years	53.556	6.840	4.078	9.592	5.198	3.017	38.224	-	-	5.740	1.642	1.061
2 - 3 years	23.723	8.754	4.820	9.207	584	878	25	-	-	14.491	8.170	3.942
3 - 5 years	149.099	100.409	51.973	36.565	24.673	13.518	2.076	2.076	711	110.458	73.660	37.744
5 - 7 years	268.114	173.364	95.324	116.739	67.239	36.626	65	24	19	151.310	106.101	58.679
7 - 10 years	902.288	694.356	365.413	322.049	280.790	172.707	4.963	3.964	2.187	575.276	409.602	190.519
Over 10 years	1.167.591	740.843	371.314	543.015	320.797	176.628	14.101	11.709	1.605	610.475	408.337	193.081
Total	2.628.032	1.724.820	893.791	1.089.477	699.534	404.208	59.455	17.773	4.522	1.479.100	1.007.513	485.061
General Governments	594	-	-									
Total	2.628.626	1.724.820	893.791									

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 2016

	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	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)

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 2017	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'000
Assets				
Equity instruments	-	-	5.988	5.988
Debt securities	-	-	131.789	131.789
Other assets	198.223	198.223	2.653.773	2.740.549
Total	198.223		2.791.550	

31 December 2016	Carrying amount of encumbered assets €'000	Fair value of encumbered assets €'000	Carrying amount of unencumbered assets €'000	Fair value of unencumbered assets €'000
Assets				
Equity instruments	-	-	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	

Additional Risk Disclosures (cont.)
(Unaudited)

FAIR VALUE OF ENCUMBERED AND UNENCUMBERED COLLATERALS

31 December 2017	Fair value of encumbered collateral received or own debt securities issued	Fair value of un encumbered collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	422.829
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	422.829

31 December 2016	Fair value of encumbered collateral received or own debt securities issued	Fair value of un encumbered collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	209.388
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	209.388

Additional Risk Disclosures (cont.)
(Unaudited)

ENCUMBERED ASSETS AND COLLATERALS RECEIVED BY THE BANK AND ASSOCIATED COMPANIES

31 December 2017	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	-	-
Total	-	-

31 December 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	-