ALPHA BANK CYPRUS LIMITED

ANNUAL REPORT
For the period from 1 January to 31 December 2018

Nicosia,
24 April 2019

ANNUAL REPORT FOR THE YEAR 2018

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BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS

Board of Directors	A. M. Michaelides
	Ch. C. Giampanas
	Dr. A. K. Kritiotis (Resigned on 31 January 2019)
	C. N. Papadopoulos
	L. Georgiadou
	M.A.Iacovidou (Appointed on 1 February 2019)
	K. D. Koutentakis Managing Director
	N. Mavrogenis
Secretary	N.Alkiviades
Legal Advisers	Chryssafinis & Polyviou LLC
Independent Auditors	Deloitte Limited
Registered Office	Corner of Chilonos & Gladstonos Street Stylianou Lena Square, Nicosia
Head Office	Alpha Bank Building 3, Limassol Avenue Nicosia

MANAGEMENT REPORT

The Board of Directors of Alpha Bank Cyprus Limited (the “Bank”) presents to the members, its annual report and the audited consolidated financial statements of the Alpha Bank Cyprus Group (the “Group”) for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

During 2018, the Group continued to conduct full banking operations by providing a wide range of banking and financial services.

The Bank is a subsidiary of Alpha Bank A.E, which is registered in Greece, and member of Alpha Bank Group (the “Alpha Bank AE Group”)

REVIEW OF THE DEVELOPMENTS, POSITION AND PERFORMANCE OF ACTIVITIES

Key financial data		**From 1 January to**	
	Change	**31.12.2018**	**31.12.2017**
In Euro mil.			
Net interest income	-21,6%	50,2	64,0
Total income	-17,5%	63,6	77,1
Total expenses	2,2%	(55,7)	(54,5)
Profit before impairment	-65,0%	7,9	22,6
Impairment losses and provisions to cover credit risk	-78,4%	(23,2)	(107,3)
Loss after income tax	-78,2%	(18,9)	(86,7)
Loss per share		(9,9) cent	(49,7) cent
In Euro mil.		**31.12.2018**	**31.12.2017**
Loans and advances to customers	-11,2%	1.540,8	1.734,8
Due to customers	0,4%	2.212,8	2.204,9
Transitional common equity tier I ratio (CET I)	280 basis points	16,6%	13,8%

Net Interest income in 2018 amounted to Euro 50,2 million, presenting a decrease of 21,6% compared to Euro 64,0 million in 2017. The decrease is mainly attributed to the decrease of the loan portfolio and the decrease of the loans interest rates.

Total income of the Group amounted to Euro 63,6 million in 2018, compared to Euro 77,1 million in 2017. The total decrease of income during 2018 of 17,5% is mainly attributed to the decrease of the loan portfolio and the decrease of the loans interest rates.

Total expenses of the Group for 2018, amounted to Euro 55,7 million, compared to Euro 54,5 million for the previous year. The increase of total expenses is mainly due to the increase of staff costs driven from the collective agreements with the Union. Cost to income ratio, is 87,5% for 2018 compared to 70,7% in 2017.

MANAGEMENT REPORT (cont.)

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

Impairment loss and provisions to cover credit risk were decreased in 2018 by 78,4%, to Euro 23,2 million compared to Eur107,3 million in 2017. The decrease is the result of the efforts to improve the Balance Sheet structure.

Accumulated impairments to cover credit risk for on balance sheet balances amounted to Euro 714,0 million on 31 December 2018, covering 31,7% of gross loans, representing a decrease of 20,1% compared to 31 December 2017. Accumulated impairments include the fair value adjustment of the loan portfolio acquired at fair value, as well as exposures that were initially designated as Purchased or Originated Credit Impaired (POCI).

Net loans and advances to customers on 31 December 2018 amounted to Euro 1.540,8 million, decreased by 11,2% compared to Euro 1.734,8 million at December 31, 2017. The main reason relates to the sale of net loans of Euro 202 million within 2018 to a company of Alpha Bank AE Group.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood at Euro 1.285,9 million and accounted for 57,0% of gross loans, compared to 65,6% in 2017. On 31 December 2018, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 55,5% compared to 51,8% on 31 December 2017.

Loans over 90 days past due stood on 31 December 2018 at Euro 1.118,4 million representing 49,6% of gross loans. On 31 December 2017, they stood at Euro1.447,0 million representing 55,0% of gross loans.

Amounts due to customers on 31 December 2018 amounted to Euro 2.212,8 million, compared to Euro 2.204,9 million on 31 December 2017, presenting an increase of 0,4%. The net loans to deposits ratio was improved to 69,6% on 31 December 2018, from 78,7% on 31 December 2017.

On 31 December 2018, Common Equity Tier I ratio (CET I) stood at 16,6%, (2017 : 13,8%) Tier I ratio at 20,4% (2017 : 17,3%) and Total Capital Adequacy ratio at 20,6% (2017 : 18,1%). The capital adequacy ratios are in accordance with transitional provisions for the year.

FINANCIAL REULTS

The results of the Group are presented in the Consolidated Statement of Comprehensive Income on page 39 of the financial statements.

The losses for the year attributable to the owners amounted to €18.965 thous. (2017: losses €86.660 thous.)

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year 2018 (2017: €nil).

RISK MANAGEMENT

The Group 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 Group's conduct of the day-to-day business to ensure the effectiveness of its corporate governance.

The main objective of the Group during 2018 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 financial services.

Since November 2014, the Group Alpha Bank AE 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 an important 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, the Group Alpha Bank AE and consequently Alpha Bank Cyprus, strengths its internal governance and its risk management strategy and redefines its business model in order to achieve full compliance within the increased regulatory requirements and the extensive guidelines.

The Group'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 Group 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 Group's 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 25.10.2018, 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, 2018 Common Equity Tier I (CETI) ratio of the Group was 16,6% ,Tier I ratio was 20,4% and total Capital Adequacy ratio was 20,6%. The capital adequacy of the Group on December 31, 2018, exceeds the minimum capital requirements for Pillar I and Pillar II, allowing the Bank to have a capital buffer.

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

In 2018 the Group increased its capital with Eur44.5 mil to further enhance the Group against risks. The total capital ratio on 31.12.2018 stood with transitional provisions at 20,6%. According to the CRR and the CRD IV the minimum Overall Capital Requirement (OCR) is 12,875% for 2018. However, the said requirement increases in 2019 to 13,625%. The Group's capital adequacy on 31 December 2018 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Group with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

In relation to the impact from the application of IFRS 9, the Group will make use of the transitional provisions, according to which the impact will be absorbed applying within five years by applying the provisions of the new standard. The Group is sufficiently capitalized to meet the needs arising from the application of the new standard as the CET1 ratio stands at 16,6% as at 31.12.2018 under the transitional provisions, while the impact from full implementation is estimated at around 2,6% thus forming a ratio of 14,0% on 31.12.2018.

The Group Alpha Bank A.E. has successfully completed the 2018 stress test which was conducted in the first half of 2018 under the basic and adverse scenario of macroeconomic assumptions with a three-year horizon (2018-2020). Based on feedback received by the Single Supervisory Mechanism (SSM), the Stress Test outcome, along with other factors, have been assessed by its Supervisory Board, pointing to no capital shortfall. Therefore, no capital plan was required, as a result of the exercise.

IMPLEMENTATION OF IFRS 9

The new accounting standard IFRS 9 that replaced IAS 39, for annual periods on or after 1 January 2018, imposes fundamental changes in the way financial instruments are classified and measured. The Group completed in 2017 a program for the implementation of the new standard that was designed around two workstreams, the classification and measurement workstream and the impairment workstream, which was launched on 1.1.2018.

On the completion of the 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.

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 EVENTS

The Group is stepping up its efforts to contain Non Performing Exposures by offering restructuring products under the provisions of the Regulations and Directives of the Central Bank of Cyprus. In this context, the Bank offers Debt to Assets swap (DFAS) solutions. As a result, the Group in 2018 repossessed properties worth Euro10,0 million (2017: Euro 2,3 million). Under the same framework, the Bank has, in 2018, set up subsidiaries that take over the property through the debt recovery process. The results of the subsidiaries have been consolidated in the current Financial Statements.

In 2018, "Loans and advances to customers" of Euro 381 million and of fair value of Euro 202 million were sold to a company of Alpha Bank AE Group. All risks and rewards of ownership have been transferred for these loans.

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

The Group is currently assessing partnerships with third parties for the management of non-performing loans portfolio.

MANAGEMENT REPORT (cont.)

DEVELOPMENTS AND PROSPECTS

DEVELOPMENTS

Cyprus economy

Achievements

Cyprus has continued to record strong growth over the past four years as a result to follow a prudent economic and tax policy after exiting from the Economic Adjustment Program. The growth is being driven mainly by tourism, retail and construction.

The economy recorded remarkable performance in 2018. GDP grew by 3,9%, unemployment fell for the first time to a single-digit rate of 8,7% compared to 11% in 2017. Inflation remained low at 1.4%. Government debt increased to 104% of GDP, mainly due to the sale of the Co-operative Bank of Cyprus, in which the State essentially took over the non-performing portfolio together with its collateral. It is estimated that in 2019 it will be reduced to 97%.

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 increased arrivals. The arrivals reached for the first time, four million visitors.

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

Confidence in the Republic of Cyprus from international markets was confirmed in February 2019 when the demand for the Euro1bn 15-year bond issue, was exceeded by eight times.

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

Forecasts

According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,3% in 2019 and 2,7% in 2020. Lower expectations for 2020 are affected by the slowdown in the euro area and the uncertainties of major countries trading with Cyprus. It is also envisaged that investment in construction will increase.

Inflation is projected to reach 0,7% in 2019 and 1,2% in 2020, 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 in the investment grade, resulting in positive results both in borrowing from international markets and in lending costs

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Cyprus economy (cont.)

According to Moody's international ratings agency, the economic environment will be supported by the decrease of non-performing loans in the banking system. However, the risks of the economy will remain because some of the non-performing loans have been taken over by the State, following the sale of the Cooperative Bank of Cyprus.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans. Among other actions, the "ESTIA" project is being promoted, which aims to protect the primary residence of the borrowers, for residences that their value does not exceed Euro 250 thousand. The State will pay one third of the loan installment for any loans that qualifies for the "ESTIA" project.

The changes in the law in 2018 regarding the disposal of real estate for the settlement of debts, allow for faster completion of the procedures, thus helping to reduce non-performing loans.

Greek economy - Operating environment of the parent company

2018 is considered a milestone year for the Greek economy. The conclusion of the third Economic Adjustment Program - which was accompanied by specific measures in order to cover the country's financing needs over the medium-term -contributed to the improvement of economic sentiment, as well as the prospects of the Greek economy.

In 2018, markets' confidence was gradually strengthened, whereas the position of the country as an investors' destination was improved, due to the following: (i) the strengthening of the economic activity, (ii) the achievement of a primary general government surplus, above the fiscal target for the fourth consecutive year, (iii) the upgrading of the country's credit rating by the international rating agencies, (iv) the successful completion of the EU-wide stress testing exercise for the four systemic Greek banks and (v) the further easing of capital controls. In addition, in February 2018, a new seven-year bond was successfully issued, allowing the Greek State to raise Euro 3 billion.

GDP at constant prices increased by 1,9% on an annual basis in 2018 from 1.5% in 2017. The main driving forces of economic expansion were the significant positive contribution of export performance of goods and services and private consumption. Moreover, signs of recovery are evident in the real estate market, as house prices increased for the first time since 2009, by 1.3% on an annual basis in the first nine months of 2018. The Economic Sentiment Indicator (ESI) improved to 102.1 units in 2018, from 96.6 units in 2017, at a higher level than the pre-crisis of 2008 (=100). All sub-indices of business expectations and mainly the consumer confidence indicator improved in 2018 compared to 2017.

Inflation based on the Consumer Price Index (CPI) remained in positive territory in 2018 for the second consecutive year after four years of deflation. CPI increased by 0.6% in 2018, from 1.1% in 2017. Weak inflationary pressures came up from the increase of international oil prices in 2018, though base effects contributed negatively because of the indirect taxation increases on goods and services in 2017.

MANAGEMENT REPORT (cont.)

DEVELOPMENTS AND PROSPECTS (cont.)

DEVELOPMENTS (cont.)

Operating environment of the parent company (cont.)

The unemployment rate followed a downward trend in 2018 and stood at 18.5% in November 2018 (according to seasonally adjusted data), lower by 2.6 percentage points compared to November 2017 and by 9.4 points compared to July 2013 when reaching historically high levels. According to the European Commission Autumn Economic Forecasts, the unemployment rate is expected to reach 19.6% in 2018, from 21.5% in 2017, the highest level among European Union countries. Employment continued to increase (by 3.7% on an annual basis in the first eleven months of 2018), mainly due to the increase of part-time jobs. The main sectors that contributed to the creation of new jobs were the export-oriented sectors of the Greek economy such as tourism, trade and manufacturing.

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, which reached 104% of GDP.

Debates at European level to review the tax system in Europe may create imbalances that Cyprus will be called upon to address

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 Cyprus Republic to further recover, interest investment and economic activity.

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.

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 Group, under the current circumstances, has prepared a Business Plan to consolidate its Balance Sheet and enhance its profitability. At the same time, the Group 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.

PROSPECTS (cont.)

Group priorities

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

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

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

CORPORATE RESPONSIBILITY - NON FINANCIAL REPORT

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

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July, 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15 July 2016 the Group publishes additional information. The Group believes that certain Alternative Performance Measures (APMs) provide additional information that is useful both for assessing performance and for taking strategic decisions. A relevant analysis and table with the APMs is presented in the Annual Director's report in the Financial Statements as at 31.12.2018.

Alternative Performance Measures

Ratio	Definition	Formula	31.12.2018	31.12.2017
			€'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	55.652 63.578 Ratio 87,5%	54.545 77.143 Ratio 70,7%
			31.12.2018	**31.12.2017**
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.	2.254.472 – 598.035 – 115.658 2.212.793 Ratio 69,6%	2.628.626–724.644–169.147 2.204.910 Ratio 78,7%
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	1.118.388 2.254.472 Ratio 49,6%	1.446.706 2.628.626 Ratio 55,0%
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	1.285.934 2.254.472 Ratio 57,0%	1.724.821 2.628.626 Ratio 65,6%
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	598.035 + 115.658 2.254.472 Ratio 31,7%	724.644 + 169.147 2.628.626 Ratio 34,0%
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	598.035 + 115.658 1.285.934 Ratio 55,5%	724.644 + 169.147 1.724.821 Ratio 51,8%

SHARE CAPITAL

On July 23rd, 2018, the Bank increased its share capital by Eur44,585 thous. issuing 38.107.179 new ordinary shares. All new shares were allotted to Alpha Bank AE. Neither of the existing shareholders, Emporiki Venture Capital Developed Markets Ltd and Emporiki Venture Capital Emerging Markets Ltd exercised their right to participate in the increase. Their holding was diluted to 0,55% (2017: 0,67%) and 0,50% (2017: 0,60%) respectively

BRANCHES

The Bank is currently comprised of a modern network of 22 branches (2017:22) 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,
K. D. Koutentakis, Managing Director
C. N. Papadopoulos
N. Mavrogenis
L. Georgiadou
M.A. Iacovidou (as of 1 February 2019)

CORPORATE GOVERNANCE REPORT - 2018

Introduction

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

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

The Board of Directors, is obliged to apply the corporate governance framework, in order to ensure that the Bank is operating correctly and efficiently. Primary purpose for the implementation of the Corporate Governance Framework is the Bank's compliance with the legal and regulatory requirements that requires the Bank to follow the provisions of the relative Directive issued by the Central Bank of Cyprus ("Corporate Governance Directive").

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

1. Code of Conduct

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

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

1.1. Commitments

The Bank and Alpha Bank AE Group base their business on the following fundamental commitments:

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

Towards the Customers, the Bank 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 Bank maintains long-term relationships with its Customers, based on trust, expertise and respect for their rightful interests.

Towards the Shareholders, the Bank is permanently committed to:

- Creating return for their investment.
- Providing explicit information regarding their rights and obligations.
- Providing transparency regarding the Bank '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 Bank's 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 Bank.

Towards its Personnel, the Bank undertakes to:

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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

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

1.2. Principles

All the activities of the Bank 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.

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 2018, Deloitte audit firm was appointed as the Bank's independent external auditor, for second consecutive year. Deloitte's objectivity and independence, required by the regulatory framework, is assured.

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

3. Board of Directors

3.1 Overall purpose/objectives

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

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

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

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

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

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

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

3.1.1 Chairperson of the Board of Directors

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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

3.1.2 Executive Members of the Board of Directors

The Executive Members of the Board of Directors are responsible for proposing strategies to the Board of Directors and for executing the agreed strategies to the highest possible standards.

3.1.3 Non-Executive Members of the Board of Directors

The Non- Executive Directors are responsible for monitoring executive activity and contributing to the development of strategies. They need to carry combined sufficient skills, knowledge and experience in order to maintain, under all circumstances, their independence of thought and opinion. 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 Board of Directors is the decision-making body for all of the Bank's material issues. The main duties of the Board of Directors in accordance with the provisions of the Board of Directors and its Committees' Charters are the following:

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

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

During 2018 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 – 2018 (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 2018 to 31 December 2018, 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	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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

3.4.1 Upcoming changes in the composition of the Board of Directors during 2019

Mr. Andreas Kritiotis, Senior Independent Non-Executive Member of the Board of Directors, informed the Nominations Committee during the 19th of June 2018 meeting, for the possibility of his retirement by the end of 2018, if certain conditions are being met. Those conditions may cause conflict of interest and thus it will no longer be feasible for him to be a Member, in the Bank's Board of Directors.

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

Following that, the Nominations Committee carried out numerous personal interviews with potential candidates, for the replacement of Mr. Kritiotis.

Upon the completion of the procedure of numerous discussions with the potential candidates, the Nominations Committee pre-approved Mrs. Maria Agrotou-Iacovidou for the position of the new Non-Executive Independent Member of the Board of Directors, due to her long-term experience and knowledge in the banking and financial sector, elements which deem her capable to strengthen significantly the Bank's Board of Directors and to contribute, to the Board, with her knowledge and experience.

The Board of Directors, taking into consideration the positive recommendation of the Nominations Committee, unanimously approved Mrs. Maria Agrotou-Iacovidou's candidacy for the position of the Bank's Non-Executive Independent Member of the Board of Directors.

The Bank has forwarded to the Central Bank all the relevant and essential information/documents, requesting its consent, for the finalization of the replacement of Mr. Kritiotis by Mrs. Maria Agrotou-Iacovidou.

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

Additionally, on 17th of July 2019, Mr. Giampana's maximum service as a Non-Executive Member of the Bank's Board of Directors, will be completed according to paragraph 9(3) of the Central Bank's Directive on Governance and Management Arrangements in Credit Institutions: "Institutions must define the maximum number of terms an individual may serve as a non-executive member of the management body; in any case an individual may serve as a non-executive member of an institution for a maximum of twelve (12) years, including appointments in any management bodies of the group."

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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

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 the Bank 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 joined Societe Generale (Athens) and Barclays Bank (Athens and London), where he assumed the position of Country Manager Greece. In 1998 he joined Alpha Bank A.E. in the area of Corporate Banking. In 2004 he was appointed Executive President of Alpha Bank Romania S.A. and in 2007 Executive General Manager of Alpha Bank A.E. He has served on the Board of Directors of the Bank 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 S.A.. In 2007, he joined Alpha Bank S.A., where he has held various managerial positions, among others, the positions of Head of Retail Distribution Strategy, Head of Asset Gathering, Personal Banking Segment, Mass Segment & CRM, and the position of Executive General Manager – Asset Gathering Management. On 28.04.2017 he was appointed as Managing Director of the Bank.

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

***Independent* –**No

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

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

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

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. From 2012 until February 2018, he was 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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

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 in the Central Bank of Cyprus in 1970, where she held various positions until her retirement in 2010 from the position of the Director of Domestic Banking Services. She served as Chairwoman on the Board of Directors of SPE Tamassos-Orinis & Pitsilias, a Cooperative Credit Institution, between 2014 and 2016 and on the Board of Directors of the General Insurance Co Ltd from April 2013 to September 2013. In addition, Mrs. Georgiadou served as Member on the Board of Directors of the Bank of Cyprus and on the Board of Directors of Eurolife Ltd from April 2013 to September 2013.

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

***Independent* –**Yes

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

Maria Agrotou Iacovidou (Non-Executive Member)

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

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2018 (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 keep members well informed of developments occurring in the environment of the Bank and moreover on matters which are relevant to their responsibilities
(iii) Provide assistance and support to the Chairman of the Board in developing and performing performance evaluations of the management Body as a whole, its committees and each individual member.

3.6 Meetings of the Board of Directors

The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively. During 2018, sixteen (16) Board meetings were held.

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

3.7 Board performance evaluation

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

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

dismissed from its duties as an Independent Member of the Board of Directors since the day it non-compliance with the independence criteria is identified.

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

The assessment report was submitted to the Central Bank of Cyprus before the 31st of March 2018, complying with the relative requirements of the Directive to Credit Institutions on Governance and Management Arrangements in Credit Institutions.

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

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

4. Internal Audit System

The Board of Directors confirms that during 2018 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.

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

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

During 2017, a review of the framework of the internal controls 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.

7. Board Committees

The Audit Committee, Risk Committee and the Nominations Committee were active throughout the course of 2018. 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.
- Confirms that it has complied with the independence procedures of internal audit. The conclusion is based on the organizational structure of the Bank and the meetings held with the Internal Auditor, the assessment of the effectiveness of Internal Auditors and the assessment of other audits.

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

7.1.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2018 the Committee convened twelve (12) times.

7.1.3 Composition

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

From January 1st to December 31st , 2018, the composition of the Audit Committee was the following:

- Andreas Kritiotis, Chairman
- Lenia Georgiadou
- Constantinos Papadopoulos

7.2 Risk Committee

7.2.1 Main Responsibilities

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

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

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

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

7.2.2 Meetings

The Committee meets at least once each quarter or more frequently if required by circumstances. During 2018 the Committee convened fifteen (15) times.

7.2.3 Composition

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

From January 1st to December 31st , 2018, the composition of the Risk Committee was the following:

- Andreas Michaelides, Chairman
- Christos Giampanas
- Constantinos Papadopoulos

CORPORATE GOVERNANCE REPORT – 2018(cont.)

7.3 Nominations/Internal Governance Committee

7.3.1 Main Responsibilities

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

- Assessing periodically, and at least annually the structure, size, composition and performance of the Board as a whole and also ensure that there is a proper balance of diversity, skills and experience in case of succession.
- Assessing periodically, and at least annually, the knowledge, skills and experience of individual members.
- Review the policy applied by the Board for the selection, development and appointment of senior management and the recruitment, job rotation and promotion of staff.
- Review, in cooperation with the audit and risk committees, their composition, powers and independence of the control departments.
- Define the representation of gender in the Board. The target set is to a have a minimum of one presentation from each gender in a Board with seven members. The mentioned target has been fulfilled during 2018.

7.3.2 Meetings

The Committee convenes at least once a year or more frequently depending on the circumstances. During 2018 the Committee met seven (7) times.

7.3.3 Composition

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

From 1 January 2018 to 31 December 2018, the composition of the Nominations Committee was as follow:

- Christos Giampanas, Chairman
- Andreas Kritiotis
- Andreas Michaelides

MANAGEMENT REPORT (cont.)

CORPORATE GOVERNANCE REPORT – 2018 (cont.)

7.4 Summary table of the meetings of the Board and the Committees during 2018 (physical presence and via videoconference)

Name	Board of Directors	Risk Committee	Audit Committee	Nominations/ Internal Governance Committee
Andreas Michaelides	16/16	15/15		7/7
Christos Giampanas	16/16	15/15		7/7
Konstantinos Koutentakis	16/16			
Nicholas Mavrogenis	16/16			
Andreas Kritiotis	16/16		12/12	7/7
Constantinos Papadopoulos	15/16	14/15	12/12	
Lenia Georgiadou	16/16		12/12	
Total number of meetings	16	15	12	7

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

As at 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
	%	%
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 43 of the financial statements.

MANAGEMENT REPORT (cont.)

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, 24 April 2019

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 2018 as issued on 24 April 2019.

Independent Auditor's Report

To the Members of Alpha Bank Cyprus Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Alpha Bank Cyprus Limited (the "Bank"), and its subsidiaries (the "Group"), which are presented in pages 42 to 221 and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters and the assessed risks of material misstatements were addresed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Allowance for loans and advances to customers	
Loans and advances to customers of the Group amounted to €1.541 million at 31 December 2018 (€1.735 million for the Group at 31 December 2017), and impairment losses on loans (charged for the period) amounted to €18 million for the Group for the year ended 31 December 2018 (€112 million for the Group for the year ended 31 December 2017). With effect from 1 January 2018, the Group has adopted IFRS 9 "Financial Instruments". As a result, the determination of such allowances is based on an expected credit loss (ECL) model instead of the incurred credit loss model applied under IAS 39. The measurement of the allowance for impairments on loans and advances to customers at amortized cost is considered a key audit matter given the magnitude of the specific account balance, as well as the fact that the determination of the assumptions used is highly subjective, due to the high level of judgement applied by the Management for estimating expected credit losses. The Group established allowances for impairments on loans and advances to customers at amortized cost for expected credit losses on both an individual as well as a collective basis. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include: • Accounting interpretations and modeling assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer. • Inputs and assumptions used to estimate the impact of multiple economic scenarios.	Based on our risk assessment and following a risk-based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures: • Assessment the appropriateness of impairment provisioning methodologies and policies adopted by Management in relation to the allowance for impairments on loans and advances to customers at amortized cost under IFRS 9 "Financial Instruments", • Assessment of the design and implementation of internal controls relevant to our audit, including controls around methodologies applied, risk models used, significant assumptions employed by Management, accuracy and completeness of data inputs and model calculations as well as internal controls over the process of valuation of collaterals, • With the support of our credit risk and modelling specialists, we developed an independent estimate of the allowance for impairment on loans and advances that have been collectively assessed for impairment by the Group, and comparison of our estimate with the results of the collective provision exercise of the Group including estimation of probability of default (PD), loss given default (LGD) and exposure at default (EAD),

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Key audit matter (Cont'd)	How our audit addressed the Key audit matter (Cont'd)
Allowance for loans and advances to customers (Cont'd)	
• Timely identification of exposure with significant increase in credit risk and credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures. • Valuation of post model adjustments. • Accuracy and adequacy of the disclosures in the consolidated financial statements. Management has provided further information about principles and accounting policies for determining the allowance for impairment on loans and advances to customers at amortized cost, management of credit risk and the review of impairment and charges for impairment on loans and advances to customers at amortized cost in Notes 1.6.3, 9, 17 and 35 to the consolidated financial statements.	• Assessment of the base scenario and alternative economic scenarios, as well as assessment of the adequacy of forecasted macroeconomic variables were appropriate such as GDP, unemployment rate, Residential Real Estate Price Index and Commercial Real Estate Price Index, • Assessment, and performance of test of details, of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures, • Assessment, on a sample basis, the reasonableness of significant assumptions used in the measurement of impairment of individually assessed exposure, including valuation of collaterals as well as assumptions used for estimating future discounted cash flows, • Assessment of the appropriateness of post model adjustments of the Management based on the current economic conditions, market circumstances and Management's actions by: - Assessing the key developments against historical data, - Assessing the reasonableness of the various identified post model adjustments of the Management - Assessment of material assumptions based on our knowledge and experience in the banking sector, - Inspecting calculation methodology, • Assessment of the completeness and accuracy of the disclosures in the consolidated financial statements in accordance with the relevant accounting standards (IFRSs). The above audit procedures were completed in a satisfactory manner.

Deloitte.

Key audit matter (Cont'd)	How our audit addressed the Key audit matter (Cont'd)
Sale of loans and advances to customer to a company of the Alpha Bank A.E. Group	
During 2018, "Loans and advances to customers at amortized cost" with a net value of €202 million were sold to a company of the Alpha Bank A.E. Group. This is a key audit matter because of the magnitude of the specific transaction, as well as the complexity of both the accounting treatment and the determination of the fair value of the transaction. For the determination of the fair value of the transaction, high level of judgement is applied by Management for the determination of the discount rate and the assumptions on which the calculations are based. These assumptions, which are based on historical trends and future projections, are by nature highly subjective. The fair value was determined by discounting the expected future cash flows of the respective loans, using the market discount rate, as determined by Management with the assistance of an independent specialist. The Management included further information on this matter in Notes 17 and 40 of the consolidated financial statements.	Our audit procedures in this key audit matter include, among others, the following: • Assessment of the adequacy of the de-recognition of the respective loans from the consolidated statement of financial position of the Group based on the sale agreement, • With the support of our internal IFRS specialists, we assessed the accounting treatment of this transaction, • With the support of our internal IFRS specialists, assessment of the methodology used for calculating the fair value of the transaction as determined by the Group. In addition, we assessed the management assumptions and parameters used, as well as the appropriateness of the model used in the fair value calculation, • On a sample basis, assessment of the cash flows used in the determination of the fair value of the respective loans, • Assessment of the competence and objectivity of the independent specialist, • Assessment of the completeness and accuracy of the disclosures in the consolidated financial statements in accordance to the relevant accounting standards (IFRSs). The above audit procedures were completed in a satisfactory manner.
General Information Technology System Controls relating to financial reporting	
The Group's financial reporting processed are highly dependent on information Technology ("IT") systems supporting automated accounting and reconciliation procedures, thus leading to a complex IT environment, pervasive in nature in which a significant number of transactions are processed daily, across numerous locations. This is key audit matter since it is important that controls over access security, system change control and data center and network operations, are designed and operate effectively to ensure complete and accurate financial records/information.	Based our risk assessment, we have tested the design and operating effectiveness of General Information Technology Controls (GITCs) relevant to financial reporting. Our assessment included the evaluation of access rights over applications, operating systems and databases, the process followed over changes made to information systems, as well as data center and network operations. In summary, our key audit procedures included, among others, testing of: • User access provisioning and de-provisioning process, • Privileged access to application, operating systems and databases, • Periodic review of user access right process,

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Key audit matter (Cont'd)	How our audit addressed the Key audit matter (Cont'd)
General Information Technology System Controls relating to financial reporting (Cont'd)	
	• Change management process over applications, operating systems and databases (i.e. user request, user acceptance testing and final approval for promotion to production), • Data centre and network operations, The above audit procedures were completed in a satisfactory manner.

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 and Corporate Governance Report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Group for the year 2017 on 26 May 2017 by the Annual General Meeting after the submission of related suggestion by the Board of Directors of the Group. We were reappointed as auditors for the year 2018 in the General Meeting of the shareholders of the Group on 11 July 2018. Ours appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 2 years.

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Independent Auditor's Report (continued)

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 24 April 2019 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-Audit Services

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

Other Legal Requirements

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

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

Other Matters

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

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

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of
Deloitte Limited
Certified Public Accountants and Registered Auditors

24 April 2019

Consolidated Statement of Comprehensive Income

	Note	From 1 January to 31.12.2018 €'000	31.12.2017 €'000
Interest and similar income		78.128	100.757
Interest expense and similar charges		(27.977)	(36.711)
Net interest income	2	50.151	64.046
Fees and commission income		8.118	7.349
Commission expense		(1.175)	(1.159)
Net fee and commission income	3	6.943	6.190
Dividend income	4	502	696
Gains less losses on derecognition of financial assets measured at amortised cost	5a	71	-
Gains less losses on financial transactions	5b	800	3.137
Other income	6	5.111	3.074
Total other income		6.484	6.907
Total income		**63.578**	**77.143**
Staff costs	7	(32.652)	(31.186)
General administrative expenses and other expenses	8	(20.970)	(21.601)
Depreciation and amortization	19 &20	(2.030)	(1.758)
Total expenses before impairment losses and provisions to cover credit risk		**(55.652)**	**(54.545)**
Impairment losses and provisions to cover credit risk	9	(23.170)	(107.339)
Loss before tax		(15.244)	(84.741)
Tax	11	(3.721)	(1.919)
Loss after tax		**(18.965)**	**(86.660)**
Other comprehensive income recognised directly to equity: Amounts that may be reclassified in the statement of comprehensive income			
Gains/(losses) from shares measured at fair value through other comprehensive income		681	
Net change in securities reserves measured at fair value through other comprehensive income	30	(859)	-
Net change in available for sale securities reserve	30	-	4.266
Total of other comprehensive income recognized directly in equity, after income tax		(178)	4.266
Total comprehensive income for the year attributable to:			
- equity owners of the bank		(19.143)	(82.394)
- third parties		-	-
		(19.143)	(82.394)
Earnings/(losses) per share :			
Basic and diluted (€ cents)	12	(9,91)	(49,67)

The notes on pages 46 to 221 form an integral part of the financial statements.

Consolidated Balance Sheet

	Note	31.12.2018 €΄000	31.12.2017 €΄000
ASSETS			
Cash and balances with central banks	13	559.913	249.793
Due from banks	14	177.720	566.768
Derivative financial assets	16	173	6.942
Loans and advances to customers	17	1.540.779	1.734.835
Investment securities :			
- measured at fair value through other comprehensive income	15	277.443	
- available for sale			137.777
Investment property	18	7.270	2.023
Property, plant and equipment	19	22.411	22.580
Intangible assets	20	1.635	540
Deferred tax assets	21	8.524	12.245
Other assets	22	18.567	11.301
Total assets		2.614.435	2.744.804
LIABILITIES			
Due to banks	23	55.113	70.493
Derivative financial liabilities	16	3.394	18
Due to customers	24	2.212.793	2.204.910
Subordinated bonds	25	15.748	116.262
Other liabilities and provisions	26	29.158	24.686
Total liabilities		2.316.206	2.416.369
EQUITY			
Share capital	27	180.694	148.303
Share premium	29	102.661	90.467
Reserves	30	1.688	5.187
Retained earnings	31	(50.814)	20.478
Convertible capital securities	28	64.000	64.000
Total equity		328.435	328.435
Total liabilities and equity		2.614.435	2.744.804

The financial statements were approved and authorized for issue by the Board of Directors on 24 April 2019.

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

The notes on pages 46 to 221 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

	Share capital (note 27) €´000	Share premium (note 29)[1] €´000	Reserves (note 30) €´000	Retained earnings (note 31) €´000	Convertible capital securities (note 28) €´000	Total equity €´000
Balance 31.12.2017	**148.303**	**90.467**	**5.187**	**20.478**	**64.000**	**328.435**
Impact from the application of IFRS9 on 1.1.2018[2]			(2.640)	(53.008)		(55.648)
Balance 1.1.2018	**148.303**	**90.467**	**2.547**	**(32.530)**	**64.000**	**272.787**
Changes for the period 1.1 – 31.12.2018						
Profit for the year, after tax	-	-	-	(18.965)	-	(18.965)
Other comprehensive income recognized directly in equity	-	-	(859)	681	-	(178)
Total comprehensive income for the period, after tax	**-**	**-**	**(859)**	**(18.284)**	**-**	**(19.143)**
Transactions with equity holders:						
Share capital increase	32.391	12.194	-	-	-	44.585
	32.391	12.194	-	-	-	44.585
31 December 2018	**180.694**	**102.661**	**1.688**	**(50.814)**	**64.000**	**298.229**
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**

1. The share premium is not available for distribution as a dividend.
2. The impact from the application of IFRS9 is presented on Note 41

The notes on pages 46 to 221 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

		From 1 January to	
		31.12.2018	31.12.2017
	Note	€΄000	€΄000
Cash flow from operating activities			
Profit/(Loss) before tax		(15.244)	(84.741)
Adjustment for gain/(losses) before tax:			
Depreciation of property, plant and equipment	19	1.477	1.470
Amortization of intangible assets	20	553	288
(Gains) / losses from disposal of property, plant and equipment	6	(103)	-
(Gains) / losses from derecognition of financial assets		(71)	
Impairment losses on financial assets and other provisions	9	7.072	
Dividends received	4	(502)	(696)
Interest payable of subordinated loans	25	3.038	4.777
Reversal of provisions for litigation or arbitration disputes	26	67	16
Impairment losses and provisions to cover credit risk	9	18.306	111.719
Net (increase) / decrease in assets:		**14.593**	**32.833**
Cash and balances with central banks		(1.096)	(2.650)
Loans and advances to customers		126.734	99.806
Investment property		(5.247)	-
Derivative financial assets		(6.769)	(6.798)
Other assets		(7.266)	(3.191)
Net increase / (decrease) in liabilities:			
Due to banks		(2.359)	(24.248)
Derivative financial liabilities		3.376	(7.449)
Due to customers		7.883	264.282
Other liabilities		4.472	6.329
Net cash flows from continuing operations before taxes		**134.321**	**358.914**
Tax paid		-	(257)
Net cash flows from continuing operations		**134.321**	**358.657**
Net cash flows from investing activities:			
Purchase of investment securities available for sale	15	(529.011)	(251.488)
Disposal of investment securities available for sale	15	389.108	235.806
Acquisition of property, plant and equipment	19	(1.394)	(936)
Disposal of property, plant and equipment		86	-
Acquisition of intangible assets	20	(1.648)	(258)
Dividends received	4	502	696
Net cash flows from investing activities		**(142.357)**	**(16.180)**
Net cash flows from financing activities :			
Share capital		44.585	
Repayments on subordinated loans	25	(103.552)	(4.846)
Net cash flows from financing activities		**(58.967)**	**(4.846)**
Net increase/(decrease) in cash and cash equivalents		(67.003)	377.631
Cash and cash equivalents at the beginning of the year	33	726.994	389.363
Cash and cash equivalents at the end of the year	33	659.991	726.994

The notes on pages 46 to 221 form an integral part of the financial statements.

GENERAL INFORMATION

Incorporation and principal activity

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

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

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

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

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

ACCOUNTING POLICIES APPLIED

1.1 Basis of presentation

These financial statements for the year 1.1 – 31.12.2018 have been prepared :

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

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

- Derivative financial instruments
- Investment securities measured at fair value through other comprehensive income (refers to the current year of 2018)
- Available-for-sale securities (refers to the year of 2017)

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

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

The accounting policies for the preparation of the financial statements have been consistently applied by the Group to the years 2017 and 2018. It is noted, however, that the adoption of IFRS 9 resulted in significant modifications to the accounting policies for financial assets and liabilities. Those accounting policies, which are applicable from 1.1.2018, are presented in section Accounting Policies. Comparative information for 2017 was not restated, as permitted by IFRS 9. In addition, the accounting policies applied in the current reporting period took into account the following new standards and amendments to standards as well as IFRIC 22 which were issued by the International Accounting Standards Board (IASB), adopted by the European Union and applied on 1.1.2018:

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

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

- **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)

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 Group.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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

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

Classification and measurement

Financial instruments shall be classified, after 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 contract contains a host that is within the scope of IFRS 9, the embedded derivative shall not be separated and the accounting treatment of the hybrid contact should be based on the above requirements for the classification of the financial instruments.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

Impairment

Contrary to 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.

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.

It is noted that IFRS 9 allows a company to choose, as an accounting policy, to continue to apply the requirements of IAS 39 for hedge accounting. The Group has made use of this right.

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 Group is presented in note 41.

ACCOUNTING POLICIES APPLIED (cont.)

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

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

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.

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”.

On 12.4.2016 the International Accounting Standards Board issued an amendment to IFRS 15 with which it provided clarifications on its application.

The Group applies the new standard from 1.1.2018 without restating comparative information for 2017. It is noted that the main part of Group’s income is net interest income which has not been affected by the application of IFRS 15.

In the Group, the contracts that are in the scope of the new standard relate to the provision of the banking services.

For services provided over time, income is recognised as the service is being provided to the customer.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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

If a performance obligation is not satisfied over time, it is satisfied at a point in time. For services such as executing transactions (e.g. currency exchange transactions, customers' trading in securities) as well as coordinating and arranging syndicated loan transactions, the execution and completion of the transaction requested by the customer signals the point in time, in which the service is transferred to the customer and the revenue is recognized. It is noted that most of the Group's commissions fall into this category and as result there was no change in the accounting treatment for their recognition due to the application of IFRS 15.

- **Amendment to International Accounting Standard 40** "Investment Property": Transfers of Investment Property (Regulation 2018/400/14.3.2018)

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

- **Improvements to International Accounting 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, non- urgent but necessary amendments to IFRS 1 and IAS 28.

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

- **IFRIC Interpretation 22** "Foreign Currency Transactions and Advance Consideration" (Regulation 2018/519/28.3.2018)

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **IFRIC Interpretation 22** "Foreign Currency Transactions and Advance Consideration" (Regulation 2018/519/28.3.2018) (cont.)

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 adoption of the above Interpretation had no impact on the Group's financial statements.

Except for the standards mentioned above, the European Union has adopted the following new standard and amendments to standards as well as IFRIC 23 which are effective for annual periods beginning after 1.1.2018 and have not been early adopted by the Bank.

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

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 Other Comprehensive Income (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 Group is examining the impact from the adoption of the above amendment 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.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

Estimated impact from IFRS 16 Implementation

The Group as lessee will apply the standard retrospectively with the cumulative effect of initially applying the standard recognized directly in equity as at 1.1.2019 and will not restate comparative information.

The Group has decided to apply the practical expedient and not to reassess on initial application whether a contract is, or contains, a lease and will apply the standard to contracts that were identified as leases in accordance with IAS 17.

Additionally, the Group will make use of the following practical expedients on transition:

- apply a single discount rate to all leases,
- exclude initial direct costs from the measurement of the right-of-use asset,
- use hindsight to determine the lease term if the contract contains options to extend or terminate the lease.

In addition, the Group has elected not to apply the requirements of the standard to leases for which the lease term is less than 12 months (short term), as well to leases for which the underlying asset is of low value when new (less than 5,000 eur).

It is noted that the Group has made assumptions for extension for leases expiring within 2019 that however are expected to be renewed.

The Group in order to determine the incremental borrowing rate will use as reference rate the secured funding rate of the parent company Alpha Bank A.E, adjusted for its currency taking also into consideration Greek government yield curves. The Group estimates that right-of-use assets and lease liabilities of €8.323 thous. and €8.323 thous. respectively will be recognized and as a result no impact is expected on equity . The impact on CET is estimated to be 8 basis points.

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

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 above amendment does not apply to the financial statements of the Group.

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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

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 Group.

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

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

- The **IFRIC Interpretation 23** “Uncertainty over Income Tax Treatments” (Regulation 2018/1595/23.10.2018)

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 right to examine and have full knowledge of all related information when making those examinations.
- For the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment.
- An entity shall reassess an estimate if the facts and circumstances change or as a result of new information.

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendment to International Financial Reporting Standard 3** "Business Combinations"
Effective for annual periods beginning on or after 1.1.2020

On 22.10.2018 the International Accounting Standards Board issued an amendment to IFRS 3 aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, narrow the definition of outputs, add guidance to assess whether an acquired process is substantive, introduce an optional fair value concentration test and add illustrative examples.

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

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

Effective for annual periods beginning on or after 1.1.2016

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

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

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

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

Effective for annual periods beginning on or after 1.1.2021

On 18.5.2017 the International Accounting Standards Board issued IFRS 17 which replaces IFRS 4 "Insurance Contracts". 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.

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.1 Basis of presentation (cont.)

- **Amendments to International Accounting Standard 1 and International Accounting Standard 8** "Definition of material"

Effective for annual periods beginning on or after 1.1.2020

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

The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments include examples of circumstances that may result in material information being obscured.

The IASB has also amended the definition of material in the Conceptual Framework to align it with the revised definition of material in IAS 1 and IAS 8.

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

1.2 Basis of consolidation

The consolidated financial statements include the parent company Alpha Bank Cyprus Ltd and its subsidiaries. The financial statements used to prepare the consolidated financial statements have been prepared as at 31.12.2018 and the accounting policies applied in their preparation, when necessary, were adjusted to ensure consistency with the Group accounting policies.

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

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

1.3 Operating segments

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

1.4 Transactions in foreign currency

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

ACCOUNTING POLICIES APPLIED (cont.)

1.5 Cash and cash equivalents

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

1.6 Classification and measurement of financial instruments applicable from 1.1.2018

The following paragraphs present the accounting policies followed by the Group as of 1.1.2018 for the financial assets and liabilities as they apply after the adoption of IFRS 9.

1.6.1 Classification and measurement of financial instrument

Initial recognition

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

Subsequent measurement of financial assets

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

For each of the above categories the following apply:

a) Financial assets measured at amortised cost
In this category are classified the financial assets that satisfy both of the following criteria:
- are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows,
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

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

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

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

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

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

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

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

Financial assets included in this category are:

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

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

Business Model assessment

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

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

For the purposes of applying the SPPI assessment:

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

Reclassification of financial assets

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

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

Derecognition of financial assets

The Group derecognizes financial assets when:

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

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

Subsequent measurement of financial liabilities

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

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

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

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

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

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

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

b) Financial liabilities carried at amortised cost

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 <u>Classification and measurement of financial instruments applicable from 1.1.2018</u> (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

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

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

- the amount of the provision determined during expected credit loss calculation ,
- the amount initially recognised less cumulative amortization which is calculated based on the term of the instrument.

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

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

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

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

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

Derecognition of financial liabilities

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.1 Classification and measurement of financial instrument (cont.)

Offsetting financial assets and financial liabilities

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

1.6.2 Derivative financial instruments

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

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

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

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

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

a) Default definition

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

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

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

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

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

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

- Exposures that at the time of acquisition meet the criteria to be classified as non-performing exposures.
- Exposures for which there has been a change in repayment terms, either due to financial difficulty or not, which resulted in derecognition and recognition of a new impaired asset (POCI) except when derecognition is due to the change of debtor of a corporate loan in which case the creditworthiness of the new debtor is reassessed.

c) Significant increase in credit risk

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

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

- Quantitative Indicators: refers to the quantitative information used and more specifically to the comparison of the probability of default (PD) between the reporting date and the date of initial recognition.
- Qualitative Indicators: refers to the qualitative information used which is not necessarily reflected in the probability of default, such as the classification of an exposure as forborne performing (FPL, according to EBA ITS). Additional qualitative indicators, both for corporate and retail portfolios are also reflected through the Early Warning indicators where depending on the underlying assessment, an exposure can be considered to have a significant increase in credit risk or not. Especially for special lending portfolio, additional qualitative indicators are captured through slotting category.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

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

• Backstop Indicators: in addition to the above, and in order to capture cases for which there are no triggers reflecting the increase in credit risk, based on qualitative and quantitative indicators, the 30 days past due indicator is used as a backstop.

d) Calculation of expected credit loss

The measurement of expected credit losses is made as follows:

− For financial assets, a credit loss is the present value of the difference between:
  (a) the contractual cash flows and
  (b) the cash flows that the Group expects to receive

− For undrawn loan commitments, a credit loss is the present value of the difference between:
  (a) the contractual cash flows that are due if the holder of the loan commitment draws down the loan; and
  (b) the cash flows that the Group expects to receive if the loan is drawn down.

− For letters of guarantee and letters of credit, the loss is equal to the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder.

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

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

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

• Probability of Default (PD): It is an estimate of the probability of a debtor to default over a specific time horizon.

• Exposure at default (EAD): Exposure at Default is an estimate of the amount of the exposure at the time of the default taking into account: (a) expected changes in the exposure after the reporting date, including principal and interest payments; (b) the expected use of credit limits and (c) accrued interest. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit exposure equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF). The Credit Conversion factor of credit exposure is calculated based on statistical models.

• Loss given default (LGD): Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received, including the liquidation of collaterals and cure rate.

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

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

e) Measurement of expected credit losses on receivables from customers

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

f) Presentation of expected credit losses in financial statements

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

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

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

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

g) Write-offs

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

1.6.4 Credit impairment losses on due from banks and bonds

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

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

a) Default definition

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

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

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

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.6 Classification and measurement of financial instruments applicable from 1.1.2018 (cont.)

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

c) Significant increase in credit risk

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

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

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

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

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

d) Calculation of expected credit loss

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

(a) the contractual cash flows and

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

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

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

e) Presentation of expected credit losses in financial statements

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.7 Fair value measurement

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

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

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate in the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. If observable inputs are not available, other model inputs are used which are based on estimations and assumptions such as the determination of expected future cash flows, discount rates, probability of counterparty default and prepayments. In all cases, the 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.

Non financial assets and liabilities

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.8 Property, plant and equipment

Land and buildings are stated at historic cost less depreciation on buildings and any losses from impairment. Plant and equipment are stated at historic cost less accumulated depreciation. The historic cost includes expenses directly associated with the acquisition of property and equipment. The cost of material renovations and other expenses are included in the carrying value of the asset or it is recognised as separate asset when it is probable that the 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.

1.9 Investment property

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

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

1.10 Intangible assets

Computer application software

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.11 Operating leases

Leases on assets, where the Group 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 Tax

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

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

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

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

1.13 Deferred tax assets

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.13 Deferred tax assets (cont.)

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

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

1.14 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.

1.15 Employee benefits

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

The Group does not operate a defined benefit plan.

1.16 Provisions for litigation and arbitration of disputes

Provisions for litigation and arbitration of disputes are recognized when:

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

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.17 Subordinated bonds

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

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

1.18 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.

1.19 Convertible Capital Securities

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

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

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

ACCOUNTING POLICIES APPLIED (cont.)

1.20 <u>Interest income and expense</u>

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

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

For financial assets, in particular, the following apply:

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

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

1.21 <u>Income and expenses from fees and commissions</u>

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

1.22 <u>Dividend Income</u>

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

ACCOUNTING POLICIES APPLIED (cont.)

1.23 Gains less losses on financial transactions

Gains less losses on financial transactions include:

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

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

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

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

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 Related parties definition

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

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

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

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

c) Individuals who are key management personnel and their close relatives. Key management personnel are comprised of members of the Board of Directors of the Bank , members of the

ACCOUNTING POLICIES APPLIED (cont.)

1.26 Related parties definition (cont.)

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 Group 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.

1.27 Comparatives

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

It is noted, however, that the adoption of IFRS 9 resulted in significant changes in the accounting policies for financial assets and liabilities and in particular in the classification, measurement and impairment. The Group, making use of the exception provided by IFRS 9, did not adjust comparative information. The main accounting policies for financial instruments that were applied until 31.12.2017, in accordance with IAS 39, are presented below. The full set of those accounting policies is presented in the annual financial statements as at 31.12.2017.

1. 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.)

1.27 Comparatives (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.

2. 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 at each balance sheet date, whether there is evidence of impairment in accordance with Alpha Bank AE 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 AE 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.

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

ACCOUNTING POLICIES APPLIED (cont.)

1.27 Comparatives (cont.)

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.)

1.27 Comparatives (cont.)

3. 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.

ACCOUNTING POLICIES APPLIED (cont.)

1.28 Estimates, decision making criteria and significant sources of uncertainty

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

Fair value of assets and liabilities

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

Business Model Assessment

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

Expected credit losses of financial assets

The measurement of expected credit losses requires the use of complex models and significant estimates of future economic conditions and credit behavior, taking into account the events that have occurred until reporting date. Significant estimates are also required to identify the criteria that indicate a significant increase in credit risk, the choice of appropriate methodologies for measuring expected credit risk losses and the determination of the alternative macroeconomic scenarios and the cumulative probabilities associated with these scenarios as well as the assumptions included in the Group’s business plan for the reduction of non-performing exposures. Estimates are also required for the determination of the expected duration, the date of initial recognition of revolving facilities as well as the grouping of financial assets based on similar credit risk characteristics.

Income Tax

The Group recognizes assets and liabilities for current and deferred tax, as well as the related expenses, based on estimates concerning the amounts expected to be paid to or recovered from tax authorities in the current and future periods. Estimates are affected by factors such as the practical implementation of the relevant legislation, the expectations regarding the existence of future taxable profit as described in mote 21. Future tax audits, changes in tax legislation and the amount of taxable profit actually realised may result in the adjustment of the amount of assets and liabilities for current and deferred tax and in tax payments other than those recognized in the financial statements of the Group. Any adjustments are recognized within the year that they become final.

ACCOUNTING POLICIES APPLIED (cont.)

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

Provisions and contingent liabilities

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

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

1.28.1 Going concern

The Group Financial Statements for the year 31.12.2018 have been prepared on the going concern basis.

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

The Group, in preparing the Financial Statements of 31.12.2018, took into account the following factors:

- **Capital Adequacy**

In 2018 the Bank increased its capital by Eur44.5 mil to further enhance the Group against risks. The total capital ratio on 31.12.2018 stood with transitional provisions at 20,6%. According to the CRR and the CRD IV the minimum Overall Capital Requirement is 12,875% for 2018. However, the said requirement increases in 2019 to 13,625%. The Bank's capital adequacy on 31 December 2018 exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Bank with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

In relation to the impact from the application of IFRS 9, the Group will make use of the transitional provisions, according to which the impact will be absorbed applying within five years by applying the provisions of the new standard. The Group is sufficiently capitalized to meet the needs arising from the application of the new standard as the CET1 ratio stands at 16,6% as at 31.12.2018 under the transitional provisions, while the impact from full implementation is estimated at around 2,6% thus forming a ratio of 14,0% on 31.12.2018.

ACCOUNTING POLICIES APPLIED (cont.)

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

<u>1.28.1 Going concern (cont.)</u>

- **Capital Adequacy <u>(cont.)</u>**

The Group Alpha Bank A.E. has successfully completed the 2018 stress test which was conducted in the first half of 2018 under the basic and adverse scenario of macroeconomic assumptions with a three-year horizon (2018-2020).

Based on feedback received by the Single Supervisory Mechanism (SSM), the Stress Test outcome, along with other factors, have been assessed by its Supervisory Board, pointing to no capital shortfall. Therefore, no capital plan was required, as a result of the exercise.

- **Liquidity**

During 2018, the Bank increased its deposits by Euro 8 million, or by 0,4%. while at the same time it repaid a Euro100 million Bond. This allows to the Bank more flexibility on liquidity management.

- **Cyprus economy**

<u>Achievements</u>
Cyprus has continued to record strong growth over the past four years as a result to follow a prudent economic and tax policy after exiting from the Economic Adjustment Program. The growth is being driven mainly by tourism, retail and construction.

The economy recorded remarkable performance in 2018. GDP grew by 3,9%, unemployment fell for the first time to a single-digit rate of 8,7% compared to 11% in 2017. Inflation remained low at 1.4%. Government debt increased to 104% of GDP, mainly due to the sale of the Co-operative Bank of Cyprus, in which the State essentially took over the non-performing portfolio together with its collateral. It is estimated that in 2019 it will be reduced to 97%

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 increased arrivals. The arrivals reached for the first time, four million visitors.

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

ACCOUNTING POLICIES APPLIED (cont.)

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

<u>1.28.1 Going concern (cont.)</u>

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

Confidence in the Republic of Cyprus from international markets was confirmed in February 2019 when the demand for the Euro1bn 15-year bond issue, was exceeded by eight times.

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

<u>Forecasts</u>
According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,3% in 2019 and 2,7% in 2020. Lower expectations for 2020 are affected by the slowdown in the euro area and the uncertainties of major countries trading with Cyprus. It is also envisaged that investment in construction will increase.

Inflation is projected to reach 0,7% in 2019 and 1,2% in 2020, 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 in the investment grade, resulting in positive results both in borrowing from international markets and in lending costs.

According to Moody's international ratings agency, the economic environment will be supported by the decrease of non-performing loans in the banking system. However, the risks of the economy will remain because some of the non-performing loans have been taken over by the State, following the sale of the Cooperative Bank of Cyprus.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans. Among other actions, the "ESTIA" project is being promoted, which aims to protect the primary residence of the borrowers, for residences that their value does not exceed Euro 250 thousand. The State will pay one third of the loan installment for any loans that qualifies for the "ESTIA" project.

The changes in the law in 2018 regarding the disposal of real estate for the settlement of debts, allow for faster completion of the procedures, thus helping to reduce non-performing loans.

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

2018 is considered a milestone year for the Greek economy. The conclusion of the third Economic Adjustment Program - which was accompanied by specific measures in order to cover the country's financing needs over the medium-term -contributed to the improvement of economic sentiment, as well as the prospects of the Greek economy

In 2018, markets' confidence was gradually strengthened, whereas the position of the country as an investors' destination was improved, due to the following: (i) the strengthening of the economic activity, (ii) the achievement of a primary general government surplus, above the fiscal target for

ACCOUNTING POLICIES APPLIED (cont.)

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

1.28.1 Going concern (cont.)

Operating environment of the parent company (cont.)

the fourth consecutive year, (iii) the upgrading of the country's credit rating by the international rating agencies, (iv) the successful completion of the EU-wide stress testing exercise for the four systemic Greek banks and (v) the further easing of capital controls. In addition, in February 2018, a new seven-year bond was successfully issued, allowing the Greek State to raise Euro 3 billion.

GDP at constant prices increased by 1,9% on an annual basis in 2018 from 1.5% in 2017. The main driving forces of economic expansion were the significant positive contribution of export performance of goods and services and private consumption. Moreover, signs of recovery are evident in the real estate market, as house prices increased for the first time since 2009, by 1.3% on an annual basis in the first nine months of 2018. The Economic Sentiment Indicator (ESI) improved to 102.1 units in 2018, from 96.6 units in 2017, at a higher level than the pre-crisis of 2008 (=100). All sub-indices of business expectations and mainly the consumer confidence indicator improved in 2018 compared to 2017.

Inflation based on the Consumer Price Index (CPI) remained in positive territory in 2018 for the second consecutive year after four years of deflation. CPI increased by 0.6% in 2018, from 1.1% in 2017. Weak inflationary pressures came up from the increase of international oil prices in 2018, though base effects contributed negatively because of the indirect taxation increases on goods and services in 2017.

The unemployment rate followed a downward trend in 2018 and stood at 18.5% in November 2018 (according to seasonally adjusted data), lower by 2.6 percentage points compared to November 2017 and by 9.4 points compared to July 2013 when reaching historically high levels. According to the European Commission Autumn Economic Forecasts, the unemployment rate is expected to reach 19.6% in 2018, from 21.5% in 2017, the highest level among European Union countries. Employment continued to increase (by 3.7% on an annual basis in the first eleven months of 2018), mainly due to the increase of part-time jobs. The main sectors that contributed to the creation of new jobs were the export-oriented sectors of the Greek economy such as tourism, trade and manufacturing.

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 31.12.2018,
- 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	
		31.12.2018	31.12.2017
	Note	€΄000	€΄000
Interest and similar income			
Due from banks		1.640	1.601
Loans and advances to customers		75.385	96.750
Investment securities measured at fair value through other comprehensive income		747	
Investment securities held for sale			870
Derivatives held for risk mitigation		356	1.536
Total		**78.128**	**100.757**
Interest expense and similar charges			
Deposits with Central Banks		(2.264)	(234)
Due to banks		(1.421)	(87)
Due to customers		(21.254)	(31.613)
Subordinated bonds	25	(3.038)	(4.777)
Total		**(27.977)**	**(36.711)**
Net interest income		**50.151**	**64.046**

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

	From 1 January to	
	31.12.2018	31.12.2017
Financial assets measured at amortised cost	77.025	98.351
Financial assets measured at fair value through other comprehensive income	747	870
Financial assets measured at fair value through profit or loss	356	1.536
Financial liabilities measured at amortised	(27.977)	(36.711)

During 2018, compared to 2017, net interest income was decreased mainly due to : a) the decrease of interest income from the loans portfolio due to the increased impairements of 2017 and 2018 and by the application of IFRS9 from 1.1.2018 and b) the reduction in loans and the reduction in interest rates. (Note 17)

3. NET FEE AND COMMISSION INCOME

	From 1 January to	
	31.12.2018 €΄000	31.12.2017 €΄000
Loans	15	32
Letters of guarantee	724	536
Imports – Exports	90	228
Credit cards	761	695
Transfers of funds	2.073	1.665
Foreign exchange	492	488
Insurance	656	687
Deposits	2.132	1.859
	6.943	6.190

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

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

4 . DIVIDEND INCOME

	From 1 January to	
	31.12.2018 €΄000	31.12. 2017 €΄000
Shares of investing portfolio measured at fair value through other comprehensive income	502	
Shares available for sale		696
	502	**696**

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

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

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

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

The “Significant modifications” item includes the carrying amount of loans derecognized in 2018 due to a material change in contractual terms, as well as the difference in the fair value.

5B GAINS LESS LOSSES ON FINANCIAL TRANSACTIONS

	From 1 January to	
	31.12.2018	**31.12.2017**
Foreign exchange differences	692	2.175
Financial assets measured at fair value through other comprehensive income:		
- Bonds	81	
Derivative financial instruments	20	(24)
Other financial instruments	7	986
Total	**800**	**3.137**

6. OTHER INCOME

	From 1 January to	
	31.12.2018	31.12.2017
	€΄000	€΄000
Profit from sale of fixed assets	103	-
Income from services offered to group companies	5.008	3.074
	5.111	3.074

7. STAFF COSTS

	From 1 January to	
	31.12.2018	31.12.2017
	€΄000	€΄000
Wages and salaries	29.655	27.915
Other staff costs	845	1.269
Contributions to employee’s provident fund	2.152	2.002
	32.652	**31.186**

The total number of employees as at 31.12.2018 were 681 (31.12.2017 : 662)

8. GENERAL ADMINISTRATIVE EXPENSES AND OTHER EXPENSES

	From 1 January to	
	31.12.2018 €´000	31.12.2017 €´000
Advertisement and promotion expenses	1.811	1.772
Rents payable	1.321	1.318
Special tax levy on customer deposits	3.162	2.882
Contributions to the resolution fund	191	244
Repairs and maintenance	340	328
Professional expenses	1.768	1.995
Legal fees	260	275
Legal fees associated with NPLs management	1.285	1.107
Collection companies fees	1.437	1.039
Subscriptions for card use (VISA)	1.162	1.082
Computer maintenance and supplies	829	782
Insurance	289	325
Electricity	550	572
Telecommunication expenses	572	590
Stationery and printing	379	365
Value added tax	2.203	2.107
Other	3.411	4.818
	20.970	21.601

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 2018, the Group contributed €191 thous., (2017: €244 thous.) 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

The amount of impairment loss to cover credit risk of € 23.170 thousand includes the impairment loss and provisions for credit risk of loans and advances to customers, which are presented in table (i) below, as well as the impairment losses on other financial instruments presented in table (ii).

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

	From 1 January to	
	31.12.2018 €´000	**31.12.2017 €´000**
Impairment losses on loans	18.306	111.719
Provisions to cover credit risk on off balance sheet items	1.044	
Gains/(Losses) on modifications of contractual terms of loans and advances to customers	7.072	
Recoveries	(2.269)	(4.380)
Total	**24.153**	**107.339**

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

In contrary to IAS 39, under which the Group recognized incurred credit losses, IFRS 9, implemented from 1.1.2018, requires the recognition of expected credit losses. As a result ,the above figures for years 2017 and 2018 are not comparable.

For the year 2018, Impairment losses and provisions to cover credit risk amounted to € 24.153 thous. and included the following:

- Impairment losses on loans and provision to cover credit risk relating to off balance sheet items, which resulted from the impairment assessment exercises that the Group performs on a quarterly basis. The methodology for the calculation of the expected credit losses as well as explanation regarding of how significant changes in the gross carrying amount contribute to the change in the expected credit losses and impairment losses of the year, are described in note 35, as well as explanations for how significant changes in the impairment balance contribute to the change in expected credit losses and losses for the year.

-Losses on modification of contractual terms of loans and advances to customers, which relate to cases for which the expected change in contractual cash flows is not substantial and does not result in a derecognition, the carrying amount of the loan will be adjusted to reflect the present value of the modified cash flows discounted with the original effective interest rate.

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

	From 1 January to	
	31.12.2018 €´000	31.12.2017 €´000
Impairment losses on debt securites and other securities measured at fair value through other comprehensive income	237	-
Impairment losses on due from banks	(1.220)	-
Total	**(983)**	**-**

During the transition to IFRS 9, the Group recognized in retained earnings, impairment losses of € 196 thous. for debt securities measured at fair value through other comprehensive income and of € 1.235 thous. from due from banks. The impairment losses for debt securities were affected positively in 2018.

There was no material change in credit parameters used for the calculation of impairment losses on due from Banks.

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

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

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

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

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

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

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

10. LOSSES BEFORE TAX

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

		From 1 January to	
	Note	31.12.2018 €΄000	31.12.2017 €΄000
Directors' remuneration:			
Executive Directors	40(a)	531	351
Non-Executive Directors	40(a)	193	148
Independent auditors' remuneration for statutory audit of annual accounts		140	129
Independent auditors' remuneration for other non-audit services		2	-
Depreciation of property, plant and equipment	19	1.477	1.470
Amortization of intangible assets	20	553	288
Rent payable	8	1.321	1.318

11. TAX

		From 1 January to	
	Note	31.12.2018 €΄000	31.12.2017 €΄000
Deferred tax - debit/(credit)	21	3.721	1.919
Debit/(Credit) for the year		3.721	1.919

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

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

The Group has been tax reviewed up until 2012 and is currently in the process of being reviewed for the years 2013-2017. 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			
	%	31.12.2018 €´000	%	31.12.2017 €´000
Accounting loss before tax		(15.244)		(84.741)
Tax calculated at applicable tax rates (nominal tax rate)	12,50	(1.906)	12,50	(10.593)
Tax effect of expenses not deductible for tax purposes	(7,15)	1.088	(3,97)	3.366
Tax effect of allowances and income not subject to tax	61,36	(9.343)	0,37	(316)
Tax effect of loss for the year	(91,15)	13.882	(11,16)	9.462
Tax as per statement of comprehensive income (effective tax rate)	(24,44)	3.721	(2,26)	1.919

The Group has not recognized deferred tax assets amounting to € 29.264 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 Group by the weighted average number of issued ordinary shares during the year.

	From 1 January to	
	31.12.2018 (€´000)	31.12.2017 (€´000)
Profit / (Losses) attributable to the owners	(18.965)	(86.660)
Issued shares on 1 January	174.474.178	174.474.178
Weighted average number of shares for the year	191.283.098	174.474.178
Basic and diluted earnings /(losses) per share (€ cent)	(9,91)	(49,67)

13. CASH AND BALANCES WITH CENTRAL BANKS

	31.12.2018 €´000	31.12.2017 €´000
Cash and cash equivalents	19.149	18.655
Balances with Central Bank of Cyprus	518.219	206.689
	537.368	228.344
Mandatory reserve deposits with Central Bank of Cyprus	22.545	21.449
	559.913	249.793

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

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

	31.12.2018 €´000	31.12.2017 €´000
Placements with Alpha Bank Group	120.390	103.761
Placements with other financial institutions	9.089	36.056
Reverse repos	48.256	426.951
Accumulated provisions	(15)	-
	177.720	566.768

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 MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2018 €΄000
Government bonds and treasury bills	230.038
Corporate bonds	40.736
Shares	6.669
	277.443
Listed	273.214
Non Listed	4.229
	277.443
Geographical analysis based on issuer's region:	
- Cyprus	234.267
- Greece	30.509
- USA	12.667
	277.443

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

INVESTMENT SECURITIES AVAILABLE FOR SALE

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

INVESTMENT PORTFOLIO SHARES VALUED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Fair value 31.12.2018 €΄000	Dividend income from 1.1.2018 to 31.12.2018 €΄000	Fair value 31.12.2017 €΄000	Dividend income from 1.1.2017 to 31.12.2017 €΄000
Visa Inc.	2.441	12	1.502	10
JCC Limited	4.228	490	1.651	686
Total	6.669	502	3.153	696

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

16. DERIVATIVE FINANCIAL INSTRUMENTS (Assets - Liabilities)

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

		31.12.2017 €΄000	
		Fair value	
	Contractual Nominal amount	**Assets**	**Liabilities**
Derivatives for hedging purposes			
Foreign Exchange Derivatives			
FX swaps	511.141	6.942	18
Total	511.141	6.942	18

17. LOANS AND ADVANCES TO CUSTOMERS

	31.12.2018 €΄000	31.12.2017 €΄000
Loans and advances to customers	2.138.814	2.459.479
Allowance for impairment losses	(598.035)	(724.644)
	1.540.779	**1.734.835**

Loans measured at amortised cost

	31.12.2018 €΄000	31.12.2017 €΄000
Individuals:		
- Mortgages	932.545	1.207.945
- Consumer	209.314	250.551
-Credit cards	13.305	14.713
Total	**1.155.164**	**1.473.209**
Companies:		
Corporate loans	983.622	1.154.823
Total	**983.622**	**2.628.032**
Central government	28	594
Total	**28**	**594**
	2.138.814	**2.628.626**
Less : Allowances for impairment losses	(598.035)	(724.644)
Total	1.540.779	1.734.835

Accumulated allowance for impairment losses

Balance 1.1.2017	**667.320**
Changes in the period 1.1. - 31.12.2017	
Impairment losses for the year	111.719
Loans written-off during the year	(73.391)
Change in the present value of the impairment losses	40.844
Foreign exchange differences	(21.848)
Balance 31.12.2017	**724.644**
Impact from the implementation of IFRS 9	55.171
Balance 1.1.2018	**779.815**
Impairment losses for the year	24.122
Sales of impaired loans	(157.713)
Derecognizing due to significant modifications in loans' contractual terms	(4.696)
Change in the present value of the impairment losses	39.975
Foreign exchange differences	7.562
Loans written-off during the year	(91.030)
Balance 31.12.2018	**598.035**

17. LOANS AND ADVANCES TO CUSTOMERS (cont.)

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

During 2018 “Loans and advances to customers” of €381 mil. and fair value €202 mil. were sold to a company of Alpha Bank AE Group. All risks and rewards have been transferred, thus, they were derecognized from the Balance Sheet.

In calculating the fair value of the sold loans, the Bank discounted the expected cash flows with the market interest rate which contains equity cost, borrowing cost and service costs.
The methodology to determine the market interest rate was verified with the contribution of an independent audit firm.

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

18. INVESTMENT PROPERTY

	Land - Buildings €΄000
Balance 1.1.2017	
Cost	2.023
Accumulated depreciation and impairment losses	-
1.1.2017-31.12.207	
Net Book value 1.1.2017	2.023
Net Book value 31.12.2017	**2.023**
Balance **31.12.2017**	
Cost	**2.023**
Accumulated depreciation and impairment losses	**0**
1.1.2018 - 31.12.2018	
Net Book value 1.1.2018	2.023
Additions from companies consolidated for the first time in 2018	5.247
Net Book value 31.12.2018	**7.270**
Balance 31.12.2018	
Cost	**7.270**
Accumulated depreciation and impairment losses	**0**

The fair value of investment property on 31.12.2018 amounted to €12,0 mil. (2017 : €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 2018	3.089	33.574	18.061	54.724
Additions	-	511	883	1.394
Disposals	-	(150)	(1.569)	(1.719)
Write offs	-	-	-	-
31 December 2018	3.089	33.935	17.375	54.399
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

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 2018	-	15.954	16.190	32.144
Charge for the year	-	792	685	1.477
Disposals	-	(68)	(1.565)	(1.633)
Write offs	-	-	-	-
31 December 2018	-	16.678	15.310	31.988
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
Net book value				
1 January 2017	3.089	18.129	1.895	23.113
31 December 2017	3.089	17.620	1.871	22.580
31 December 2018	3.089	17.257	2.065	22.411

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

20. INTANGIBLE ASSETS

	Computer Software €´000
Cost	
1 January 2018	8.917
Additions	1.648
Disposals	(204)
31 December 2018	10.361
1 January 2017	8.659
Additions	258
31 December 2017	8.917
Amortization	
1 January 2018	8.377
Charge for the year	553
Disposals	(204)
31 December 2018	8.726
1 January 2017	8.089
Charge for the year	288
31 December 2017	8.377
Net book value	
1 January 2017	570
31 December 2017	540
31 December 2018	1.635

21. DEFERRED TAX ASSETS

31.12.2018	Tax losses €΄000	Difference between depreciation and capital allowances €΄000	Total €΄000
1 January	13.397	(1.152)	12.245
Credit / (Debit) in the statement of comprehensive income	(3.658)	(63)	(3.721)
31 December	9.739	(1.215)	8.524
31.12.2017			
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

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

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

22. OTHER ASSETS

	31.12.2018 €´000		31.12.2017 €´000	
Receivables from Alpha Bank Group companies (Note 40)		1.625		549
Other receivables and prepayments		4.064		2.928
Assets from auctions and agreements with customers	12.878		8.191	
Less impairment of assets from auctions and agreements with customers	-	12.878	(367)	7.824
		18.567		11.301

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 2018, the Group repossessed assets worthing Eur5.0 million. (2017: Eur2.3 million). In 2018, no impairment was recognized. (2017: Eur367 thous.)
The fair value of the asset is calculated in accordance with the methods mentioned in accounting policies and are classified, in terms of fair value hierarchy, in Level 3 since they have made use of research inputs, assumptions and inputs relating to properties of relevant characteristics and therefore encompass a wide range of non-observable market inputs.

23. DUE TO BANKS

	31.12. 2018 €´000	31.12.2017 €´000
Amounts due to companies of Alpha Bank Group (Note 40c)	26.995	48.821
Amounts due to other financial institutions	28.118	21.672
	55.113	70.493

Amounts due to Alpha Bank A.E. are secured with «Loans and advances to customers» (Note 35.6)
The exposure of the Group 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

	31.12.2018 €΄000	31.12.2017 €΄000
Deposits:		
Current	783.428	553.782
Savings	47.686	18.127
Fixed term or notice	1.381.679	1.633.001
	2.212.793	2.204.910

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

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

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

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 Eur1.678 thous., in 2018 has been charged to the income statement. (2017 : Eur1.904 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
22.12.2009	1.300	Euribor 3m	1,45%
3.3.2011	16.000	Euribor 3m	2,16%
Total	17.300		

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:

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

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

26. OTHER LIABILITIES AND PROVISIONS

	31.12.2018 €´000	31.12.2017 €´000
Accrued expenses	4.415	3.648
Provisions for litigation and arbitration (Note. i)	130	63
Provisions to cover credit risk relating to off-balance sheet items (iii)	2.753	-
Other payables (Note. ii)	18.642	16.666
Amounts due to Alpha Bank Group companies (Note 40)	2.727	3.782
Taxes payables on behalf of clients	491	527
	29.158	24.686

(i) Provisions for litigation and arbitration

	2018 €´000	2017 €´000
1 January	63	47
Provision for the year	67	16
31 December	130	63

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

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

	€´000
Balance 31.12.2017	-
Impact from the implementation of IFRS 9 on provisions to cover credit risk	1.709
Balance 1.1.2018	1.709
Changes in the period 1.1.2018 – 31.12.2018	
Provisions to cover credit risk relating to off-balance sheet items	1.044
Balance 31.12.2018	**2.753**

27. SHARE CAPITAL

	2018		2017	
	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
Shares issue	38.107.179	32.391		-
31 December (Ordinary shares of €0,85 each)	212.581.357	180.694	174.474.178	148.303

Shareholders Structure

		31.12.2018		31.12. 2017	
	Shareholder	Number of shares	%	Number of shares	%
1.	Alpha Bank A.E.	210.362.877	98,95%	172.255.698	98,73
2.	Emporiki Venture Capital Developed Markets Ltd	1.163.835	0,55%	1.163.835	0,67
3.	Emporiki Venture Capital Emerging Markets Ltd	1.054.645	0,50%	1.054.645	0,60
	Total	**212.581.357**	**100.00%**	**174.474.178**	**100,00**

On July 23rd, 2018, the Bank increased its share capital by €44,585 thous. issuing 38.107.179 new ordinary shares. All new shares were allotted to Alpha Bank AE. at the price of €1,17. The difference between the nominal value and the issue price totaling €12.194 thous. was credited to the account "Share Premium" in Equity.
Neither of the existing shareholders, Emporiki Venture Capital Developed Markets Ltd and Emporiki Venture Capital Emerging Markets Ltd exercised their right to participate in the increase. Their holding was diluted to 0,55% (2017: 0,67%) and 0,50% (2017: 0,60%) respectively
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

	31.12.2018 €΄000	31.12.2017 €΄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 2017 and 2018.

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

	2018 €΄000		2017 €΄000	
Opening balance 1 January		**90.467**		**90.467**
Changes in the period 1.1 – 31.12				
Shares issue	12.194		-	
Total		12.194		-
Balance 31 December		**102.661**		**90.467**

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

30. RESERVES

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

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

	2018 €΄000
Balance 1.1	**4.587**
Impact from the implementation of IFRS 9 on 1.1.2018	(2.640)
Balance 1.1.2018	**1.947**
Changes in the period 1.1 – 31.12	
Revaluation of investment securities measured at fair value through other comprehensive income	(859)
Balance 31.12.2018	**1.088**

b) Reserve from the conversion of share capital

	2018 €΄000
Balance 31 December	**600**
Reserves total (a+b)	**1.688**

30. RESERVES (cont.)

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
Balance 1.1	**321**
Revaluation of investments available for sale	4.266
Balance 31 December	**4.587**

b) Reserve from the conversion of share capital

	2017
	€´000
Balance 31 December	**600**
Reserves total (a+b)	**5.187**

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 Group, due to the fact that its owners are not residents in Cyprus for tax purposes.

A gain of Euro 681 thousand has been recognized in retained earnings from securities measured at fair value through other comprehensive income

32. CONTINGENT LIABILITIES AND COMMITMENTS

32.1 OFF BALANCE SHEET LIABILITIES

	31.12.2018 €΄000	31.12.2017 €΄000
Contingent liabilities		
Bank guarantees	74.123	48.165
Commitments		
Letters of credit and letters of guarantees	2.274	5.453
Undrawn credit facilities	120.376	130.703
	122.650	136.156
Total off balance sheet liabilities	196.773	184.321

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

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

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

For commitments, an impairment provision of Euro 2,7mil. for 2018 (2017: Zero) is recognised.

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

32.2 LEASE COMMITMENTS

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

	31.12.2018 €΄000	31.12.2017 €΄000
Within one year	1.316	1.309
Between one to five years	3.034	3.644
More than five years	3.534	4.121
	7.884	9.074

The main differences between minimum future lease payments and the estimated impact by applying the new IFRS 16 "Leases", is because with new standard:

- Future rentals are discounted, and
- the following assumptions are used:
    - extension of the contracts maturing in 2019 for another three years
    - where there is a clause for an increase of the rent, the increase applies to future rents on the day of renewal

32.3 LEGAL

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

For cases where there is a significant probability of a negative outcome, and the result may be sufficiently estimated, the Group creates a provision that is included in the Balance Sheet under the caption "Provisions". On 31.12.2018 the amount of the provision stood at € 130 thous. (31.12.2017: € 63 thous.).

For cases where according to their progress and the evaluation of the Legal department on December 31, 2018, a negative outcome is not probable or the potential outflow cannot be estimated reliably due to the complexity of the cases, the time period they will last and the uncertainty of their outcome, the Group has not recognized a provision. As of 31.12.2018 the legal claims against the Group for the above cases amount to € 31.656 thous. (31.12.2017: €24.301 thous.).
According to the estimations of the legal department, the ultimate settlement of these matters is not expected to have a material effect on the financial position or the operations of the Group.

32.4 TAX

The Bank has been tax reviewed up until 2012 and is currently in the process of being reviewed for the years 2013-2017. 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	31.12.2018 €´000	31.12.2017 €´000
Cash and balances with Central Banks	13	537.368	228.344
Due from banks	14	177.720	566.768
Due to banks		(55.097)	(68.118)
		659.991	726.994

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 activities of subsidiary companies are included in "Other" category.

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

	1.1.-31.12.2018				
	Retail Banking	**Corporate Banking**	**Treasury**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Net interest income	**29.**451	23.316	(2.616)	-	50.151
Net fee and commission income	3.796	3.438		(291)	6.943
Other income	(99)	98	1.303	5.182	6.484
Total income	33.148	26.852	(1.313)	4.891	63.578
Total expenses	(24.894)	(11.700)	-	(19.058)	(55.652)
Impairment losses and provisions to cover credit risk	(23.684)	(683)	1.197	-	(23.170)
Net profit / (loss) before tax	**(15.430)**	**14.469**	**(116)**	**(14.167)**	**(15.244)**
Tax	-	-	-	(3.721)	(3.721)
Profit / (loss) after tax	(15.430)	14.469	(116)	(17.888)	(18.965)
Total assets 31.12.2018	853.442	698.068	1.015.250	47.675	2.614.435
Total liabilities 31.12.2018	1.869.821	342.991	58.507	44.887	2.316.206
Capital expenditure	-	-	-	3.042	3.042
Depreciation and amortization	(1.080)	(884)	-	(66)	(2.030)

34. OPERATING SEGMENTS (cont.)

	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)	(1.919)
Profit / (loss) after tax	(31.949)	(36.532)	4.262	(22.441)	(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)

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

	31.12.2018		
	Cyprus €000	Other countries €000	Total €000
Net interest income	36.596	13.555	50.151
Net fee and commission income	4.773	2.099	6.872
Other income	5.764	791	6.555
Total income	47.133	16.445	63.578
Total expenses	(41.468)	(14.184)	(55.652)
Impairment losses and provisions to cover credit risk	(7.571)	(15.599)	(23.170)
Net profit / (loss) before tax	(1.906)	(13.338)	(15.244)
Tax	(3.721)	-	(3.721)
Profit / (loss) after tax	(5.627)	(13.338)	(18.965)
Total assets 31.12.2018	1.929.860	688.826	2.614.435

34. OPERATING SEGMENTS (cont.)

	31.12.2017		
	Cyprus	Other countries	Total
	€000	€000	€000
Net interest income	48.665	15.381	64.046
Net fee and commission income	4.740	1.450	6.190
Other income	4.466	2.441	6.907
Total income	**57.871**	**19.272**	77.143
Total expenses	(40.918)	(13.627)	(54.545)
Impairment losses and provisions to cover credit risk	(78.364)	(28.975)	(107.339)
Net profit / (loss) before tax	(61.411)	(23.330)	(84.741)
Tax	(1.919)	-	(1.919)
Profit / (loss) after tax	(63.330)	(23.330)	(86.660)
Total assets 31.12.2017	1.716.654	1.028.150	2.744.804

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

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

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

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

35. RISK MANAGEMENT

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

The Group's main focus in 2018 was to maintain high standards of corporate governance and to comply with regulatory risk rules and to retain confidence in the conduct of its business activities through sound and robust provision of financial services.

Risk Management Organization

Board of Directors (BoD)

The BoD has the overall responsibility in setting, approving and overseeing the implementation of the Risk Appetite Framework, whilst ensuring its alignment with the Bank's short- and long-term strategy, business and capital plans and its supervisory and other requirements.

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

Board Risk Committee

The Board Risk Committee recommends to the BoD the risk taking and capital management strategy which corresponds to the business objectives of the Bank, and is responsible to monitor its implementation. Furthermore, it is responsible to evaluate the adequacy and effectiveness of the risk management policies and procedures of the Bank and ensures that the risk management framework is integrated into the business decision-making process.

Risk Management Unit

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, constitute independent control functions which refer to the Board Risk Committee through the General Manager Risk for matters of their competence and through this to the Board of Directors, with notification of the Managing Director.

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

35. RISK MANAGEMENT (cont.)

Risk Management Organization (cont.)

Risk Management Unit (cont.)

Under the supervision of the General Manager Risk, the Credit Risk Division constitutes of the following departments:

- Credit Risk Policy
- Regulatory Requirements and Corporate Governance
- Credit Control
- Data Analysis
- Credit risk methodologies
- Individual Impairment Assessment
- Collective Impairment Assessment

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

- Market and Liquidity
- Operational

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

35.1 Credit Risk

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

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

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

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

35. RISK MANAGEMENT (cont.)

35.1 Credit Risk (cont.)

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

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

Measuring credit risk and internal ratings

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

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

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

The classification of the Group's borrowers with the use of credit risk rating systems constitutes a basic tool for:

- The decision-making process of Credit Committees for the approval / renewal of credit limits and for the implementation of the appropriate pricing policy (interest rate spreads, etc.);
- The estimation of the future behavior of customers belonging to a group with similar characteristics;
- The early recognition of potential troubled facilities and the prompt, effective action for the minimization of the expected loss for the Group; and
- The assessment of the quality of the Group 's loan portfolio and the credit risk undertaken.

The aim of the credit risk rating systems is the estimation of the probability the borrowers will not meet their contractual obligations against the Group.

All current and future clients of the Group are assessed based on the appropriate credit risk rating model and within specified time frames. The rating systems used by the Group are the Alpha Bank Rating System (ABRS) and the Moody's Risk Advisor (MRA) which incorporate different credit rating models.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Measuring credit risk and internal ratings (cont.)

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:

- Financial Analysis: Obligor's Financial Ability (liquidity's ratios, debt to income, etc.)
- Peers' Analysis: Obligor's comparative position in the market in which it operates mostly compared to its peers.
- Behavioral status and transactional history of the obligor with the 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.).

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

- The credit facility's specific characteristics.
- The available information for the obligor's assessment. Specifically, for financial analysis, the differentiations have to do with the type of the local accounting standards and the International Financial Reporting Standards (IFRS)

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

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

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-.

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

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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

CREDIT CONTROL

According to the risk management and control framework, there are three “lines of defence” with distinctly allocated roles and responsibilities, the first “line of defence” being the Business and Operations Units, the second “line of defence” being the Risk Management Units and the third “line of defence” being the Internal Audit Unit.

In the context of the second line of defence, credit controls are carried out in order to optimise Credit Risk management, to assess the quality of the loan portfolio and to ensure that the first “line of defence” operates within the framework set out for effective Credit Risk management.

This operation of the second “line of defence” is independent and aims, among else, to:

- Design and develop procedures and controls for credit risk management.
- Monitor the adequacy and effectiveness of existing credit risk management procedures.
- Highlight critical issues and deviations from the Group’s Manuals and Policies.
- Provide guidelines and instructions concerning the credit risk management and control procedures.
- Provide information to concerned Units about the findings of the controls and recommendations made.

Credit Risk Model Validation Department was established, with the perspective to reinforce Group’s Second “line of defense”. The Department is under the General Manager Risk and it is responsible for the statistical validation of the Group’s credit risk models, ensuring their robustness and reliability. In particular, it undertakes the validation of the models used for the measurement and evaluation of the Group’s credit risk, in accordance with the supervisory framework and best practices.

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.

The mitigation tools applied by the Bank include two broad categories: intangible and tangible collaterals.

Intangible Collaterals

Intangible collaterals form the framework of the obligations and rights that are typically included and described in specific contractual documents that bind the Bank and the borrowers during the lending process with specific commitments. The commitments involve a third party who substitutes for the primary debtor in the event of the latter's default or the primary debtor itself (natural or legal entities) to honor the contractual loan agreements and their prompt repayment to the Bank and on the other hand the Group has the right to claim them.

The main type of intangible collateral is the Guarantee.

Tangible Collaterals

Tangible collaterals provide the Group with the rights over an asset (movable or immovable),owned by the obligor or the guarantor, providing priority in the satisfaction of the creditor by the liquidation proceeds of the asset.

Tangible collaterals involve mortgages registered over immovable properties and pledges on movable assets (e.g., commodities, checks, bills of exchange) or on claims and rights.

Mortgages

Mortgages are registered on real estate or immovable assets which can be liquidated as indicatively reported below:

- Residential Real Estate;
- Commercial Real Estate;
- Industrial Buildings;
- Land;
- Mines;
- Ships and aircrafts; and
- Machinery or other facilities (engineering, mechanical, electrical, etc.), if they are permanently and consistently connected with the mortgaged estate

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

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, as it directly affects the customer's ability to repay and the risk borne by the Group.

Pledges

Pledges provide seniority rights over liquidation proceeds from a movable third party asset.

Pledges can be registered on movable assets or on rights that have not been excluded or banned from exchanges and are liquid , including:

- Immovable assets
- Securities
- Receivables

The Bank calculates the value of the securities/ collaterals received based on the potential proceeds that could arise in case of liquidation.

Therefore, the following are taken into consideration:

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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Periodic revaluation of mortgaged property

According to the Bank's Collateral Policy, the existence and valuation of mortgages is closely monitored. The property revaluations should be carried out yearly for all property types, except for cases where contract foresees something else, cases of perceptible changes on the property or the business process or other factors.

The initial valuations of the properties offered as collateral are made by the valuer's visit and an internal review where applicable.

Revaluations of property, used as collateral on performing exposures should be carried out for:

- Residential Real Estate: on an annual basis, based on the quarterly CBC Property price Index or an on-site visit where deemed necessary
- Commercial Real Estate: on an annual basis, for exposures:
  - of up to Euro 1 million, with Desktop appraisal or an on-site visit where deemed necessary
  - Exceeding € 1m with on-site visit

Revaluations of property used as collateral on non-performing exposures is carried out at least once a year for:

- Residential Real Estate
  - exposures of up to Euro 300 thousand, based on the quarterly CBC's property price index or an on-site visit where deemed necessary.
  - exposures exceeding Euro 300 thousand with Desktop appraisal or an on-site visit where deemed necessary.
- Commercial Real Estate:
  - Exposures of up to Euro 300 thousand, with Desktop appraisal
  - Exposures between Euro 300 thousand and Euro 1 million with Desktop appraisal or on-site visit where deemed necessary
  - Exposures exceeding Euro 1 million on-site visit or Desktop appraisal if the borrower is not cooperative, as defined in the relevant policies.

Cases involving immovable property with forced memo registrations for which data is limited due to the nature of the process, are considered as exceptions to the above.

In the context of the credit control process, the Group performs, at least annually and through proper sampling, credit controls on the implementation of the Loan Collateral Policy, the verification of property valuations, both of those based on indices and those based on individual assessments and other controls in order to ensure that the respective collateral values in the Group's core systems represent the values referred in the relevant Committee approvals.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Credit Risk Early Warning Policy

In order to optimise the management of Lending and, in particular, limit the loans whose status changes from Performing Loans (PLs) to Non-Performing Loans (NPLs), due to the debtor's negligence or financial difficulty of a temporary or permanent nature, the Bank has developed the Credit Risk Early Warning Policy, which is defined as the aggregation of actions, processes and reports required to ensure the early identification of events (Early Warning Alerts), at borrower and portfolio level, which may possibly lead to either an increase in NPLs or an increase in exposures with significant increase in credit risk, as well as the relevant actions that must be taken in order to manage the borrowers concerned.

The implementation perimeter of the Credit Risk Early Warning System encompasses all performing exposures , as well as exposures past due for up to 30 days which have not been forborne (Performing Loans - PLs).

The effectiveness of the Credit Risk Early Warning System is being monitored on a regular basis by three "lines of defence":

- The first "line of defence" consists of controls within the Units of the Bank that participate in the process.
- The second "line of defence", i.e. the Risk Management Unit, is responsible for ensuring on an ongoing basis and at least once per year, that the controls of the "first line of defence" are applied effectively, through the Credit Control Mechanism.
- The third "line of defence" is the internal audit function that carries out regular evaluations and proposes potential improvements.

Environmental & Social Risk

Within the Credit Risk Management Framework and the Credit Policy, it has been integrated the assessment of the strict compliance of the principles of an environmentally and socially responsible financing towards legal entities.

The main purpose is the management of potential risk arising from the operations of obligors that may be connected with a damage to the environment or the society or with any direct threat of such a damage, having as a result a negative impact on the business operations and financial results of the Bank.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Forbearance

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

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

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

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

Impairment methodology

The Loan Impairment Methodology is common and applicable for both the Wholesale and Retail Banking Portfolios.
The Bank carries out the impairment recognition and measurement procedure per calendar quarter.

For the timely identification of significant increase in credit risk for an exposure after the initial recognition ("SICR") and the calculation of the lifetime credit loss of the exposure instead of the twelve months credit loss, the default risk at the reference date is compared to the default risk at the initial recognition date for all the performing exposures, including exposures with no days past due (Delinquencies).

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Significant Increase in Credit Risk

The assessment for deciding if an exposure shows significant increase in credit risk or not is based on the following types of Indicators:

- Quantitative Indicators: They refer to the use of quantitative information and specifically to the comparison between the probability of default ("PD") at the reference date and the probability of default at the initial recognition date. The assessment of significant increase in credit risk takes into account the absolute increase of PD between the reporting and the initial recognition date (which can range between 3 and 5 percentage point depending on the asset class of the loans) as well as the relative increase of PD between the reporting and the initial recognition date (doubling or tripling of PD, depending on asset class of the loan). Absolute and relative thresholds determining the significant increase between reporting and initial recognition date are validated on an annual basis, in order to ensure a robust statistical discriminatory power.
- Qualitative Indicators: They refer to the use of qualitative information which is not necessarily depicted in the probability of default, such as the assessment of an exposure as performing forborne (FPL according to EBA ITS). Additional qualitative indicators for the Wholesale Banking portfolios and the Retail Banking portfolios are included in Early Warning Policy. According to the abovementioned policy and as per the assessment performed, an exposure may be considered to show significant increase in credit risk.
- Backstop Indicators: In addition to the above, and with a view to addressing cases where there is no evidence of significant credit risk deterioration based on the quantitative and qualitative indicators, exposures over 30 days past due are considered by definition to show a significant increase in credit risk.

Portfolio Classification in Stages based on the Credit Risk (Staging)

Following an exposure's initial recognition, classification to Stages based on its credit risk follows. The classification of loans in stages is based on the changes of the credit quality compared to the initial recognition.

Upon initial recognition of an exposure, the Group must determine whether this exposure is considered as credit impaired (Credit Impaired at Initial Recognition).

The Purchased or Originated Credit Impaired category ("POCI") includes the following:

- Exposures that at the time of purchase ("Purchased") meet the criteria of non-performing exposures.
- Exposures that as per accounting rules are derecognised and a new exposure is recognized and for which the following apply ("Originated"): if the exposure was classified as impaired (hence NPE) prior to derecognition, the new exposure will continue to maintain this classification and it will be classified as POCI.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

For exposures not classified as POCI, the classification in stages is performed as follows:
- The Stage 1 includes performing credit exposures that have no significant increase in credit risk since the initial recognition date. The expected credit losses calculated are the twelve months losses from the date of the assessment and it is carried out on a collective basis with the exception of borrowers assessed on an individual basis
- The Stage 2 includes credit exposures with significant increase in credit risk since the initial recognition date but which are not non-performing. The expected credit losses calculated are the lifetime losses and the assessment is carried out on a collective basis with the exception of borrowers assessed on an individual basis
- The Stage 3 includes the non-performing / default exposures. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective or individual basis.

With regards to the POCI exposures, the expected credit losses calculated are the lifetime losses.

Individual assessment for impairment

The impairment calculation is carried out on an individual basis, taking into account the significance of the exposure, the fact that certain exposures do not share common risk characteristics and that there are not sufficient historical data, or collectively for other exposures.
For companies where there is a corporate guarantee from the parent company for the 100% of the outstanding amount of loan / credit, or for other important interdependencies the assessment may take place at a group level.

<u>The following Exposures to Companies are assessed on an individual basis:</u>

- Borrowers with at least one Non-Performing Exposure whose Customer General Limit in the Bank exceeds the amount of €750.000.

<u>The following Exposures to Individuals are assessed on an individual basis:</u>

- Borrowers with at least one Non-Performing Exposure and total debit outstanding balances over €1,5 million.

Collective assessment for impairment

The Collective Assessment applies to credit exposures which are not assessed individually after having been categorized based on similar characteristics of the credit risk group and the portfolio that the borrower or the credit facility belong to.
For the classification of credit facilities into groups with similar credit risk characteristics, the following are considered:
- Staging according to Credit Risk
- Type of product
- Currency of product
- Nationality of the account owner
- Time in default status
- Collateral existence taking into account the percentage rate of coverage (Loan to Value)
- Credit risk rating
- Activity sector

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Calculation of expected credit loss

The amount of expected credit losses is updated on a calendar quarterly basis so as to reflect the changes in the credit risk since initial recognition and thus provide timely information on expected credit losses.

The measurement of expected credit losses is performed as follows:

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

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

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

- Probability of Default (PD): It is an estimate of the probability of default over a specific time horizon.
- Exposure at default (EAD): Exposure at Default is an estimate of the amount of the exposure at the time of the default. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit exposure equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF).
- Loss given default (LGD): Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received, including the liquidation of collaterals and cure rate.

To determine the amount of the required provisions, the Group 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 the actual results could lead to significant changes to the amount of the required provisions.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Integration of future information

For the purpose of determining the expected credit risk loss, the Group calculates the expected cash flows based on the weighted probability of three alternative scenarios.

More specifically, Alpha Bank SA Group Financial Studies Division, produces forecasts of the possible evolution of macroeconomic variables based on sufficient historical information which affect the amount of expected credit risk loss of the loans portfolio under one basic and two alternative macroeconomic scenarios (one favorable and one adverse) while also generating the cumulative probabilities associated with those scenarios.

The macroeconomic variables that affect the amount of expected credit losses are Gross Domestic Product (GDP), unemployment rate, inflation, as well as the future values of housing and commercial real estate.

The average per year, for the period 2019-2022 of the macroeconomic variables that affect both the probability of default and the expected losses in the event of default are the following:

	Adverse Scenario	Basic Scenario	Favorable Scenario
Change in GDP	1,1%	3,4%	5,7%
Unemployment rate	8,2%	6,0%	3,8%
Change in inflation	0,2%	1,5%	2,7%
Change in Residential Real Estate (RRE) prices	-0,9%	2,9%	6,8%
Change in commercial Real Estate (CRE) prices	-1,2%	2,6%	6,4%

The baseline scenario is supported by a consistent financial description, acts as the starting point and will be the most likely scenario in the current financial conditions and the Group's baseline assessment regarding the forecasts of the economy.

The cumulative probabilities that accompany the macroeconomic scenario for the Cypriot economy indicate that the economy performs better or worse than forecasted based on the baseline and the alternative scenario, ie favorable and unfavorable scenario. For each of the alternative scenarios, the expected credit risk loss is calculated and weighted with the probability of each scenario to calculate the weighted expected credit risk loss.

The cumulative probability associated with the baseline scenario is 70%, while the cumulative probability of the unfavorable and favorable scenario is 15% for each scenario.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Should the cumulative probability of the adverse scenario increase, from 15% to 30%, Expected Credit Losses are estimated to increase by € 15.2 million.

Should the cumulative probability of the favorable scenario increase from 15% to 30%, the Expected Credit Losses are estimated to decrease by € 15.1 million.

WRITE-OFFS AND WRITE-DOWNS OF BAD DEBTS

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

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

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

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

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

The Group has cumulatively written off, until 2018, Eur334.981 thous. which remain under claim. (2017: Eur250.478 thous.)

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. The amount due is considered as the sum of the principal, interests and charges/commissions that is over one day due at the account level.

Non Performing Exposures

An exposure is considered as non-performing when at least one of the following criteria apply at the time of the credit risk rating assessment:

- The exposure is materially more than 90 days past due (NPL), based on the «EBA RTS on the materiality threshold», released on September 2016, namely the amount due exceeds:
  - Euro 100 - for retail exposures - or Euro 500 - for wholesale exposures and
  - 1% of the total - on balance sheet - debt.
- Legal actions have been undertaken by the Bank – Legal (NPL).
- The exposure is classified as Forborne Non-Performing Exposure, as defined in the Implementing Regulation (EU) 227/9.1.2015, as described in section 2.8.
- It is assessed as Unlikely to Pay (UTP), credit obligations in full.

When a Wholesale Banking borrower has exposures that are more than 90 days past due and the amount of these exposures exceeds 20% of the Total Exposures of the borrower, then all exposures of the borrower are considered as Non-Performing (Pulling Effect).

Performing Exposures

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

- the exposure is less than 90 days past due;
- no legal actions have been undertaken against the exposure;
- it is not assessed as Unlikely to Pay
- is not classified as credit impaired or
- the exposure is classified as forborne performing exposure, as defined in the aforementioned Implementing Regulation (EU) 2015/227 of 9 January 2015.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Unlikely to pay loans

An exposure is flagged as 'Unlikely To Pay' (UTP) when it is less than 90 days past due and the Bank assesses that the borrower is unlikely to fully meet his credit obligations, without the liquidation of collateral, regardless the existence of any past due amount or the number of days past due, with the exception of the cases of collaterals that are part of the production and trade chain of the borrower (e.g. properties for Real Estate companies, corporate shares for Holding companies).

The Bank assesses the existence of unlikely to pay triggers on the basis of a particular procedure, as follows:

a) Events are determined which when occur the exposure is identified as Non-Performing (Hard UTP Triggers) without any assessment needed by any Credit Committee,

b) Triggers are determined which when occur, the borrower should be assessed by the relative Credit Committee to decide if the borrower's exposures should be assessed as Non-Performing or not (**Soft UTP Triggers**).

Credit Impaired Exposures

An Exposure is considered as Credit Impaired when the criteria for the definition of Non-performing Exposures are met.

Default Exposures

An Exposure is considered as "In Default" when the criteria for the definition of Non-performing Exposures are met.

Accumulated Impairments

An accumulated impairment loss, for credit risk purposes, is the amount of the impairment loss calculated either individually or collectively, including the fair value adjustment balance of the contractual balances of the loans acquired as a result of an acquisition, as well as the exposures that were POCI at their initial recognition.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Wholesale and Retail Banking credit facilities

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

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

Customers that do not meet the above mentioned criteria, fall under the Retail Banking Sector.

Concentration risk

Concentration Risk is a specific form of credit risk which arises due to the low degree of diversification between counterparties, products or group of counterparties, sectors, geographic regions, products or collaterals.

The Group monitors on a regular basis concentration risk through detailed reporting to the Senior Management and the Board of Directors. According to the supervisory framework, the Group adopts and complies with the regulatory directives regarding Large Exposures, while the capital requirements for single name and sector concentration risks are estimated in the context of Pillar 2 of Basel II.

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

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

DUE FROM BANKS

Exposure to credit institutions relates to loans, interbank transactions (which include positions in derivatives) and International Trade activities. Following the basic rules of designation, monitoring and revision of corporate lending, boundaries are established by the relevant Credit Committees for the monitoring of credit risk for the overall exposure per credit institution counterparty, excluding positions related to bonds issued by them. The approved credit limits are monitored on a daily basis. The validity period of the limits is specified in the approval of the limits in accordance with the counterparty credit institutions rating from international credit rating agencies.

In addition to the regular revisions of counterparty credit institutions limits, interim revisions may be carried out either due to circumstances associated with the trading activity of the Group or due to markets conditions or problems associated with counterparty credit institutions. Trigger events for an extraordinary review are regularly monitored per counterparty in order to review the relevant limits when such trigger events exist.

At each reporting date, a loss allowance for expected credit losses on due from banks is recognized.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument.

In addition, if the receivable falls under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

Due from bank’s credit risk is assessed based on credit rating of rating agencies or internal credit rating of the counterparty when a loan exposure exists at bank level.

The Group defines as low credit risk all investment grade counterparties, for which it calculates a credit allowance equal to a 12-month expected credit loss (Stage 1).

For counterparties which do not meet the criteria of investment grade, the assessment of the significant increase in credit risk for which calculation of lifetime expected credit losses is required (Stage 2), is based on the two following conditions:
- Downgrade by at least two notches of the counterparty credit rating between the reporting date and the initial recognition date
- The 12-month PD at reporting date is above 5% in absolute terms and has increased more than 50% compared to the respective PD existing at initial recognition date.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

INVESTMENTS IN DEBT SECURITIES

Investments in debt securities relate to securities that are classified into investment security portfolio. The positions are subject to Group investment limits and issuer's limits and are monitored on a daily basis.

At each reporting date, a loss allowance for expected credit losses on bonds, which are not measured at fair value through profit or loss, is recognized.

In addition, if the debt securities fall under the definition of purchased or originated credit impaired (POCI) financial assets, a loss allowance equal to the lifetime expected credit losses is recognized.

The loss allowance is based on expected credit losses related to the probability of default within the next twelve months, unless there has been a significant increase in credit risk from the date of initial recognition in which case expected credit losses are recognized over the life of the instrument.

Credit risk of investment in debt securities is assessed based on credit ratings of rating agencies or internal credit rating in case of corporate issuers for which loan exposure exists.

The Group defines as low credit risk all investment grade securities, for which it calculates a credit allowance equal to a 12-month expected credit loss (Stage 1).

For debt securities, which do not meet the criteria of investment grade, the assessment of the significant increase in credit risk for which calculation of lifetime expected credit losses is required (Stage 2), is based on the two following conditions:

- Downgrade by at least two notches of the counterparty credit rating between the reporting date and the initial recognition date
- The 12-month PD at reporting date is above 5% in absolute terms and has increased more than 50% compared to the respective PD existing at initial recognition date

In addition, the Group is monitoring, the change in credit spreads since the initial recognition date. A change in the credit spread of the issue of more than 500bps since the initial recognition date is a trigger for the review of the debt instrument staging.

Depending on the outcome of the above review the debt instrument will remain at Stage 1 or be allocated at Stage 2, regardless of whether the primary staging criteria for allocation to Stage 2 have been triggered or not.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

FINANCIAL INSTRUMENTS CREDIT RISK

The maximum credit risk per category, in which the Group is exposed, is depicted in the "Net exposure to credit risk".

		2018	
	Exposure before impairment	Provision for impairment losses	Net exposure to credit risk
	€΄000	€΄000	€΄000
A. Credit risk exposure relating to on balance sheet items			
Balances with central banks	540.764	-	540.764
Due from banks	177.735	15	177.720
Loans and advances to customers measured at amortised cost	2.254.472	713.693	1.540.779
of which:Leasing	-	-	-
Loans and advances to customers measured at fair value through profit or loss	-	-	-
Trading securities	-	-	-
Derivative financial assets	173	-	173
Securities available for sale	-	-	-
Securities held to maturity	-	-	-
Securities measured at fair value through other comprehensive income	277.875	432	277.443
Securities measured at amortised cost	-	-	-
Other assets	5.689	-	5.689
Total amount of balance sheet items exposed to credit risk (a)	**3.256.708**	**713.693**	**2.542.568**
Other balance sheet items not exposed to credit risk	71.867		71.867
Total assets	**3.328.575**	**714.140**	**2.614.435**
B. Credit risk exposure relating to off balance sheet items:	-	-	-
Letters of guarantee, letters of credit and other guarantees	76.397	2.008	74.389
Undrawn loan agreements and credit limits	120.376	745	119.631
Total amount of off balance sheet items exposed to credit risk (b)	**196.773**	**2.753**	**194.020**
Total credit risk exposure (a+b)	**3.525.348**	**716.893**	**2.808.455**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

LOANS AND ADVANCES TO CUSTOMERS

For credit risk disclosure purposes, the accumulated provision for impairment losses of loans to customers measured at amortised cost (i.e. Expected Credit Loss) include the accumulated allowance for impairment losses and the fair value adjustment for the contractual balance of loans which were impaired at their acquisition or origination (POCI) since the Group, from credit risk perspective, monitors the respective adjustment as part of the provisions.

Loans by IFRS 9 Stage (past due and not past due)

The following table presents past due and not past due loans, measured at amortised cost, per IFRS 9 Stage :	31.12.2018									
	Loans measured at amortised cost									
	Stage 1					Stage 2				
	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	286.714	15.323	302.037	(1.156)	300.881	83.605	49.832	133.437	(8.387)	125.050
Mortgage	229.026	13.215	242.241	(808)	241.433	69.930	39.148	109.078	(5.585)	103.493
Consumer	37.998	1.634	39.632	(292)	39.340	9.907	8.865	18.772	(2.587)	16.185
Credit cards	7.367	227	7.594	(5)	7.589	5	138	143	(6)	137
Small Business Loans	12.323	247	12.570	(51)	12.519	3.763	1.681	5.444	(209)	5.235
Corporate lending	400.490	4.022	404.512	(1.421)	403.091	103.982	7.761	111.743	(2.016)	109.727
Large	393.720	3.973	397.693	(1.344)	396.349	103.298	7.618	110.916	(2.008)	108.908
SME's	6.770	49	6.819	(77)	6.742	684	143	827	(8)	819
Public sector	-	-	-	-	-	28	-	28	-	28
Cyprus	-	-	-	-	-	28	-	28	-	28
Other countries	-	-	-	-	-	-	-	-	-	-
Total	687.204	19.345	706.549	(2.577)	703.972	187.615	57.593	245.208	(10.403)	234.805

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

	31.12.2018											
	Loans measured at amortised cost											
	Stage 3					Purchased or originated credit impaired loans (POCI)					Total net carrying amount at amortised cost	Value of collateral
	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount	Not past due	Past due	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount		
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Retail lending	49.244	579.258	628.502	(315.202)	313.300	34.907	193.177	228.084	(122.283)	105.801	845.032	737.554
Mortgage	36.076	435.331	471.407	(230.090)	241.317	28.195	136.061	164.256	(83.640)	80.616	666.859	631.905
Consumer	10.666	108.236	118.902	(67.737)	51.165	5.223	45.269	50.492	(31.771)	18.721	125.411	73.327
Credit cards	3	5.004	5.007	(4.065)	942	6	886	892	(632)	260	8.928	1.246
Small Business Loans	2.499	30.687	33.186	(13.310)	19.876	1.483	10.961	12.444	(6.240)	6.204	43.834	31.076
Corporate lending	27.240	326.251	353.491	(202.038)	151.453	5.881	86.757	92.638	(61.190)	31.448	695.719	472.784
Large	24.662	208.931	233.593	(133.174)	100.419	5.251	26.797	32.048	(17.257)	14.791	620.467	398.337
SME's	2.578	117.320	119.898	(68.864)	51.034	630	59.960	60.590	(43.933)	16.657	75.252	74.447
Public sector	-	-	-	-	-	-	-	-	-	-	28	28
Cyprus	-	-	-	-	-	-	-	-	-	-	28	28
Other countries	--	-	-	-	-	-	-	-	-	-	-	-
Total	76.484	905.509	981.993	(517.240)	464.753	40.788	279.934	320.722	(183.473)	137.249	1.540.779	1.210.366

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage

The following table presents loans measured at amortised cost per IFRS 9 Stage and credit quality, as well as loans that are measured at fair value through profit or loss by credit quality, as at 31.12.2018.

2018					
Loans measured at amortised cost					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Mortgage					
Strong credit quality	111.190	5.154	-	3.543	119.887
Satisfactory credit quality	114.308	39.861	-	9.345	163.514
Watch list (higher risk)	16.743	64.063	-	1.763	82.569
Default	-	-	471.407	149.605	621.012
Carrying amount (before provision for impairment losses)	242.241	109.078	471.407	164.256	986.982
Expected credit losses	(808)	(5.585)	(230.090)	(83.640)	(320.123)
Net Carrying Amount	241.433	103.493	241.317	80.616	666.859
Value of collateral			250.852	72.553	631.905
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Consumer					
Strong credit quality	29.353	1.013	-	179	30.545
Satisfactory credit quality	9.321	4.704	-	1.045	15.070
Watch list (higher risk)	958	13.055	-	512	14.525
Default	-	-	118.902	48.756	167.658
Carrying amount (before provision for impairment losses)	39.632	18.772	118.902	50.492	227.798
Expected credit losses	(292)	(2.587)	(67.737)	(31.771)	(102.387)
Net Carrying Amount	39.340	16.185	51.165	18.721	125.411
Value of collateral			38.419	11.670	73.327

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Credit cards					
Strong credit quality	7.525	7	-	7	7.539
Satisfactory credit quality	69	63	-	1	133
Watch list (higher risk)	-	73	-	-	73
Default	-	-	5.007	884	5.891
Carrying amount (before provision for impairment losses)	7.594	143	5.007	892	13.636
Expected credit losses	(5)	(6)	(4.065)	(632)	(4.708)
Net Carrying Amount	7.589	137	942	260	8.928
Value of collateral			161	1.246	1.287

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Small Business					
Strong credit quality	8.121	461	-	66	8.648
Satisfactory credit quality	4.303	2.066	-	165	6.534
Watch list (higher risk)	146	2.917	-	140	3.203
Default	-	-	33.186	12.073	45.259
Carrying amount (before provision for impairment losses)	12.570	5.444	33.186	12.444	63.644
Expected credit losses	(51)	(209)	(13.310)	(6.240)	(19.810)
Net Carrying Amount	12.519	5.235	19.876	6.204	43.834
Value of collateral			16.731	2.637	31.076
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Large Corporate					
Strong credit quality	178.890	273	-	-	179.163
Satisfactory credit quality	206.423	16.561	-	-	222.984
Watch list (higher risk)	12.380	94.082	-	-	106.462
Default	-	-	233.593	32.048	265.641
Carrying amount (before provision for impairment losses)	397.693	110.916	233.593	32.048	774.250
Expected credit losses	(1.344)	(2.008)	(133.174)	(17.257)	(153.783)
Net Carrying Amount	396.349	108.908	100.419	14.791	620.467
Value of collateral			97.214	13.333	398.337

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Loans by credit quality and IFRS 9 Stage (cont.)

2018					
Loans measured at amortised cost					
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
SME's					
Strong credit quality	1.155	-	-	-	1.155
Satisfactory credit quality	2.993	0	-	-	2.993
Watch list (higher risk)	2.671	827	-	-	3.498
Default	-	-	119.898	60.590	180.488
Carrying amount (before provision for impairment losses)	6.819	827	119.898	60.590	188.134
Expected credit losses	(77)	(8)	(68.864)	(43.933)	(112.882)
Net Carrying Amount	6.742	819	51.034	16.657	75.252
Value of collateral			53.012	15.577	74.447
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000
Public Sector					
Strong credit quality	-	-	-	-	-
Satisfactory credit quality	-	28	-	-	**28**
Watch list (higher risk)	-	-	-	-	-
Default	-	-	-	-	-
Carrying amount (before provision for impairment losses)	-	**28**	-	-	**28**
Expected credit losses	-	-	-	-	-
Net Carrying Amount	-	**28**	-	-	**28**
Value of collateral	-	-	-	-	-

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Off-balance sheet items by credit quality and IFRS 9 Stage

2018					
Loans measured at amortised cost					
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Letters of guarantee, letters of credit and other guarantees					
Strong credit quality	31.176	-	-	-	31.176
Satisfactory credit quality	11.297	-	-	-	11.297
Watch list (higher risk)	27.371	-	-	-	27.371
Default	-	-	6.553	-	6.553
Carrying amount (before provision for impairment losses)	69.844	-	6.553	-	76.397
Expected credit losses	(1.617)	-	(391)	-	(2.008)
Net Carrying Amount	68.227	-	6.162	-	74.389
Value of collateral			-	-	-
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Undrawn loan agreements and credit limits					
Strong credit quality	82.054	374	-	15	82.443
Satisfactory credit quality	26.799	1.052	-	7	27.858
Watch list (higher risk)	4.272	2.787	-	7	7.066
Default	-	-	2.427	582	3.009
Carrying amount (before provision for impairment losses)	113.125	4.213	2.427	611	120.376
Expected credit losses	(64)	(62)	(448)	(171)	(745)
Net Carrying Amount	113.061	4.151	1.979	440	119.631
Value of collateral			-	-	-

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Ageing analysis by IFRS 9 Stage and product line of loans

2018																				
	Loans measured at amortised cost																			
	Retail lending																			
	Mortgage Loans					Consumer					Credit Cards					Small Business				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Current	228.381	67.463	26.150	21.623	343.617	37.748	9.370	6.655	3.679	57.452	7.363	5	0	5	7.373	12.276	3.621	1.834	1.278	19.009
1 - 30 days	13.052	14.704	7.906	2.158	37.820	1.591	2.367	943	600	5501	226	8	-	3	237	243	648	338	101	1.330
31 -60 days	-	12.114	7.280	1.214	20.608	0	589	988	1.986	3563	-	57	-	-	57	-	752	1.535	61	2.348
61 -90 days	-	9.212	9.597	1.557	20.366	0	3.791	1.844	876	6.511	-	40	-	-	40	-	206	1.116	126	1.448
91 - 180 days	-	-	14.409	1.510	15.919	0	14	1.950	416	2.380	-	0	20	-	20	-	8	363	198	569
181 - 360 days	-	-	16.881	1.326	18.207	0	39	1.458	100	1.597	-	0	24	-	24	-	-	534	199	733
> 360 days	-	-	159.094	51.228	210.322	1	15	37.327	11.064	48.407	-	27	898	252	1.177	-	-	14.156	4.241	18.397
Total	241.433	103.493	241.317	80.616	666.859	39.340	16.185	51.165	18.721	125.411	7.589	137	942	260	8.928	12.519	5.235	19.876	6.204	43.834
Value of collaterals	219.337	89.163	250.852	72.553	631.905	18.280	4.958	38.419	11.670	73.327	1.079	6	161	-	1.246	8.278	3.430	16.731	2.637	31.076

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Ageing analysis by IFRS 9 Stage and product line of loans (cont.)

	2018																			
	Loans measured at amortised cost										Loans measured at amortised cost									
	Corporate lending										Public sector									
	Large					SME's					Cyprus					Other countries				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Current	392.543	101.332	23.342	3.840	521.057	6.693	676	2.125	496	9.990	-	28	-	-	28					
1 - 30 days	3.806	330	234	-	4.370	49	-	106	-	155	-	-	-	-	-	-	-	-	-	-
31 -60 days	-	864	958	436	2.258	-	103	1.526	783	2.412	-	-	-	-	-	-	-	-	-	-
61 -90 days	-	6.382	1.208	-	7.590	-	40	601	366	1.007	-	-	-	-	-	-	-	-	-	-
91 - 180 days	-	-	3.089	-	3.089	-	-	720	368	1.088	-	-	-	-	-	-	-	-	-	-
181 - 360 days	-	-	4.680	-	4.680	-	-	648	261	909	-	-	-	-	-	-	-	-	-	-
> 360 days	-	-	66.908	10.515	77.423	-	-	45.308	14.383	59.691	-	-	-	-	-					
Total	396.349	108.908	100.419	14.791	620.467	6.742	819	51.034	16.657	75.252	-	28	-	-	28	-	-	-	-	-
Value of collaterals	192.856	94.934	97.214	13.333	398.337	5.114	744	53.012	15.577	74.447	-	28	-	-	28	-	-	-	-	-

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Reconciliation of loans by IFRS 9 Stage

The following table presents the movement in the loans measured at amortised cost by IFRS 9 Stage.

	2018									
	Retail lending					**Corporate lending**				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	285.158	174.651	816.398	254.358	1.530.565	223.602	191.732	540.486	130.561	1.086.381
Transfers to Stage 1 from Stage 2 or 3	52.609	(52.375)	(234)	-	-	126.135	(125.070)	(1.065)	-	-
Transfers to Stage 2 from Stage 1 or 3	(28.954)	64.242	(35.287)	-	1	(78.970)	87.708	(8.738)	-	-
Transfers to Stage 3 from Stage 1 or 2	(4.454)	(41.955)	46.409	-	-	(5.065)	(14.326)	19.391	-	-
New loans originated or purchased	30.758	379	379	8.503	40.019	139.810	359	564	1.897	142.630
Derecognition of loans	(768)	(586)	(7.728)	(572)	(9.654)	(1.392)	(106)	(11.117)	(229)	(12.844)
Interest on carrying values before impairments	10.842	4.844	37.556	15.822	69.064	11.247	7.250	26.365	10.765	55.627
Changes due to modifications that did not result in loans' derecognition	(1.046)	(1.386)	(3.756)	(1.031)	(7.219)	528	(24)	(340)	(16)	148
Write-offs	(3)	(119)	(54.819)	(24.795)	(79.736)	-	-	(24.965)	(15.405)	(40.370)
Repayments and other movements	(42.105)	(14.258)	(17.229)	(4.721)	(78.313)	(11.383)	(35.780)	(21.857)	(1.074)	(70.094)
Disposal of assets	-	-	(153.187)	(19.480)	(172.667)	-	-	(174.746)	(33.861)	(208.607)
Balance **31.12.2018**	302.037	133.437	628.502	228.084	1.292.060	404.512	111.743	353.491	92.638	962.384
Accumulated provision for impairment losses	(1.156)	(8.387)	(315.202)	(122.283)	(447.028)	(1.421)	(2.016)	(202.038)	(61.190)	(266.665)
Balance of loans 31.12.2018	300.881	125.050	313.300	105.801	845.032	403.091	109.727	151.453	31.448	695.719

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
Reconciliation of loans by IFRS 9 Stage (cont.)

			2018							
	Public sector					Off Balance items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2018	40	554	-	-	594	156.537	9.461	16.599	1.725	184.322
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	17.204	(17.160)	(44)	-	-
Transfers to Stage 2 from Stage 1 or 3	(32)	32	-	-	-	(13.846)	13.944	(98)	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	(1.642)	(46)	1.688	-	-
New loans originated or purchased	-	-	-	-	-	-	-	-	-	-
Derecognition of loans	-	-	-	-	-	-	(7.636)	(1.503)	(577)	(9.716)
Interest on carrying values before impairments	-	-	-	-	-	-	-	-	-	-
Changes due to modifications that did not result in loans' derecognition	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-
Repayments and other movements	(8)	(558)	-	-	(566)	24.716	5.650	(7.662)	(537)	22.167
Disposal of assets	-	-	-	-	-	-	-	-	-	-
Balance **31.12.2018**	-	28	-	-	28	182.969	4.213	8.980	611	196.773
Accumulated provision for impairment losses	-	-	-	-	-	(1.681)	(62)	(839)	(171)	(2.753)
Balance of loans 31.12.2018	-	28	-	-	28	181.288	4.151	8.141	440	194.020

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
Reconciliation of accumulated provision for impairment losses of loans per IFRS 9 Stage

The following table includes the movement in the accumulated provision for impairment losses of loans measured at amortised cost:

	Retail lending					Corporate lending				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	794	12.771	410.562	135.400	559.528	1.401	1.301	285.299	87.880	375.881
Transfers to Stage 1 from Stage 2 or 3	2.841	(2.615)	(225)	-	1	1.750	(1.513)	(237)	-	-
Transfers to Stage 2 from Stage 1 or 3	(505)	11.683	(11.178)	-	-	(538)	851	(314)	-	(1)
Transfers to Stage 3 from Stage 1 or 2	(63)	(5.005)	5.068	-	-	(46)	(396)	442	-	-
Net remeasurement of loss allowance	363	(235)	81	18	227	(748)	425	(642)	-	(965)
Impairment losses on new loans	79	123	746	(163)	785	1.384	(160)	100	(1.231)	93
Derecognition of loans	(15)	(11)	(3.047)	(97)	(3.170)	-	-	(1.502)	(229)	(1.731)
Loans initial recognition	-	-	-	3.458	3.458	-	-	0	1.633	1.633
Write-offs	(3)	(119)	(54.819)	(24.795)	(79.736)	-	-	(24.965)	(15.405)	(40.370)
Changes in risk parameters	(2.043)	(8.286)	18.799	9.051	17.521	(1.976)	1.486	(655)	2.116	971
Changes in methodology	(211)	(114)	-	-	(325)	-	-	-	-	-
Foreign exchange and other movements	(82)	172	6.315	1.771	8.176	191	18	(867)	326	(332)
Change in present value of the allowance	1	23	19.420	8.008	27.452	3	4	16.100	5.750	21.857
Sale of financial assets – accumulated impairments	-	-	(76.520)	(10.368)	(86.888)	-	-	(72.334)	(19.650)	(91.984)
Balance 31.12.2018	1.156	8.387	315.202	122.283	447.028	1.421	2.016	202.038	61.190	266.665

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Reconciliation of off-balance sheet items by IFRS 9 Stage

Off-Balance Sheet items include undrawn loan commitments and letters of credit/letters of guarantee, the movement of which is shown below:

	2018				
	Credit risk exposures associated with off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Balance 1.1.2018	156.537	9.461	16.599	1.725	184.322
Transfers to Stage 1 from Stage 2 or 3	17.204	(17.160)	(44)	-	-
Transfers to Stage 2 from Stage 1 or 3	(13.846)	13.944	(98)	-	-
Transfers to Stage 3 from Stage 1 or 2	(1.642)	(46)	1.688	-	-
New off-balance sheet items originated or purchased	-	-	-	-	-
Derecognition	-	(7.636)	(1.503)	(577)	(9.716)
Interest on carrying values before impairments	-	-	-	-	-
Modification gain / losses	-	-	-	-	-
Write-offs	-	-	-	-	-
Foreign exchange, repayment and other movements	24.716	5.650	(7.662)	(537)	22.167
Sale of financial assets – accumulated impairments	-	-	-	-	-
Balance **31.12.2018**	182.969	4.213	8.980	611	196.773
Accumulated impairments	(1.681)	(62)	(839)	(171)	(2.753)
Balance of Loans and advances to customers 31.12.2018	181.288	4.151	8.141	440	194.020

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
Reconciliation of accumulated allowance for impairment losses of off-balance sheet items by IFRS 9 Stage

The Group has recognized expected credit losses for the undrawn credit limits and letters of credit and letters of guarantee, the reconciliation of which is presented in the following table:

	Off balance sheet items				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	**Total**
	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	151	-	1.558	-	1.709
Change in risk parameters	1.530	62	(720)	171	1.044
Balance 31.12.2018	1.681	62	839	171	2.753

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Credit Risk mitigation techniques

Analysis of collaterals

31.12.2018										
Value of collateral										
	Loans measured at fair value through profit or loss(FVPL)					Loans measured at amortised cost				
	Real estate collateral	Financial collateral	Other collateral	Total value of collateral	Value of Guarantees	Real estate collateral	Financial collateral	Other collateral	Total value of collateral	Value of Guarantees
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
Retail lending	-	-	-	-	-	712.949	23.118	1.487	737.554	-
Corporate lending	-	-	-	-	-	431.010	7.795	33.979	472.784	-
Public sector	-	-	-	-	-	-	28	-	28	-
Total	-	-	-	-	-	1.143.959	30.941	35.466	1.210.366	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Credit Risk mitigation techniques (cont.)

Loan-to-value ratio (LTV) of Mortgage lending

	31.12.2018
	Loans measured at amortised cost
	€΄000
< 50%	110.340
50% - 70%	93.354
71% - 80%	51.896
81% - 90%	55.982
91% - 100%	51.849
101% - 120%	94.512
121% - 150%	113.424
> 150%	415.625
Total exposure	986.982
Simple average LTV (%)	158.24%

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Credit Risk mitigation techniques (cont.)

Repossessed assets

31.12.2018							
	Balance					Disposals during the year	
	Value of collaterals repossessed 31.12.2018	Of which in 2018	Accumulated impairment allownace 31.12. 2018	Of which in 2018	Carrying amount of collaterals repossessed 31.12.2018	Net disposal value	Net gain/ (loss) on disposal
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Real estate	13.245	5.758	367	-	12.878	655	(49)

The Group is in the process of establishing a Unit to manage the Repossessed assets

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region

31.12.2018							
	Cyprus						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**206.915**	**87.335**	**379.479**	**161.615**	**835.344**	**263.830**	**571.514**
Mortgage	147.605	63.142	230.624	100.151	**541.522**	**144.493**	**397.029**
Consumer	39.286	18.606	110.924	48.132	**216.948**	**95.063**	**121.885**
Credit cards	7.537	143	4.745	888	**13.313**	**4.464**	**8.849**
Small Business Loans	12.487	5.444	33.186	12.444	**63.561**	**19.810**	**43.751**
Corporate lending	**213.057**	**110.669**	**348.559**	**92.638**	**764.923**	**264.923**	**500.000**
Financial institutions	31.643	923	11.690	1.316	**45.572**	**1.929**	**43.643**
Manufacturing	4.314	469	24.692	5.744	**35.219**	**20.799**	**14.420**
Construction and real estate	108.020	73.060	239.100	56.335	**476.515**	**180.505**	**296.010**
Wholesale and retail trade	42.060	2.916	35.215	16.455	**96.646**	**31.123**	**65.523**
Transportation	201	50	2.879	142	**3.272**	**1.424**	**1.848**
Shipping	5.524	0	0	0	**5.524**	**6**	**5.518**
Hotels-Tourism	6.466	25.218	11.818	1.787	**45.289**	**8.335**	**36.954**
Services and other sectors	14.829	8.033	23.165	10.859	**56.886**	**20.802**	**36.084**
Public sector	**-**	**28**	**-**	**-**	**28**	**-**	**28**
Total	**419.972**	**198.032**	**728.038**	**254.253**	**1.600.295**	**528.753**	**1.071.542**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2018						
	Greece						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**208**	**57**	**801**	**77**	**1.143**	**419**	**724**
Mortgage	193	20	705	50	**968**	**346**	**622**
Consumer	4	37	85	27	**153**	**65**	**88**
Credit cards	11	-	11	-	**22**	**8**	**14**
Small Business Loans	-	-	-	-	-	-	-
Corporate lending	**104.403**	**947**	**3.594**	-	**108.944**	**968**	**107.976**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	31.328	-	143	-	**31.471**	**530**	**30.941**
Construction and real estate	165	-	100	-	**265**	**-**	**265**
Wholesale and retail trade	1.636	43	3.096	-	**4.775**	**237**	**4.538**
Transportation	20521	-	-	-	**20.521**	**16**	**20.505**
Shipping	-	-	-	-	-	-	-
Hotels-Tourism	50.719	805	97	-	**51.621**	**145**	**51.476**
Services and other sectors	34	99	158	-	**291**	**40**	**251**
Public sector	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**104.611**	**1.004**	**4.395**	**77**	**110.087**	**1.387**	**108.700**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Loans and Expected credit risk losses by IFRS 9 Stage, industry and geographical region (cont.)

	31.12.2018						
	Other countries						
	Loans measured at amortised cost						
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired loans (POCI)	Carrying amount (before provision for impairment losses)	Expected credit losses	Net carrying amount
Retail lending	**94.914**	**46.045**	**248.222**	**66.392**	**455.573**	**182.779**	**272.794**
Mortgage	94.443	45.916	240.078	64.055	**444.492**	**175.284**	**269.208**
Consumer	342	129	7.893	2.333	**10.697**	**7.259**	**3.438**
Credit cards	46	-	251	4	**301**	**236**	**65**
Small Business Loans	83	-	-	-	**83**	**--**	**83**
Corporate lending	**87.052**	**127**	**1.338**	-	**88.517**	**774**	**87.743**
Financial institutions	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction and real estate	18.724	-	1.338	-	**20.062**	**774**	**19.288**
Wholesale and retail trade	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-
Shipping	68.328	127	-	-	**68.455**	-	**68.455**
Hotels-Tourism	-	-	-	-	-	-	-
Services and other sectors	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Total	**181.966**	**46.172**	**249.560**	**66.392**	**544.090**	**183.553**	**360.537**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Interest income from loans by loan category and IFRS 9 Stage

The following table presents the interest income from loans for the year 2018 per IFRS 9 Stage.

For loans classified in Stages 1 and 2, interest income is calculated by applying the effective interest rate to the gross carrying amount of the loan.
For loans classified in Stage 3, interest income is calculated by applying the effective interest rate on the amortised cost of the loan (i.e. gross carrying amount after impairment), while for Purchased or Originated Credit Impaired loans (POCI) interest income is calculated by applying the adjusted effective interest rate to the amortised cost of the loan.

	31.12.2018				
	Loans measured at amortised cost				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired loans (POCI)**	Total interest income
	€´000	€´000	€´000	€´000	€´000
Retail lending	10.842	4.822	18.136	7.813	41.613
Corporate lending	11.244	7.248	10.365	5.015	33.872
Total interest income	22.086	12.070	28.501	12.828	75.385

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Analysis of forborne loans by type of forberance measure

31.12.2018		
	Loans measured at amortised cost	Total
	€΄000	€΄000
Interest only payment	2.525	2.525
Reduce payments scheme	44.775	44.775
Grace period	11.868	11.868
Loan term extension	29.877	29.877
Arrears capitalization	**197.490**	**197.490**
Partial write-off in borrower's obligations	58.240	58.240
Other	55.621	55.621
Total net amount	**400.396**	**400.396**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Forborne loans by product line

31.12.2018		
	Loans measured at amortised cost	**Total**
	€΄000	€΄000
Retail lending	**314.895**	**314.895**
Mortgage	256.280	256.280
Consumer	44.223	44.223
Credit cards	1	1
Small Business	14.391	14.391
Corporate lending	**85.501**	**85.501**
Large	74.952	74.952
SME's	10.549	10.549
Public sector	**-**	**-**
Cyprus	-	-
Other countries	-	-
Total net amount	**400.396**	**400.396**

Forborne loans by geographical region

31.12.2018		
	Loans measured at amortised cost	**Total**
	€΄000	€΄000
Cyprus	308.498	308.498
Other countries	91.898	91.898
Total net amount	**400.396**	**400.396**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Reconciliation of forborne loans

Forborne loans (Net Value)	
	Loans measured at amortised cost
	€΄000
Balance 1.1.2018	**570.608**
Transition to IFRS 9	(49.075)
Forbearance measures during the year	30.212
Interest income	17.372
Repayment of loans (partial or total)	(47.900)
Loans that exited forbearance status during the year	(39.572)
Impairment losses	(17.032)
Remeasurment of fair value	
Loans that exited forbearance status during the year due to disposal	(70.668)
Other movements	6.451
Balance 31.12.2018	**400.396**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Forborne loans according to their credit quality

	31.12.2018		
	Total amount of Loans	Total amount of Forborne Loans	Percentage of Forborne Loans (%)
	€´000	€´000	
Loans measured at amortised cost			
Stage 1	706.549	-	-
Stage 2	245.208	124.459	51%
Stage 3	981.993	392.078	40%
Purchased or originated credit impaired loans (POCI)	320.722	80.152	25%
Carrying amount (before provision for impairment losses)	**2.254.472**	**596.689**	**26%**
Stage 1- Accumulated provision for impairment losses	2.577	0	0%
Stage 2- Accumulated provision for impairment losses	10.403	7.115	68%
Stage 3- Accumulated provision for impairment losses	517.240	161.017	31%
Accumulated provision for impairment losses for purchased or originated credit impaired loans (POCI)	183.473	28.161	15%
Total net carrying amount	**1.540.779**	**400.396**	**26%**
Value of collaterals	1.210.366	365.062	30%

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
Financial instruments credit risk
Analysis by industry sector

	31.12.2018										
	Financial Institution and other financial services	Manufacturing	Construction & Real Estate	Wholesale and retail trade	Public sector Government securities	Transportation	Shipping	Hotels-Tourism	Services and other sectors	Retail and small businesses	Total
Credit risk exposure relating to balance sheet items:											
Balances with Central Banks	540.764	-	-	-	-	-	-	-	-	-	**540.764**
Due from banks	177.735	-	-	-	-	-	-	-	-	-	**177.735**
Loans and advances to customers	45.572	66.690	496.842	101.421	28	23.793	73.979	96.910	57.177	1.292.060	**2.254.472**
Trading securities	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	173	-	-	-	-	-	-	-	-	-	**173**
Investment securities-available for sale	-	-	-	-	-	-	-	-	-	-	-
Investment securities held to maturity	-	-	-	-	-	-	-	-	-	-	-
Investment securities - measured at fair value through other comprehensive income	47.672	-	-	-	230.203	-	-	-	-	-	**277.875**
Investment securities - measured at amortised cost	-	-	-	-	-	-	-	-	-	-	-
Other balance sheet items not exposed to credit risk	5.689	-	-	-	-	-	-	-	-	-	**5.689**
Credit risk exposure relating to off-balance sheet items:											
Letters of guarantee, letters of credit and other guarantees	3.727	1.690	34.922	28.644	12	113	42	1.970	2.607	2.670	76.397
Undrawn loan agreements and credit limits	664	15.801	6.259	27.650	500	250	611	2.334	14.811	51.496	120.376
Total amount of off-balance sheet items exposed to credit risk	**4.391**	**17.491**	**41.181**	**56.294**	**875**	**363**	**653**	**4.304**	**17.418**	**54.166**	**196.773**

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

Other financial instruments subject to credit risk – analysis per rating

The following table presents other financial assets measured at amortised cost and at fair value through other comprehensive income as at 31.12.2018 per IFRS 9 Stage and credit rating:

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Balances with Central Banks					
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	-	-	-	-	-
BBB+ to BBB-	-	-	-	-	-
Lower than BBB-	540.764	-	-	-	540.764
Unrated	-	-	-	-	-
Carrying amount (before allowance for impairment losses)	**540.764**	**-**	**-**	**-**	**540.764**
Expected credit losses	-	-	-	-	-
Net carrying amount	**540.764**	**-**	**-**	**-**	**540.764**
Value of collateral	-	-	-	-	-
Due from banks					
AAA	-	-	-	-	-
AA+ to AA-	699	-	-	-	699
A+ to A-	7.341	-	-	-	7.341
BBB+ to BBB-	33	-	-	-	33
Lower than BBB-	168.669	-	-	-	168.669
Unrated	993	-	-	-	993
Carrying amount (before allowance for impairment losses)	**177.735**	**-**	**-**	**-**	**177.735**
Expected credit losses	(15)	-	-	-	(15)
Net carrying amount	177.720	-	-	-	177.720
Value of collateral	-	-	-	-	-
Securities measured at fair value through other comprehensive income					
AAA	-	-	-	-	-
AA+ to AA-	-	-	-	-	-
A+ to A-	12.672	-	-	-	12.672
BBB+ to BBB-	10.401	-	-	-	10.401
Lower than BBB-	250.574	-	-	-	250.574
Unrated	4.229	-	-	-	4.229
Carrying amount (before allowance for impairment losses)	**277.875**	**-**	**-**	**-**	**277.875**
Expected credit losses	(432)	-	-	-	(432)
Net carrying amount	**277.443**	**-**	**-**	**-**	**277.443**
Value of collateral	-	-	-	-	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Trading portfolio - Derivative financial assets - Securities measured at fair value through profit or loss - analysis per rating

The following table presents other financial instruments measured through profit or loss per credit rating.

	2018
	€΄000
Trading securities	
AAA	-
AA+ to AA-	-
A+ to A-	-
BBB+ to BBB-	-
Lower than BBB-	-
Unrated	-
Carrying amount (before allowance for impairment losses)	
Value of collateral	**-**
Derivative financial assets	
AAA	-
AA+ to AA-	-
A+ to A-	-
BBB+ to BBB-	-
Lower than BBB-	173
Unrated	-
Carrying amount (before allowance for impairment losses)	**173**
Value of collateral	**-**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

DUE FROM BANKS

The following table presents Due from Banks by IFRS 9 Stage as of 31.12.2018.

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Balance 31.12.2018					
Carrying amount (before allowance for impairment losses)	177.735				177.735
Expected credit losses	(15)				(15)
Net carrying amount	**177.720**				**177.720**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Reconciliation of other financial assets (except loans) before allowance for impairment losses by IFRS 9 Stage

The table below presents the movement of the carrying amount before allowance for impairment losses of due from banks and the movement of the fair value of investment securities measured at fair value through other comprehensive income, including the expected credit losses per IFRS 9 Stage.

	31.12.2018									
	Due from banks					Investment securities measured at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	**566.768**	-	-	-	**566.768**	**137.973**	-	-	-	**137.973**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
New financial assets originated or purchased	7.040.733	-	-	-	7.040.733	528.036	-	-	-	528.036
Derecognition of financial assets	(7.431.406)	-	-	-	(7.431.406)	(379.878)	-	-	-	(379.878)
Interest on carrying amount before impairment	1.640	-	-	-	1.640	(1.954)	-	-	-	(1.954)
Changes due to modifications that did not result in derecognition	-	-	-	-	-	-	-	-	-	-
Writte-off	-	-	-	-	-	-	-	-	-	-
Repayments foreign exchange and other movements		-	-	-		(6.302)	-	-	-	(6.302)
Balance 31.12.2018	**177.735**	-	-	-	**177.735**	**277.875**	-	-	-	**277.875**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Investment securities measured at fair value through other comprehensive income

The following table presents the analysis by IFRS 9 Stages and issuer's category as of 31.12.2018:

	31.12.2018				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired receivables (POCI)**	**Total**
	€´000	€´000	€´000	€´000	€´000
Cyprus Goverment Bonds	**230.203**	-	-	-	**230.203**
Expected credit losses	(165)	-	-	-	(165)
Fair value	230.038	-	-	-	230.038
Other Goverments Bonds	**41.002**	**-**	**-**	**-**	**41.002**
Expected credit losses	(267)	-	-	-	(267)
Fair value	40.735	-	-	-	40.735
Other securities	**6.670**	**-**	**-**	**-**	**6.670**
Expected credit losses	-	-	-	-	
Fair value	6.670	-	-	-	6.670
Total securities measured at fair value through other comprehensive income	277.875	-	-	-	277.875
Expected credit losses	**(432)**	**-**	**-**	**-**	**(432)**
Fair value	**277.443**	**-**	**-**	**-**	**277.443**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Reconciliation of the accumulated impairment allowance

The table below presents the movement of the accumulated impairment of due from banks and investment securities measured at fair value through other comprehensive income per IFRS 9 Stage.

	31.12.2018									
	Due from banks					Investment securities measured at fair value through other comprehensive income				
	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired receivables (POCI)	Total
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 1.1.2018	**(1.235)**	-	-	-	**(1.235)**	**(196)**				**(196)**
Transfers to Stage 1 from Stage 2 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 2 from Stage 1 or 3	-	-	-	-	-	-	-	-	-	-
Transfers to Stage 3 from Stage 1 or 2	-	-	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-	-	305	-	-	-	305
Impairment losses on new receivables/ securities	-	-	-	-	-	(602)	-	-	-	(602)
Change in credit risk parameters	-	-	-	-	-		-	-	-	
Derecognition of financial assets	-	-	-	-	-	61	-	-	-	61
Foreign exchange and other movements	1.220	-	-	-	1.220		-	-	-	
Balance 31.12.2018	**(15)**	-	-	-	**(15)**	**(432)**	-	-	-	**(432)**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

Exposure to Cyprus Government

	31.12.2018	
	€΄000	€΄000
Portfolio type	**Nominal value**	**Carrying value**
Investment securities measured at fair value through other comprehensive income	223.333	230.038
Total		

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

COMPARATIVES

Credit risk disclosures as at 31.12.2017 and for the year 2017 have been prepared using exposures measured in accordance with IAS 39.

The main differences between IAS 39 and IFRS 9 relate to the following:

- the definition of impaired exposures and
- the calculation of impairments which according to IAS 39, was based on incurred credit losses, while the IFRS 9 requires the recognition of Expected Credit Losses.

Based on IAS 39, impaired loans were defined as follows:

a) Exposures for which an impairment amount has been allocated following the individual assessment for impairment;

b) 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;

c) Unlikely to pay exposures; and

d) Forborne Non Performing Exposures that are up to 89 days past due.

IAS 39 required the recognition of credit risk losses when losses have occurred. The main highlights of the impairment policy based on IAS 39 methodology are the following:

The Group examines Loans and advances to customers to assess whether there is a need for impairment. The Group assesses whether objective evidence for individual assessment for impairment exists.

Individual assessment

The Group 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 ".

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

The Group assesses whether objective evidence for individual assessment for impairment exists. Significant loans are assessed individually if one of the following conditions are met:

- 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

Collective Assessment for Impairment

The collective impairment assessment examines the following categories for Wholesale Banking and Retail Banking customers:

- Exposures with balances less than those designated as 'individually important'
- 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; and
- Exposures with no impairment triggers 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).

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.

The detailed description of the impairment calculation methodology and the definitions that existed are presented in note 35 in the Bank's Financial Statements as at 31.12.2017.

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

COMPARATIVES (cont.)

FINANCIAL INSTRUMENTS CREDIT RISK

The maximum credit risk per category, in which the Group is exposed, is depicted in the "Net exposure to credit risk".

	31.12.2017		
	Exposure before impairment	Impairment	Net exposure to credit risk
	€΄000	€΄000	€΄000
A. Credit risk exposure relating to on balance sheet items			
Balances with central banks	231.138	-	231.138
Due from banks	566.768	-	566.768
Loans and advances to customers measured at amortised cost	2.628.626	893.791	1.734.835
of which: Leasing	-	-	-
Loans and advances to customers measured at fair value through Profit and Loss	-	-	-
Trading securities	-	-	-
Derivative financial assets	6.942	-	6.942
Investment securities available for sale	137.777	-	137.777
Investment securities held to maturity	-	-	-
Investment securities measured at fair value through other comprehensive income	-	-	-
Investment securities measured amortised cost	-	-	-
Other assets	3.477	-	3.477
Total amount of balance sheet items exposed to credit risk (a)	**3.574.728**	**893.791**	**2.680.937**
Other balance sheet items not exposed to credit risk	64.234	367	63.867
Total assets	**3.638.962**	**894.158**	**2.744.804**
B. Credit risk exposure relating to off balance sheet items:			
Letters of guarantee, letters of credit and other guarantees	53.618	-	53.618
Undrawn loan agreements and credit limits that cannot be recalled (committed)	130.703	-	130.703
Total amount of off balance sheet items exposed to credit risk (b)	**184.321**	**-**	**184.321**
Total credit risk exposure (a+b)	**3.759.049**	**893.791**	**2.865.258**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (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	Past due but not impaired	Individually assessed	Collectively assessed	Total gross amount	Individually assessed	Collectively assesses	Total net amount	Collateral values
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´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

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Ageing analysis of past due but not impaired loans and advances to customers by product line

	2017								
	Loans and advances to customers measured at amortised cost Past due but not impaired								
	Retail lending				**Corporate lending**		**Public sector**		
	Mortgage	**Consumer**	**Credit cards**	**Small Business**	**Large**	**SME's**	**Cyprus**	**Other countries**	**Total past due but not impaired**
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
							-	-	-
1 - 30 days	40.106	5.342	248	1.485	3.136	411	-	-	-
31 -60 days	14.838	684	112	259	203	367	-	-	-
61 -90 days	7.383	968	79	149	1.300	202	-	-	-
91 - 180 days	-	-	-	-	345	-	-	-	-
181 - 360 days	-	-	-	-	6.190	1.105	-	-	-
> 360 days	-	-	-	-	12.590	8.418	-	-	-
Total	**62.327**	**6.994**	**439**	**1.893**	**23.764**	**10.503**	-	-	-
Value of collateral	49.286	2.784	42	831	21.207	10.055	-	-	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Ageing analysis of impaired loans and advances to customers by product line

	2017								
	Loans and advances to customers measured at amortised cost Past due impaired								
	Retail lending				Corporate lending		Public sector		
	Mortgage	Consumer	Credit cards	Small Business	Large	SME's	Cyprus	Other countries	Total
	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000	€´000
1 - 30 days	48.447	14.193	9	3.268	16.929	2.791	-	-	-
31 -60 days	28.664	3.358	-	1.272	1.639	-	-	-	-
61 -90 days	19.889	3.842	11	1.121	2.855	43	-	-	-
91 - 180 days	24.237	6.062	-	3.132	6.525	1.237	-	-	-
181 - 360 days	14.498	2.455	19	324	4.813	1.083	-	-	-
> 360 days	10.776	2.496	16	598	8.600	1.316	-	-	-
Total	291.288	60.564	2.798	18.337	145.699	51.643	-	-	-
Value of collateral	**437.799**	**92.970**	**2.853**	**28.052**	187.060	**58.113**	-	-	-
1 - 30 days	406.810	57.173	219	20.128	194.428	63.943	-	-	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Reconciliation of impaired loans and advances by product line

	31.12.2017						
	Retail lending				Corporate lending		Total
	Mortgage	Consumer	Credit cards	Small Business	Large	SME's	
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Balance 01.01. 2017	**862.103**	**183.359**	**6.246**	**46.397**	**465.735**	**164.089**	**1.727.929**
New impaired loans	63.660	22.283	677	5.242	41.046	22.294	155.202
Transfer to non-impaired loans	(34.088)	(5.924)	(76)	(2.762)	(10.816)	(2.883)	(56.549)
Repayments and recoveries	(4.317)	(1.730)	-	(299)	(2.735)	(510)	(9.591)
Write-offs of impaired loans	(40.214)	(3.136)	(142)	(579)	(35.574)	(7.696)	(87.341)
Foreign exchange differences and other movements	(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 allowance	(367.308)	(100.424)	(3.852)	(19.832)	(263.382)	(116.109)	(870.907)
Net amount 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.)
COMPARATIVES (cont.)

Breakdown of collateral and guarantees

31.12.2017					
	Value of collateral received Loans and advances to customers measured at amortised cost				
	Real estate collateral	**Financial collateral**	**Other collateral**	**Total value of collateral**	**Guarantees received**
	€΄000	€΄000	€΄000	€΄000	€΄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	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)

Loan-to-value ratio (LTV) of Mortgage lending

	Mortgages
	31.12.2017
	Amortised cost
< 50%	111.597
50% - 70%	98.450
71% - 80%	58.638
81% - 90%	61.623
91% - 100%	57.186
101% - 120%	117.577
121% - 150%	170.936
> 150%	531.936
Total exposure	1.207.943
Simple average (%)	93,0%

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Repossessed collaterals

31.12.2017							
	Balance Sheet balances					**Disposals during the year**	
	Value of collaterals repossessed 31.12.2017	Of which within 2017	Accumulated impairment allowance 31.12.2017	Of which within 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	-	-

35. **RISK MANAGEMENT** (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Loans and advances to customers, impaired loans and impairment allowance by product line, industry and geographical region

31.12.2017												
	Cyprus			**Greece**			**Other European countries**			**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	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	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	-	-	-	-	-	-
Shipping	5.935	-	107	-	-	-	-	-	-	30.261	-	364
Hotel and Tourism	75.704	40.699	12.666	1.279	2	544	-	-	-	-	-	-
Services	22.480	21.360	11.215	31	7	7	-	-	-	-	-	-
Other sectors	48.673	29.781	18.791	353	1	27	-	-	-	-	-	-
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**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Interest income by credit quality and type of loans and advances to customers

	31.12.2017		
	Interest income on non impaired Loans and Advances	Interest income on impaired Loans and Advances	Total interest income
	€΄000	€΄000	€΄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**

FORBORNE LOANS
Analysis of forborne loans and advances to customers by type of forberance measure

2017	
	€΄000
Interest payment only	3.945
Reduce payments scheme	13.294
Grace period	98.736
Loan term extension	22.756
Arrears capitalization	318.610
Partial write-off in borrower’s obligations	31.850
Hybrid forbearance measures	39.510
Debt for equity transactions	-
Other	41.907
Total net amount	570.608

35. RISK MANAGEMENT (cont.)

35.1 Credit risk (cont.)

COMPARATIVES (cont.)

Forborne loans and advances to customers by product line

31.12.2017	
	Total
	€΄000
Retail lending	**0**
Mortgage	363.855
Consumer	53.708
Credit cards	-
Small Business	15.557
Corporate lending	**0**
Large	127.783
SMEs	9.705
Public sector	**0**
Cyprus	-
Other countries	-
Total net amount	**570.608**

Forborne loans and advances to customers by geographical region

31.12.2017	
	Total
	€΄000
Cyprus	416.776
Other countries	153.832
Total net amount	**570.608**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)

Reconciliation of forborne loans and advances to customers

	Forborne loans (Net Value):
	€΄000
Balance 1.1.2017	**579.000**
Forbearance measures of loans and advances to customers during the year	68.245
Interest income	29.045
Repayment of loans and advances to customers (partial or total)	24.817
Loans and advances to customers that exited forbearance status	52.733
Impairment losses	7.578
Other	(20.554)
Total 31.12.2017	**570.608**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)

Forborne loans and advances to customers according to their credit quality

	31.12.2017		
	Total amount of Loans and Advances	Total amount of Forborne Loans and Advances	Forborne Loans and Advances (%)
Loans and advances to customers measured at amortised cost			
	€΄000	€΄000	€΄000
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
Exposure 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

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)

Financial assets subject to credit risk

31.12.2017											
	Financial Institutions and other financial services	**Manufacturing**	**Construction and real estate**	**Wholesale and retail trade**	**Public sector**	**Transportation**	**Shippinh**	**Hotels and Tourism**	**Services and other sectors**	**Retail lending**	**Total**
Credit risk exposure relating to balance sheet items:											
	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000	€΄000
Loans and advances to customers	**58.143**	**49.066**	**665.012**	**135.123**	**594**	**25.234**	**36.204**	**80.809**	**83.162**	**1.495.279**	**2.628.626**
Credit risk exposure relating to off-balance sheet items:											
Letters of guarantee, letters of credit and other guarantees	8.956	1.712	9.088	23.967	-	184	-	1.651	6.884	1.176	53.618
Undrawn facilities and credit limits that cannot be revoked	1.016	20.874	15.826	30.040	-	1.205	-	3.854	17.961	39.927	130.703
Total amount of off-balance sheet items exposed to credit risk	**9.972**	**22.586**	**24.914**	**54.007**	**-**	**1.389**	**-**	**5.505**	**24.845**	**41.103**	**184.321**

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)
Other financial instruments subject to credit risk

2017	
	Total
	€΄000
Cash and balances with Central Banks	
AAA	-
AA+ to AA-	-
A+ to A-	-
BBB+ to BBB-	-
Lower than BBB-	231.138
Unrated	-
Carrying amount (before allowance for impairment losses)	231.138
Expected credit losses	-
Net carrying amount	231.138
Value of collateral	-
Due from banks	
AAA	-
AA+ to AA-	171
A+ to A-	35.805
BBB+ to BBB-	78
Lower than BBB-	530.714
Unrated	
Carrying amount (before allowance for impairment losses)	566.768
Expected credit losses	
Net carrying amount	566.768
Value of collateral	-
Investment securities available for sale	
AAA	-
AA+ to AA-	-
A+ to A-	2.128
BBB+ to BBB-	131.789
Lower than BBB-	-
Unrated	3.860
Carrying amount (before allowance for impairment losses)	137.777
Expected credit losses	-
Net carrying amount	137.777
Value of collateral	-

35. RISK MANAGEMENT (cont.)
35.1 Credit risk (cont.)
COMPARATIVES (cont.)

The following table presents other financial instruments measured at fair value through profit and loss

	2017
	€΄000
Trading securities	
AAA	
AA+ to AA-	
A+ to A-	
BBB+ to BBB-	
Lower than BBB-	
Unrated	
Carrying amount (before allowance for impairment losses)	
Value of collateral	
Derivative financial assets	
AAA	
AA+ to AA-	
A+ to A-	
BBB+ to BBB-	
Lower than BBB-	6.942
Unrated	
Carrying amount (before allowance for impairment losses)	6.942
Value of collateral	

The table below presents the Bank's total exposure in Cyprus State securities:

	31.12.2017	
	€΄000	€΄000
Portfolio	**Nominal value**	**Carrying amount**
Securities measured at fair value through other comprehensive income	**125.217**	**131.789**
Total		

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 is the risk that arises from adverse changes in prices or interest rate volatility and arises from the different revaluation dates of the Bank's interest bearing assets and liabilities.
Interest rate risk management is carried out on a monthly basis and in accordance with policies and procedures for the management of assets and liabilities.
The interest rate risk management framework is defined from the Asset Liability Risk Management Policy.

Based on this framework, the Group analyzes interest rate gap analysis for all interest bearing assets, depending on when their interest rate is redefined, for floating rate items, or when they expire, for fixed rate items. In addition, receivables or liabilities that do not have a regular contractual maturity or interest rate redefinition date are broken down into time periods based on a statistical study of the movement of those accounts.

Interest rate risk is managed by ALCO. Stressed interest rate scenarios are performed on a monthly basis, calculating their impact on the change on interest income through Earning at Risk (EaR) and on equity through Economic Value of Equity (EVE).Based on this analysis and the scenarios of interest rate fluctuations applied, the corresponding change in net interest income as well as the equity position for the securities measured at fair value through other comprehensive income posted directly in equity.

Interest rate variation scenario (parallel fall or rise in yield curves)	Sensitivity for net interest income (annual) (€’000)	Equity sensitivity (€’000)
+200 basis points	19.715	-7.316
-200 basis points	3.024	5.184

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.1 INTEREST RATE RISK AT 31 DECEMBER 2018

	1 to 30 days	1 month to 3 months	4 to 6 months	7 to 12 months	1 year 5 years	Over 5 years	Non interest bearing	Total
ASSETS	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	540.763	-	-	-	-	-	19.150	559.913
Due from banks	177.665	55	-	-	-	-	-	177.720
Investment securities measured at fair value through other comprehensive income	48.612	96.456	11.926	2.912	91.002	15.000	11.535	277.443
Derivative financial assets	173	-	-	-	-	-	-	173
Loans and advances to corporates	360.522	221.733	72.535	9.217	59.570	-	-	723.577
Loans and advances to individuals	480.694	294.180	19.986	5.168	17.174	-	-	817.202
Property, plant and equipment, Intangible assets and investment property	-	-	-	-	-	-	31.316	31.316
Deferred tax assets and other assets	-	-	-	-	-	-	27.091	27.091
Total Assets	**1.608.429**	**612.424**	**104.447**	**17.297**	**167.746**	**15.000**	**89.092**	**2.614.435**
LIABILITIES								
Due to banks	50.828	2.160	2.125	-	-	-	-	55.113
Due to customers	533.344	268.629	312.918	609.696	395.813	92.393	-	2.212.793
Subordinated bonds	24	15.724	-	-	-	-	-	15.748
Derivative financial liabilities	3.394		-	-	-	-	-	3.394
Other liabilities and provisions	-	-	-	-	-	-	29.158	29.158
Total Liabilities	**587.590**	**286.513**	**315.043**	**609.696**	**395.813**	**92.393**	**29.158**	**2.316.206**
EQUITY								
Share capital	-	-	-	-	-	-	180.694	180.694
Convertible capital securities	-	-	-	-	-	-	64.000	64.000
Share premium	-	-	-	-	-	-	102.661	102.661
Reserves	-	-	-	-	-	-	1.688	1.688
Retained earnings	-	-	-	-	-	-	(50.814)	(50.814)
Total Equity	**-**	**-**	**-**	**-**	**-**	**-**	**298.229**	**298.229**
Total Liabilities and Equity	**587.590**	**286.513**	**315.043**	**609.696**	**395.813**	**92.393**	**327.387**	**2.614.435**
OPEN EXPOSURE	**1.020.839**	**325.911**	**(210.596)**	**(592.399)**	**(228.067)**	**(77.393)**	**238.295**	**-**
CUMULATIVE EXPOSURE	**1.020.839**	**1.346.750**	**1.136.154**	**543.755**	**315.68**	**238.295**	**-**	**-**

35. RISK MANAGEMENT (cont.)

35.2 Market risk (cont.)

35.2.1 INTEREST RATE RISK AT 31 DECEMBER 2017

	1 to 30 days	1 month to 3 months	4 to 6 months	7 to 12 months	1 year 5 years	Over 5 years	Non interest bearing	Total
ASSETS	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	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, Intangible assets and investment property	-	-	-	-	-	-	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.)

35.2.2 Foreign currency risk

Currency risk arises from an open position in one or more foreign currencies. The policy of the Group is the positions to be closed immediately using spot transactions or currency derivatives. In case that positions are still open, they are daily monitored by the competent department and they are subject to limits.

The total position results from the sum of the current position from the balance sheet and the forward position from the derivative products, as listed in the following tables.

The open foreign exchange position during 2018 was low, therefore the impact on the Group 's income from exchange rate fluctuations is negligible and therefore no preparation of alternative exchange rate scenarios is deemed necessary.

Foreign currency position (€'000) 31.12.2018							
	USD	**GBP**	**JPY**	**CHF**	**Other**	**Euro**	**Total**
Total assets	125.238	60.067	29.802	515.471	1.737	1.882.120	2.614.435
Total liabilities and equity	(74.940)	(23.030)	(12.781)	(253.831)	(1.527)	(2.248.326)	(2.614.435)
On balance sheet fx position	50.298	37.037	17.021	261.640	210	(366.206)	
Derivatives forward foreign exchange position	(50.010)	(36.891)	(17.004)	(261.781)	-	365.686	
Total Foreign exchange position	**288**	**146**	**17**	**(141)**	**210**	**(520)**	

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)**	

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk

Liquidity risk relates to Group's ability to maintain sufficient funds to cover its planned or extraordinary obligations. Liquidity Risk comprises both funding liquidity risk and asset liquidity risk though these two dimensions of liquidity risk are closely related. Funding Liquidity risk refers to the inability of a financial institution to raise the cash necessary to roll over its debt, fulfill the cash, margin, or collateral requirements of counterparties; or to meet capital withdrawals. Asset – market liquidity risk, results from the Bank's failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

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

According to Group's Liquidity Risk Management Policy, the Board Risk Management Committee assigns the overall responsibility for overseeing asset and liability management to Asset – Liability Committee (ALCo). ALCo is responsible on one hand to monitor the quantitative and qualitative aspects of liquidity risk and on the other hand to ensure that appropriate policies and procedures are in place to control and limit liquidity risk. In addition to that, ALCo is responsible for approving the guidelines, principles, risk measurement techniques and limits that have been proposed by the Group Market and Operational Risk Division and Asset Liability Management Division.

The Group monitors the maturity of assets and liabilities and takes measures to manage liquidity risk under the current financial conditions. At the same time, it is assured that the regulatory ratios of liquidity are met.

Based on the Liquidity Gap Analysis, the cash flows arising from balance sheet items are calculated and classified into time periods in accordance with the contractual maturity date or the estimated date based on a statistical analysis (convention). An exception to the above, are the securities portfolios, which can contribute directly to raise liquidity, and they are allocated in the first period under the condition that they have not been used to raise liquidity either by the Central Bank or through interbank repos.

During 2018 all supervisory liquidity ratios fluctuated beyond the minimum supervisory limit.

The Group calculates and monitors the Liquidity Coverage Ratio (LCR) in accordance with the relevant instructions of the Central Bank of Cyprus and the European Banking Authority.

The Liquidity Coverage Ratio (LCR) examines the adequacy of cash flows as a percentage of net outflows for the next 30 days as calculated in crisis situations. The cash available should be sufficient to cover the outflows for a minimum of 30 days.

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk

2018	31/12/2018 %	Year highest %	Year lowest %	Year average %	Regulatory limit 31.12.2018 %
Liquidity coverage ratio (LCR)	825,36	1294,56	561,14	882,41	100,00

2017	31/12/2017 %	Year highest %	Year lowest %	Year average %	Regulatory limit 31.12.2017 %
Liquidity coverage ratio (LCR)	1164,70	1164,70	410,25	670,26	80,00

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk (cont.)

	Balance Sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
31.12.2018							
Assets	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	**€´000**	
Cash and balances with Central Banks	559.913	559.913	-	-	-	-	
Due from banks	177.720	176.774	946	-	-	-	
Investment securities measured at fair value through other comprehensive income	277.443	243.696	-	-	-	33.747	
Derivative financial assets	173	173	-	-	-	-	
Loans and advances to customers net of impairments	1.540.779	36.044	82.673	83.762	136.095	1.202.205	
Investment properties	7.270		-	-	-	7.270	
Property, plant and equipment	22.411	-	-	-	-	22.411	
Intangible assets	1.635	-	-	-	-	1.635	
Deferred tax asset	8.524	-	-	-	-	8.524	
Other assets	18.567	-	-	-	-	18.567	
Total Assets	**2.614.435**	**1.016.600**	**83.619**	**83.762**	**136.095**	**1.294.359**	
Liabilities							
Subordinated bonds	15.748	-	5.410	53	1.406	10.815	17.684
Due to banks	55.113	9.295	5.250	25.607	24	15.412	55.588
Due to customers	2.212.793	282.779	291.503	329.749	643.110	673.060	2.220.201
Derivative financial liabilities	3.394	-	-	-	-	-	-
Inflows		276.281					276.281
Outflows		(272.850)					(272.850)
Other liabilities	29.158	29.158	-	-	-	-	29.158
Total liabilities	**2.316.206**	**324.663**	**302.163**	**355.409**	**644.540**	**699.287**	**2.326.062**
Off Balance Sheet items							
Letter of guarantees	76.397	27.768	6.789	6.494	30.937	6.210	78.198
Undrawn Credit facilities	120.376	24.075	96.301	-	-	-	120.376
Total Off Balance sheet items	**196.773**	**51.843**	**103.090**	**6.494**	**30.937**	**6.210**	**198.574**

35. RISK MANAGEMENT (cont.)

35.3 Liquidity risk (cont.)

	Balance Sheet total	On demand less than 30 days	1 to 3 months	4 to 6 months	7 to 12 months	Over 1 year	Total[1]
31.12.2017							
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	118.610	-	-	-	19.167	
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**	**1.004.950**	**97.115**	**91.363**	**152.378**	**1.398.988**	
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 Operational risk

Operational Risk is defined as the risk of financial or qualitative effects resulting from inadequate or failed internal processes, IT systems, people (intentionally or unintentionally) and external events. Operational Risk includes Legal Risk.

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

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

- Operational Risk Governance Structure under which the overall supervision of Operational Risk Management is exercised by the Board of Directors of the Bank
- The Operational Risk Management committee, which oversees the implementation of the Bank's Operational Risk Management Policy and the activities and actions related to the effective management of the operational risk
- Collection and management of operational risk events including the management of bankruptcy proceedings against the Bank
- Set and monitor of operational risk indicators for specific activities of the Bank
- Techniques for identifying and evaluating operational risks, including the process 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 Group's competent Division in cooperation with the relevant Division of the Group of Alpha Bank AE if deemed necessary.

In 2018, a specific approach was applied to assess the risks associated with outsourcing which will be further enhanced in 2019. Specific projects are also underway, the implementation of which is aimed at enhancing the processes of evaluating Information and Communication Technology (ICT) Risk, Model Risk and Conduct Risk.

The process of revising the Operational Key Risk Indicators (KRI's) is also ongoing. In this context, the adoption of new indicators and the setting of early warning limits for both new and existing indicators are assessed.

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.)

35.5 Regulatory compliance

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

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

The aim of the Compliance Division is the prevention and effective management of compliance risks deriving from the institutional and regulatory framework (Regulatory Compliance Risk) and may arise from the business activity of the Bank. This can be achieved through the establishment of adequate policies and processes, and the adoption of recognition control, monitoring mechanism of relevant controls, aiming at the preservation of the integrity and reputation of the Bank.

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

35.6 Transfers – Pledge of financial assets

On 31 December 2018, the Group had encumbered "Loans and advances to customers" of net book value €159 mil. to Alpha Bank A.E. to obtain liquidity. (31.12.2017: €198 mil.). The Group maintains mandatory placements with the Central Bank of Cyprus amounting to €22.545 thous. (2017 : €21.449 thous.) for liquidity purposes.

35.7 Offsetting financial assets / liabilities

At 31 December 2018 there were derivative transactions of receivables of €173thous. (2017: €6.942 thous.) and payables of €3.394 thous. (2017: €18 thous), which are governed by ISDA, the International Swap and Derivatives Association, signed with Alpha Bank A.E.
Under the contract, the Group may offset claims against its counterparty liabilities in the event of a credit event. In addition to the provisions of the above set-off transaction, the Group has provided a cash collateral covering the exposure for 2018. In 2017 the Group obtained a cash collateral covering the exposure.

36. ECONOMIC ENVIRONMENT

Cyprus economy

Achievements

Cyprus has continued to record strong growth over the past four years as a result to follow a prudent economic and tax policy after exiting from the Economic Adjustment Program. The growth is being driven mainly by tourism, retail and construction.

The economy recorded remarkable performance in 2018. GDP grew by 3,9%, unemployment fell for the first time to a single-digit rate of 8,7% compared to 11% in 2017. Inflation remained low at 1.4%. Government debt increased to 104% of GDP, mainly due to the sale of the Co-operative Bank of Cyprus, in which the State essentially took over the non-performing portfolio together with its collateral. It is estimated that in 2019 it will be reduced to 97%

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 increased arrivals. The arrivals reached for the first time, four million visitors.

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

Confidence in the Republic of Cyprus from international markets was confirmed in February 2019 when the demand for the Euro1bn 15-year bond issue, was exceeded by eight times.

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

Forecasts

According to the European Commission's winter forecast, the Cyprus economy will remain robust and is expected to grow by 3,3% in 2019 and 2,7% in 2020. Lower expectations for 2020 are affected by the slowdown in the euro area and the uncertainties of major countries trading with Cyprus. It is also envisaged that investment in construction will increase.

Inflation is projected to reach 0,7% in 2019 and 1,2% in 2020, 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 in the investment grade, resulting in positive results both in borrowing from international markets and in lending costs

36. ECONOMIC ENVIRONMENT (cont.)

Cyprus economy (cont.)

According to Moody's international ratings agency, the economic environment will be supported by the decrease of non-performing loans in the banking system. However, the risks of the economy will remain because some of the non-performing loans have been taken over by the State, following the sale of the Cooperative Bank of Cyprus.

To this end, all economic factors (Government, Banks, Central Bank and others) are intensifying their efforts to tackle the issue of non-performing loans. Among other actions, the "ESTIA" project is being promoted, which aims to protect the primary residence of the borrowers, for residences that their value does not exceed Euro 250 thousand. The State will pay one third of the loan installment for any loans that qualifies for the "ESTIA" project.

The changes in the law in 2018 regarding the disposal of real estate for the settlement of debts, allow for faster completion of the procedures, thus helping to reduce non-performing loans.

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. Interest rates are almost zero today, while customer deposits remain stable.

Increased confidence in the banking system is the result of the positive performance of the economy, and the upgrade by international ratings agencies.

The banks continue their deleveraging efforts, resulting in a sharp decline in bank lending up to 25%. The main reasons for the decline are

a. sales of loans to non-performing loan management companies

b. the takeover of the non-performing portfolio of the Cyprus Co-Operative Bank by the State as a result of its absorption by Hellenic Bank

c. the intensive efforts of banks to settle non-performing loans with the method of debt for assets swap

Despite the decrease of non-performing loans, the challenges of the financial sector remain, as both high rates of non-performing loans and high private debt persist. Restructuring efforts are continued intensively on non-performing loans with a view to consolidate banks' portfolios. At the same time, efforts to deleverage and reduce the banking sector continue with the sale of assets and the merger of banks.

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.

36. ECONOMIC ENVIRONMENT (cont.)

Greek economy - Operating environment of the parent company.

2018 is considered a milestone year for the Greek economy. The conclusion of the third Economic Adjustment Program - which was accompanied by specific measures in order to cover the country's financing needs over the medium-term -contributed to the improvement of economic sentiment, as well as the prospects of the Greek economy.

In 2018, markets' confidence was gradually strengthened, whereas the position of the country as an investors' destination was improved, due to the following: (i) the strengthening of the economic activity, (ii) the achievement of a primary general government surplus, above the fiscal target for the fourth consecutive year, (iii) the upgrading of the country's credit rating by the international rating agencies, (iv) the successful completion of the EU-wide stress testing exercise for the four systemic Greek banks and (v) the further easing of capital controls. In addition, in February 2018, a new seven-year bond was successfully issued, allowing the Greek State to raise Euro 3 billion.

GDP at constant prices increased by 1,9% on an annual basis in 2018 from 1.5% in 2017. The main driving forces of economic expansion were the significant positive contribution of export performance of goods and services and private consumption. Moreover, signs of recovery are evident in the real estate market, as house prices increased for the first time since 2009, by 1.3% on an annual basis in the first nine months of 2018. The Economic Sentiment Indicator (ESI) improved to 102.1 units in 2018, from 96.6 units in 2017, at a higher level than the pre-crisis of 2008 (=100). All sub-indices of business expectations and mainly the consumer confidence indicator improved in 2018 compared to 2017.

Inflation based on the Consumer Price Index (CPI) remained in positive territory in 2018 for the second consecutive year after four years of deflation. CPI increased by 0.6% in 2018, from 1.1% in 2017. Weak inflationary pressures came up from the increase of international oil prices in 2018, though base effects contributed negatively because of the indirect taxation increases on goods and services in 2017.

The unemployment rate followed a downward trend in 2018 and stood at 18.5% in November 2018 (according to seasonally adjusted data), lower by 2.6 percentage points compared to November 2017 and by 9.4 points compared to July 2013 when reaching historically high levels. According to the European Commission Autumn Economic Forecasts, the unemployment rate is expected to reach 19.6% in 2018, from 21.5% in 2017, the highest level among European Union countries. Employment continued to increase (by 3.7% on an annual basis in the first eleven months of 2018), mainly due to the increase of part-time jobs. The main sectors that contributed to the creation of new jobs were the export-oriented sectors of the Greek economy such as tourism, trade and manufacturing.

36. ECONOMIC ENVIRONMENT (cont.)

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 104% of GDP

Debates at European level on review of tax system in Europe may create imbalances that Cyprus will be called to address

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

Financial assets and liabilities not measured at fair value

	2018		2017	
	Fair value €´000	Carrying amount €´000	Fair value €´000	Carrying amount €´000
Cash and balances with central banks	559.263	599.913	249.793	249.793
Due from banks	176.735	177.720	566.768	566.768
Loans and advances to customers	1.610.303	1.540.779	1.821.611	1.734.835
Due to customers	2.179.777	2.212.793	2.200.736	2.204.910
Subordinated bonds	15.748	15.748	114.792	116.262

The table above presents the fair value of the financial assets and liabilities measured at amortized cost and their carrying amount.

The fair value of loans to customers measured at amortized cost is estimated using the discount model of contractual future cash flows. The components of the discount rate are the interbank market yield curve, the liquidity premium as well as the expected loss rate. More specifically, for 31.12.2018, for those loans considered as impaired for the purpose of credit risk monitoring and are individually assessed, the model used is incorporating expected future cash flows excluding expected credit loss. For the purpose of calculating the fair value of impaired loans, that are valued at product level, capital repayment assumptions are used, after deducting the estimated loss due to credit risk.

The fair value of deposits is estimated based on the interbank market yield curve and the liquidity premium until their maturity.

The fair value of bond is calculated on the basis of market prices as long as there is an active market. In other cases, the cash flow discounting method is applied where all significant variables are based on either observable data or a combination of observable and unobservable market data.

The fair value of all other financial assets and liabilities measured at amortized cost does not materially differ from the respective carrying amount.

37. FAIR VALUE (cont.)

Hierarchy of financial instruments measured at fair value

	2018			
	Level 1	Level 2	Level 3	Total fair value
	€´000	€´000	€´000	€´000
Derivative financial assets		173		173
Securities measured at fair value through other comprehensive income				
-Bonds and treasury bills		270.773		270.773
-Shares		2.441	4.229	6.670
Derivative financial liabilities		3.394		3.394

	2017			
	Level 1	Level 2	Level 3	Total fair value
	€´000	€´000	€´000	€´000
Derivative financial assets			6.942	6.942
Available for sale securities				
- Bonds and treasury bills		131.789		131.789
- Shares		2.128	3.860	5.988
Derivative financial liabilities		18		18

The tables above present the fair value hierarchy of financial instruments which are measured at fair value based on inputs used for the fair value measurement.

The different levels are defined as follows:

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

The methodology for the valuation of securities is approved by the Assets Liabilities Committee (ALCO). Especially for securities that are valued at market prices, bid prices are obtained and a change in their valuation is performed on a daily basis.

37. FAIR VALUE (cont.)

Shares whose fair value is calculated are classified to Level 2 or Level 3, depending on the extent of the contribution of unobservable data to calculate final fair value. The fair value of non listed shares, as well as shares not traded in an active market is determined either based on the Group's share on the issuer's equity or by the multiples valuation or the estimations made by the Group which relate to the future profitability of the issuer, taking into account the expected growth rate of its operations, as well as the weighted average rate of capital return which is used as discount rate.

During the period there were no transfers from / to Level 3 of the fair value hierarchy.

For the valuation of over the counter derivatives income approach methodologies are used: discounted cash flow models, option-pricing models or other widely accepted valuation models. The valuation methodology of over the counter derivatives is subject to approval by the Assets – Liabilities Management Committee. Mid prices are considered as both long and short positions may be outstanding. Valuations are checked on a daily basis with the respective prices of the counterparty banks in the context of the daily process of provision of collaterals and settlement of derivatives. If the non observable inputs are significant, the fair value that arises is classified as Level 3 or otherwise as Level 2.

A valuation method based on the Company's equity has been used to determine the fair value of the Bank's investment in JCC Payments Systems Limited at Level 3. In the scenario that the equity of JCC Payments Systems Limited is changed by Euro10m. the impact on the Group's equity is expected to amount to Euro1 million.

The following table shows the reconciliation from the initial balance to the final balance of the fair values classified in Level 3 of the fair value hierarchy:

31.12.2018	Securities measured at fair value through other comprehensive income
	€΄000
Opening balance (after the implementation of IFRS9)	**3.860**
Total gain or loss recognized in Income Statement	369
Balance 31.12.2018	**4.229**

31.12.2017	Available for sale securities
	€΄000
Opening balance 1.1.2017	1.651
Total gain or loss recognized in Income Statement	2.209
Balance 31.12.2017	3.860

38. CAPITAL ADEQUACY

The policy of the Group is to maintain a strong capital base, in order to ensure the Group's development, and the trust of depositors, shareholders, markets and business partners.

The Capital Adequacy Ratio compares the Bank's regulatory capital with the risks that the Bank undertakes (Risk Weighted Assets-RWAs). Regulatory capital includes CET1 capital (share capital, reserves, minority interests), additional Tier 1 capital (hybrid securities) and Tier 2 capital (subordinated debt). The Group uses the standardized method for both credit risk and operational risk to calculate the risk weighted assets. The Group does not currently have exposure to market risk.

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

The supervision is conducted in accordance with the European Regulation 575/2013 (CRR) and the relevant European Directive 2013/36 (CRD IV), which was incorporated into the Cyprus Law. The framework is broadly known as Basel III. The Central Bank of Cyprus, with a view to harmonize with CRD IV, has proceeded to transfer the provisions of the above Directive by amending the Banking law and by introducing the new Macro-Prudential Oversight Law of 2015, which was amended in early February 2017 with retrospective effect from 1.1.2016, setting the minimum ratios (equity capital, Tier I capital and capital adequacy) that the Group should maintain. In accordance with the above framework for the calculation of the capital adequacy ratio, the transitional provisions in force are followed.

- Besides the 8% capital adequacy limit, there are applicable limits for Common Equity Ratio and Tier I ratio of 4,5% and 6%, respectively

- The maintenance of capital buffers additional to the Common Equity Capital, from 1.1.2016 and gradually until 1.1.2019, is required. In particular:

  - Since 1.1.2018 a capital buffer of 1.875% exists which will rise to 2.5% on 1.1.2019.

  - Central Bank of Cyprus, set the following capital buffers for 2018:

    Countercyclical capital buffer equal to «zero percent» (0%) for 2018.

    Other systemically important institutions' (O-SII) buffer «zero percent» (0%) for 2018.

On 25.10.2018 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 2017, the ECB informed Alpha Bank that the minimum limit for the Overall Capital Requirement (OCR) is 12.875%. The OCR is composed by the minimum own funds requirements (8%), according to article 92(1) of the CRR, the additional Pillar II own funds requirements (P2R), according to article 16(2) (a) of the Regulation 1024/2013/ EU set at 3%, and the combined buffer requirements (CBR), according to article 128(6) of the Directive 2013/36/EU, 1.875% in 2018. The above minimum ratio should be maintained on a phase-in basis under applicable transitional rules of the CRR/CRD IV, at all times.

38. CAPITAL ADEQUACY (cont.)

Respectively, for the year 2019, the ratios claims under the ECB's decision are estimated at 13,625%. The increase relates to the addition of 0.625% for the incremental increase in the capital conservation buffer by 2.5%, and to 0.125% for the gradual implementation of the O-SII security reserve.

Alpha Bank successfully concluded the 2018 Stress Test which was conducted based on a static balance sheet approach under a baseline and an adverse macro scenario with a 3 year forecasting horizon (2018-2020). The starting point was December 31st, 2017, restated to account for IFRS 9 impact. Impact was assessed in terms of CET1 ratio. Under the baseline scenario, 2020 CET1 ratio reached 20.4%, following an aggregate impact of +212 bps mainly driven by a strong pre provision income generation.
Under the adverse scenario, 2020 CET1 ratio stood at 9.7%, down by 856 bps, largely driven by the negative impact of credit risk resulting from the stressed macro environment and methodological constraints.

Based on feedback received by the Single Supervisory Mechanism (SSM), the Stress Test outcome, along with other factors, have been assessed by its Supervisory Board, pointing to no capital shortfall. Therefore, no capital plan was required, as a result of the exercise.

The capital adequacy ratios according to the CRR with transitional provisions set by the Central Bank of Cyprus for 31 December 2018 are analyzed below:

	31.12.2018 €΄000 Basel III	31.12.2017 €΄000 Basel III
Regulatory Capital		
Transitional Common Equity Tier I	**276.865**	**251.758**
Additional Tier I	64.000	63.892
Total Tier I	**340.865**	**315.650**
Tier II	3.395	13.980
Total transitional capital	**344.260**	**329.630**
Total risk weighted assets	**1.672.159**	**1.821.713**
Transitional Common Equity Tier I ratio	**16,6%**	**13,8%**
Transitional Tier I ratio	**20,4%**	**17,3%**
Transitional total capital adequacy ratio	**20,6%**	**18,1%**

38. CAPITAL ADEQUACY (cont.)

Regarding the impact of the application of IFRS 9, the Group will make use of the transitional provisions under which the impact of the application of the new standard will be absorbed within five years. The Group is adequately capitalised to meet the requirements arising from the application of the new standard as the CET1 ratio stands at 16,6% as of 31.12.2018 according to the transitional provisions. The impact from full implementation is estimated at around 2,6% with the index reaching 14,0% with reference date 31.12.2018.

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.

Under CRR provisions a leverage ratio has been adopted, which is calculated as the relation between total assets plus the off balance sheet assets to the Tier I capital. The leverage ratio for 2018 stands at 12,6% (with transitional provisions) compared to 11,4% for 2017. 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 2018.

During the period covering from 31 December 2018 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

	31.12.2018 €΄000	31.12.2017 €΄000
Loans and advances to Board of Directors members and related parties	47	113
Deposits by Board of Directors members and related parties	241	516
	From 1 January to	
	31.12.2018	31.12.2017
Non executive Directors		
Board members fees	193	148
Executive Directors		
Salaries and benefits	497	325
Social insurance contributions by employer etc.	22	14
Retirement benefits	12	12
Total remuneration for executive directors	531	351

Credit facilities to executive and non-executive directors, per director, do not exceed 1% of the Bank's net assets.

b) Transactions with Key Management Personnel

The Bank considers the members of the Executive committee as key management personnel.

	31.12.2018 €΄000	31.12.2017 €΄000
Loans and advances to key management personnel and related parties	419	382
Deposits by key management personnel and related parties	393	883
	From 1 January to	
	31.12.2018	31.12.2017
Salaries and benefits	349	576
Social insurance contributions by employer etc.	21	29
Retirement benefits	12	12
Total remuneration to key management personnel	382	617

40. RELATED PARTY TRANSACTIONS (cont.)

(c) Transactions with parent company

During the year, the parent company Alpha Bank A.E. has granted guarantees totaling €22.468 thous. (2017: €25.839 thous.) in relation to loans and advances granted to specific clients.

	31.12.2018 €΄000	31.12.2017 €΄000
Assets		
Due from banks	120.361	530.682
Derivative financial assets	173	6.942
	120.534	537.624
Liabilities		
Due to banks (Note 23)	26.995	48.821
Derivative financial liabilities	3.394	18
Subordinated bonds	1.199	29.062
Convertible capital securities	64.000	64.000
Other liabilities	309	605
	95.897	142.506

	From 1 January to	
	31.12.2018 €΄000	31.12.2017 €΄000
Income		
Interest and similar income	1.719	2.754
Gain on financial transactions	712	2.200
Reversal of impairment losses on due from banks	1.220	-
	3.651	4.954
Expenses		
Interest expense and similar income	226	736
Staff costs	515	604
Other expenses	5	-
	746	1.340

On 14.5.2015 the Group pledged in favor of Alpha Bank A.E, “Loans and advances to customers” as collateral for liquidity obtained. On 31.12.2018, the book value of the collateral amounted to €159 mil.

40. RELATED PARTY TRANSACTIONS (cont.)

(d) Transactions with Alpha Bank Group companies

	31.12.2018	31.12.2017
	€΄000	€΄000
Assets		
Due from banks	15	30
Other assets	1.625	549
	1.640	579
Liabilities		
Due to customers	4.640	13.661
Subordinate bonds	14.549	31.162
Other liabilities	2.727	3.782
	21.916	48.605

	From 1 January to	
	31.12.2018	31.12.2017
	€΄000	€΄000
Income		
Interest and similar income	-	1
Fees and commission income	306	21
Other income	5.008	3.074
	5.314	3.096
Expenses		
Interest expense and similar charges	125	988
Fees and commission expense	6	7
Other expenses	1.237	628
	1.368	1.623

In 2018, “Loans and advances to customers”, of € 381m and fair value of € 202m, were sold to a company of Alpha Bank AE Group. For these loans all risks and rewards of ownership have been transferred and therefore their recognition in the Balance Sheet has been terminated.

In calculating the fair value of the loans sold, the expected cash flows from the loans have been taken into account, discounted at market rates that take into account cost of capital, liquidity cost and management costs. The methodology to set the market interest rate was determined with the contribution of an independent accounting firm.

(e) Transactions with the Hellenic Financial Stability Fund (HFSF) and its subsidiaries

The Group did not have any transactions with the HFSF or its subsidiaries during the year 2018 and 2017.

41. IMPACT FROM THE IMPLEMENTATION OF IFRS 9

The new accounting standard IFRS 9 replaced 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 Group has completed an Implementation Program, which was organized around two main work streams, the classification and measurement work stream and the impairment work stream. The Committees of the Board of Directors (the Audit Committee and the Risk Management Committee) have assumed an active role including involvement in the decision making process on key assumptions and decisions related to the Implementation Program.

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 Committees of the Board of Directors. New methodologies and procedures have also been implemented to support these new policies.

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 €΄000	**Reclassification** €΄000	**Estimated Valuation Impact** €΄000	**Balance under IFRS 9 at 1.1.2018** €΄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. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (cont.)

The existing portfolio on 1.1.2018, has been classified as follows:

a. Loans and advances to customers and due from banks will be included in business models that permit the classification of instruments at amortised 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, no loans have failed the SPPI assessment test.

b. For bonds and in general for fixed income investments, the Group has identified the following business models:

- business model, that aims to both collect the contractual cash flows and sell the financial asset (hold to collect and sell)

During the transition to the new standard, the majority of the 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.

c. 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.

d. The Group has not opted to designate at initial recognition debt securities as measured at fair value through profit or loss.

Financial liabilities are measured at amortised 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.

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)**

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

The following table presents a reconciliation of accumulated provision for impairment losses of financial assets between IAS 39 and IFRS 9 as at 31.12.2017 and as at 1.1.2018, respectively.

It is noted that the accumulated provision for impairment losses, in regards with the following disclosure, includes the adjustment for the contractual loans which were acquired at fair value during the acquisition of Emporiki Bank Cyprus Ltd , since the Group monitors from credit risk perspective, the respective adjustment as part of the provisions.

	31.12.2017 IAS 39 €΄000	Other reclassifications €΄000	Remeasurement €΄000	1.1.2018 IFRS 9 €΄000
Financial assets				
Due from banks	-		1.235	1.235
Loans at amortised cost	893.791	(11.086)	52.704	935.409
Total impairment on financial assets measured at amortised cost	**893.791**	**(11.086)**	**53.939**	**936.644**
Investment securities measured at fair value through other comprehensive income	-	-	196	196
Total impairment on financial assets measured at fair value through other comprehensive income	**-**	**-**	**196**	**196**

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

The following table presents loans measured at amortised cost per IFRS 9 Stage, as at 1.1.2018, after taking into account the 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

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

In addition to the estimated expected credit losses mentioned above, a provision has been made for expected credit losses from off-balance sheet items, amounting to € 1.709 thous. Thus, the total estimated amount to cover expected credit losses amounts to € 937.118 thous.

“Purchased or originated credit impaired loans” include loans amounting to € 19.020 thous. which as of 1.1.2018 are not impaired / non-performing.
The carrying amount (before provision for impairment losses) and the accumulated expected credit losses include the fair value adjustment of the loans acquired at their fair value of € 158.062 thous. which were classified as impaired at initial recognition.

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 €´000	Stage 2 €´000	Stage 3 €´000	Loans impaired at initial recognition €´000	Total €´000
Balance at 1.1.2018 in accordance with IFRS 9	137.973	-	-	-	137.973
Expected Credit Losses	(196)	-	-	-	(196)

The tax treatment for the impact from the transition to IFRS9 has not yet been clarified.

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.

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

Alpha Bank makes use of Article 473a of the above Regulation and will apply the transitional provisions for the calculation of Capital Adequacy on both a standalone and consolidated basis. The Bank is adequately capitalized to meet the needs arising from the application of the new standard as the Group Common Equity Tier 1 (CET 1) ratio stands at 16.6% as at 31.12.2018, while the impact from the full implementation is estimated at approximately 2.6% and the ratio stands at 14% as at 31.12.2018.

42. GROUP CONSOLIDATED COMPANIES

The consolidated financial statements, apart from the parent company Alpha Bank Cyprus Ltd include the following entities, all of which were incorporated in 2018

		Group's ownership interest %	
Company name	**Country**	**31.12.2018**	**31.12.2017**
Real estate			
ABC RE L1 LTD	Cyprus	100	-
ABC RE P1 LTD	Cyprus	100	-
ABC RE P2 LTD	Cyprus	100	-
ABC RE P3 LTD	Cyprus	100	-
ABC RE P4 LTD	Cyprus	100	-
ABC RE L2 LTD	Cyprus	100	-
ABC RE P5 LTD	Cyprus	100	-
ABC RE P&F LIMASSOL LTD	Cyprus	100	-
ABC RE L3 LTD	Cyprus	100	-

The Bank and its subsidiaries have an obligation to dispose properties acquired through the debt for assets swap process, within three years of the date of recovery. The period of three years may be extended with the approval of the Central Bank of Cyprus.

42. GROUP CONSOLIDATED COMPANIES (cont.)

The rest of the Bank's transactions with its subsidiaries and the results of those transactions are set out in the table below:

	Assets €΄000	Liabilities €΄000	Income €΄000	Expense €΄000
Company name				
Real estate				
ABC RE L1 LTD	1	(4)	-	-
ABC RE P1 LTD	1	(2)	-	-
ABC RE P2 LTD	1	(2)	-	-
ABC RE P3 LTD	1	(2)	-	-
ABC RE P4 LTD	1	(2)	-	-
ABC RE L2 LTD	1	(2)	-	-
ABC RE P5 LTD	1	-	-	-
ABC RE P&F LIMASSOL LTD	1	-	-	-
ABC RE L3 LTD	1	-	-	-

The following table presents the profit / (loss) per subsidiary for the year 2018 consolidated in these consolidated financial statements

	Profit / (Loss) €΄000
Real estate	
ABC RE L1 LTD	(4)
ABC RE P1 LTD	(2)
ABC RE P2 LTD	(2)
ABC RE P3 LTD	(2)
ABC RE P4 LTD	(2)
ABC RE L2 LTD	(2)
ABC RE P5 LTD	(1)
ABC RE P&F LIMASSOL LTD	(1)
ABC RE L3 LTD	(1)
Total	**(17)**

43. 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 2018.

The Annual Financial Report was approved for issue by the Board of Directors of the Bank on 24 April 2019.

Additional Risk Disclosures 2018 (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 31.12.2018 and 31.12.2017 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 2018

	Total Credit Facilities				Provision for impairment			
	Gross Loans and advances[1]	of which non performing	of which exposures with forbearance measures: Exposures with forbearance measures	of which exposures with forbearance measures: of which non performing	Total provision for impairment[2]	of which non performing	of which exposures with forbearance measures: Exposures with forbearance measures	of which exposures with forbearance measures: of which non performing
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
General Governments	**28**	**0**	**0**	-	-	-	-	-
Other financial corporations	**46.109**	**13.320**	**11.062**	**11.062**	**2.085**	**2.081**	**279**	**279**
Non-financial corporations	**967.512**	**468.724**	**108.874**	**72.445**	**282.399**	**278.677**	**25.299**	**24.321**
of which: Small and medium-sized enterprises	908.145	468.724	108.874	72.458	281.756	278.679	25.299	24.321
of which: Commercial real estate	614.671	363.916	83.334	54.331	223.833	222.207	20.087	19.449
Non-financial corporations per sector	**967.512**	**468.724**			**282.399**			
Construction	423.085	264.352			167.683			
Wholesale and retail trade	115.068	63.368			35.612			
Hotel and restaurants	99.120	15.090			9.278			
Real estate	91.406	46.991			20.647			
Manufacturing	72.073	34.382			22.844			
Other	166.760	44.541			26.335			
Households	**1.240.823**	**803.890**	**476.754**	**379.394**	**429.209**	**419.318**	**170.716**	**164.209**
of which: Residential mortgage loans	1.071.333	694.773	434.455	343.700	347.924	339.317	146.320	140.435
of which: credit for consumption	136.091	95.350	28.226	24.143	54.355	53.807	9.407	9.247
Total	**2.254.472**	**1.285.934**	**596.690**	**462.901**	**713.693**	**700.076**	**196.294**	**188.809**

1. Excluding loans and advances to central banks and credit institutions.

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

Additional risks disclosures (cont.)
(Unaudited)

LOAN PORTFOLIO ANALYSIS – TABLE A

31 December 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**

3. Excluding loans and advances to central banks and credit institutions.

4. 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 2018

Loan origination date	Total loans portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions	Gross loans and advances	Non performing exposures	Provisions
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	198.502	117	1.295	162.194	70	1.119	88	-	-	36.220	47	176
1 - 2 years	64.015	667	451	53.857	356	280	1	-	-	10.157	311	171
2 - 3 years	46.283	7.166	4.098	10.129	5.685	3.570	31.646	-	-	4.508	1.481	528
3 - 5 years	81.359	50.377	26.200	19.698	7.196	3.587	171	153	129	61.490	43.028	22.484
5 - 7 years	200.091	131.345	79.469	70.009	35.143	19.542	1.802	1.802	512	128.280	94.400	59.415
7 - 10 years	380.269	273.177	154.127	148.135	116.823	70.094	49	34	2	232.085	156.320	84.031
Over 10 years	1.283.925	823.085	448.053	503.490	303.451	184.207	12.352	11.331	1.442	768.083	508.303	262.404
Total	2.254.444	1.285.934	713.693	967.512	468.724	282.399	46.109	13.320	2.085	1.240.823	803.890	429.209
General Governments	28	-	-									
Total	**2.254.472**	**1.285.934**	**713.693**									

For the purposes of the presentation of above disclosures, accumulated provision for impairment, includes the fair value adjustment for the loans and advances of Emporiki Bank Cyprus Ltd portfolio which was acquired on its fair value balance. For the purpose of credit risk monitoring this adjustment is considered as part of the provisions. In note 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	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	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)

The table below presents the encumbered and unencumbered assets of the Group to the extent that these assets are pledged for the financial needs of the Group.

An asset is considered as encumbered if it has been pledged as collateral, either to obtain funding or in any transaction that requests collateral. Such asset is no longer available for the bank to be pledged as collateral to obtain funding.

CARRYING AND FAIR VALUE OF ENCUMBERED AND UNENCUMBERED ASSETS

31 December 2018	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€'000	€'000	€'000	€'000
Assets				
Equity instruments	-	-	6.670	6.670
Debt securities	-	-	270.773	270.773
Other assets	159.223	159.223	2.177.779	2.247.303
Total	159.223		2.455.222	

31 December 2017	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€'000	€'000	€'000	€'000
Assets				
Equity instruments	-	-	5.988	5.988
Debt securities	-	-	131.789	131.789
Other assets	198.223	198.223	2.404.804	2.495.580
Total	198.223		2.546.581	

Additional Risk Disclosures (cont.)
(Unaudited)

FAIR VALUE OF ENCUMBERED AND UNENCUMBERED COLLATERALS

31 December 2018	Fair value of encumbered collateral received or own debt securities issued	Fair value of un encumbered collaterals received or own debt securities issued available for encumbrance
	€'000	€'000
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	-
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	-

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	-	404.829
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	404.829

Additional Risk Disclosures (cont.)
(Unaudited)

ENCUMBERED ASSETS AND COLLATERALS RECEIVED BY THE GROUP AND ASSOCIATED COMPANIES

31 December 2018	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered
	€'000	€'000
Carrying amount of selected financial liabilities	-	-
Total	-	-

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	-	-