ALPHA BANK

First Half 2017 Results of Alpha Bank Cyprus Ltd [29.8.2017]

Main Highlights
- **Pre provision income of Euro 15.4 mil. compared to Euro 3.4 mil. for the same period in 2016.**
- **Losses after tax Euro 27.3 mil. as a result of increased impairments to cover credit risk.**
- **Increase of Non Performing Exposures coverage ratio to 49%.**
- **Strong capital base with Common Equity Tier I ratio (CET I) of 15.6%.**
- **Strong liquidity position with net loans to deposits ratio of 86.6% from 100.3% on 31.12.2016.**
- **Increase of customer deposits by 10.3% compared to 31.12.2016.**

Capital Adequacy

On 30 June 2017, Common Equity Tier I ratio (CET I) stood at 15.6%, Total Tier I ratio at 18.8% and Total Capital Adequacy ratio at 20.2%. The capital adequacy ratios are in accordance with the transitional provisions for the year.

Financial Performance

The financial results of Alpha Bank Cyprus Ltd for the first half of 2017, present losses after tax of Euro 27.3 million compared to profit after tax of Euro 7.6 million for the same period of 2016 mainly due to increased impairments to cover credit risk**.**

Key financial data		**From 1 January to**	
	Change	**30.6.2017**	**30.6.2016**
In Euro mil.			
Net interest income	-31.8%	33.8	49.5
Total income	-34.2%	39.8	60.5
Total expenses	-57.3%	(24.4)	(57.1)
Pre provision income	352.9%	15.4	3.4
Impairment profit/(loss) and provisions to cover credit risk	-1,008.5%	(42.7)	4.7
Profit / (loss) after tax	-459.2%	(27.3)	7.6
Profit / (loss) per share		(0.16) cent	0.04 cent
In Euro mil.		**30.6.2017**	**31.12.2016**
Loans and advances to Customers	-4.8%	1,853.6	1,946.4
Due to Customers	10.3%	2,140.6	1,940.6
Transitional Common Equity Tier I ratio (CET I)	-90 basis points	15.6%	16.5%

The results were mainly impacted by:

- the change in loan and deposit spreads,
- the increase of impairments to cover credit risk, which improved the Non Performing Exposures coverage ratio to 49%,
- the increase of the deposit base and
- the reduction of operational expenses.

Net Interest income for the first half 2017 amounted to Euro 33.8 million, presenting a decrease of 31.8% compared to the same period in 2016. The decrease is mainly attributed to the change of interest rate spreads.

Total income of the Bank amounted to Euro 39.8 million for the first half 2017, decreased by 34.2%, compared to the same period in 2016. It is noted that income for the first half 2016 includes a non recurring profit of Euro 6.6 million from the sale of Visa Europe shares.

Total expenses of the Bank for the first half 2017, amounted to Euro 24.4 million, 57.3% lower than the same period in 2016, mainly due to the cost of a voluntary retirement programme offered in the first half of 2016. Excluding the above non-recurring retirement cost, total expenses decreased by 5.1% compared to the same period in 2016.

Cost to income ratio, excluding non-recurring items (income from sale of Visa Europe shares and the voluntary retirement compensation cost), stands for the first half 2017 at 61.4% compared to 47.7% for the same period of 2016.

Impairment loss and provisions to cover credit risk amounted to Euro 42.7 million for the first half 2017 compared to a release of impairments of Euro 4.7 million for the same period in 2016, thus improving Non Performing Exposures coverage ratio and allowing a more active management of the portfolio in arrears.

Balance Sheet

Net loans and advances to customers on 30 June 2017 amounted to Euro 1,853.6 million, a decrease of 4.8% compared to 31 December 2016.

Amounts due to customers on 30 June 2017 amounted to Euro 2,140.6 million, compared to Euro 1,940.6 million on 31 December 2016, presenting an increase of 10.3%. The net loans to deposits ratio was improved to 86.6% on 30 June 2017, from 100.3% on 31 December 2016.

Accumulated impairments to cover credit risk amounted to Euro 884.4 million on 30 June 2017, covering 32.3% of gross loans, compared to Euro 856.5 million on 31 December 2016. Accumulated impairments include the fair value adjustment of the loan portfolio, which was acquired at fair value.

Loans over 90 days past due stood on 30 June 2017, at Euro 1,477.6 million representing 53.9% of gross loans. On 31 December 2016, they stood at Euro 1,468.0 million.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood on 30 June 2017 at Euro 1,803.9 million representing 65.9% of gross loans, compared to Euro 1,802.1 million on 31 December 2016. On 30 June 2017, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 49.0% compared to 47.5% on 31 December 2016.

International Financial Reporting standard 9 (IFRS9)

Regarding the new accounting standard IFRS 9, the application of which is mandatory from 1.1.2018, it is noted that the Bank has started a programme for implementation, as it is specifically mentioned in note 1.1 of the annual financial statements of 31.12.2016, where also the main changes of the new standard regarding the accounting treatment of financial instruments are explained. The progress of the programme is evolving according to plan, while most of the individual projects identified are in the implementation phase.

The design of the governance framework and the process that will be followed for the classification of financial instruments that will be recognised after 1.1.2018, is in progress. In particular, the high level design of the process for the definition of business models as well as the assessment of the characteristics of contractual cash flows has significantly progressed. At the same time a detailed recording of the classification process in manuals is being carried out and necessary enhancements/modifications are being implemented to IT applications.

With regards to the impairment work stream, the Bank is completing the development of models for the calculation of credit risk losses.

At the same time, it is in progress the process of developing analytical methodologies for the staging of financial instruments for which impairment losses will be calculated depending on the level of the issuer / borrower's credit risk deterioration, which will determine the financial instruments for which impairment will be calculated based on 12-m expected losses or lifetime expected losses.

Until today, important assumptions in relation to IFRS 9 application have not been finalised and any impact analysis can be based on hypotheses, assumptions and simplified approaches that are still being developed**.** Therefore, there is currently no specific and reliable information on the estimated impact of IFRS 9 on the Bank's key supervisory indicators and / or financial position.

Challenges of the economy and the banking system

The main challenge relates to the economic environment and concerns the high level of non-performing loans of the banking sector and the economy in Cyprus. Non-performing loans and the high level of private sector debt remain an unstable factor in the smooth growth of the economy.

Additional challenges are expected from United Kingdom's exit from the European Union.

Developments and Prospects

The economy of Cyprus signals positive prospects which are supported by:

- the positive GDP growth of 3.5% of the second quarter of 2017 compared to the same period of 2016,
- the decrease of unemployment rate for the first six months of 2017 at 10,8% compared to 12.9% for the same period in 2016,
- the upgrade of the cypriot economy from international credit agencies,
- the increase of tourism,
- the increase of customer deposits of the banking system.

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

Basic priorities of the Bank's Business Plan are to:

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

For the preparation of the Interim Financial Statements of 30 June 2017, which have not been reviewed by the auditors, the same accounting policies were applied as those used in preparing the Audited Financial Statements for the year 2016, with the exception of the new standards applied as from 1 January 2017, as described in note 1.1 of the interim financial statements for the first six months of 2017.

The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of the Cyprus Companies Law, Cap.113 and the Securities and Cyprus Stock Exchange Laws and Regulations.

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15.7.2016 the Bank publishes additional information. The Bank believes that certain Alternative Performance Measures (APMs) provide additional information that is useful both for assessing performance and for making strategic decisions. Relevant analysis and table with APMs is included in the management report of the Interim Financial Statements as at 30.6.2017.

The Interim Financial Statements of the Bank for the period 1 January to 30 June 2017 were approved during the meeting of the Board of Directors held on 29 August 2017.

The Interim Financial Statements for the period 1 January 2017 to 30 June 2017 are available on the website of Alpha Bank Cyprus Ltd (www.alphabank.com.cy) and Cyprus Stock Exchange (www.cse.com.cy)