# ALPHA BANK ROMANIA S.A.

## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2018

## PREPARED IN ACCORDANCE WITH
## INTERNATIONAL FINANCIAL REPORTING STANDARDS
## AS ENDORSED BY THE EUROPEAN UNION

**CONTENTS** **PAGE**

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alpha Bank Romania S.A.,
Bucharest, Romania

## Report on the Audit of the Financial Statements

### Opinion

1. We have audited the financial statements of Alpha Bank Romania S.A. (the Bank), with registered office in 237B, Calea Dorobantilor, District 1, Bucharest, Romania, identified by unique tax registration code RO5062063, which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.

2. The financial statements as at December 31, 2018 are identified as follows:

   - Net assets/ Equity 1,753,875 KRON
   - Net profit/(loss) for the financial year 21,043 KRON

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with National Bank of Romania Order no 27/2010 for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by the European Union, with subsequent amendments ("Order 27/2010").

### Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

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

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| Nature of the area of focus | How our audit addressed the key audit matter |
|---|---|
| **Impairment of loans and advances to customers** | |
| The International Accounting Standards Board (IASB) issued IFRS 9 – "Financial Instruments" which replaces IAS 39 – "Financial Instruments" as of the date of its effectiveness on 1 January 2018.<br><br>The key change arising from the adoption of IFRS 9 is that the Bank's credit losses are now based on expected credit losses (ECL) rather that an incurred loss model, as detailed in impairment policy from Note 3)p)iv).<br><br>As at 31 December 2018, the Bank's main financial statements line with significant impact from the adoption of IFRS 9 is Loans and advances to customers amounting to 11,153,438 KRON (net of related impairment allowances amount to 493,874 KRON).<br><br>We considered this area a key audit matter due to the following reasons:<br><br>• Higher weight in total Bank's assets of the financial statement item "Loans and advances to customers";<br><br>• Significance of the Management judgements applied in classification and measurement and impairment requirements.<br><br>Key areas of judgement included:<br><br>- The interpretation of the requirements to determine impairment under the application of IFRS 9, which is reflected in the expected credit loss model;<br><br>- 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 customers;<br><br>- The identification of exposures with a significant deterioration in credit quality. | We have examined the impairment charges for loans and advances to customers and evaluated the IFRS 9 assumptions made according to the description of the key audit matter using our risk assessment, industry knowledge and involving our Risk Advisory experts.<br><br>We performed the following procedures:<br><br>• Testing of key controls including:<br><br>- Controls for quality assurance of the source data used in developing and calibration ECL related models;<br>- Controls related to timely identification of impairment triggers, including significant increase in credit risk;<br>- Controls related to the debtors' financial performance assessment and estimation of future cash flows.<br><br>• Obtaining and checking the evidence to support the assumptions used in:<br><br>- Development of the models for computation of the key risk parameters (12 month probability of default, lifetime probability of default and Loss given default), including procedures on the source data quality;<br>- Development of the expected credit loss models;<br>- Development of the stage allocation;<br>- Development of models to reflect the potential impact of future macro-economic conditions in the ECL computation.<br><br>• Testing the implementation of the new methodology into the ECL computation systems, including:<br><br>- Test the general IT controls related to data sources and computations of ECL;<br>- Assessment on a sample basis of the credit quality and stage allocation;<br>- Test on a sample basis the ECL computations.<br><br>• Consider the completeness and adequacy of disclosures related to ECL in accordance with IFRS. |

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| **Interest and Fee Income Recognition** | |
|---|---|
| Refer to Note 7 and 8 of the financial statements<br><br>For the year ended 31 December 2018 the interest income represents 595,305 KRON and fee and commission income represents 108,582 KRON, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank's profitability.<br><br>While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:<br><br>• Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.<br><br>• Fees for services provided are recognized when service is provided and are presented as fee and commission income.<br><br>• Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.<br><br>Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter. | We have tested the design and operating effectiveness of the key internal controls and focused on:<br><br>• Interest/fee inputs on customer loans and deposits;<br><br>• Recording/ changes of fees and interest rates;<br><br>• Management oversight and control on interest and fee income, including budget monitoring;<br><br>• IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.<br><br>We performed also the following procedures with regard to interest and fees revenue recognition:<br><br>- We evaluated the accounting treatment performed by the Bank in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standards. We have focused our testing on challenging the correct classification of:<br><br>• Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;<br><br>• Fees that are not identified as directly attributable to the financial instrument.<br><br>- We assessed the completeness and accuracy of data used for the calculation of interest and fee income.<br><br>- We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.<br><br>- We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Bank.<br><br>- We considered the completeness and accuracy of disclosures relating to revenue in compliance with IFRS. |

**Other information- Administrator's Report**

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report which includes the non-financial information declaration but does not include the financial statements and our auditor's report thereon.

   Our opinion on the financial statements does not cover the other information and, unless otherwise explicitly mentioned in our report, we do not express any form of assurance conclusion thereon.

   In connection with our audit of the financial statements for the year ended December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

   With respect to the Administrator's report, we read it and report if this has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no 27/2010, articles 11-13.

   On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

   a) the information included in the administrators' report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements;

   b) the administrators' report has been prepared, in all material respects, in accordance with the provisions of the National Bank of Romania Order no 27/2010, articles 11-13.

Moreover, based on our knowledge and understanding concerning the Bank and its environment gained during the audit on the (standalone) financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

9. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

15. We have been appointed by the General Assembly of Shareholders / Associates on 8 May 2018 to audit the financial statements of Alpha Bank Romania S.A. for the financial year ended December 31, 2018. The uninterrupted total duration of our commitment is 2 years, covering the financial years ended 31 December 2017 until the 31 December 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.

- No non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014 were provided.

The engagement director on the audit resulting in this independent auditor's report is Claudiu Ghiurluc.

Claudiu Ghiurluc, Director Audit

*For signature, please refer to the original Romanian version,*

*Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3113*

On behalf of:

**DELOITTE AUDIT S.R.L.**

*Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25*

Clădirea The Mark, Calea Griviței nr. 84-98 și 100-102,
etajul 8 și etajul 9, Sector 1
Bucharest, Romania
May 7, 2019

**ALPHA BANK ROMANIA SA**
**INCOME STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
***(all amounts are expressed in RON thousand ("RON '000")***

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| | | RON'000 | RON'000 |
| Interest and similar income | 7 | 595,305 | 493,736 |
| Interest expense | 7 | (129,894) | (87,676) |
| **Net interest income** | | **465,411** | **406,060** |
| Fee and commission income | 8 | 108,582 | 94,775 |
| Fee and commission expense | 8 | (23,753) | (17,791) |
| **Net fee and commission income** | | **84,829** | **76,984** |
| Dividend income | | 1,025 | 886 |
| Gains less losses from derecognition of financial assets measured at amortised cost | 10 | (12,003) | 67,266 |
| Gains less losses on financial transactions | 9 | 39,028 | 37,603 |
| Other operating income | | 2,558 | 8,315 |
| **Net operating income** | | **580,848** | **597,114** |
| Impairment losses and provisions to cover credit risk | 11 | (44,604) | 41,390 |
| Staff costs | 12 | (174,021) | (160,534) |
| Depreciation and amortization | 18 | (20,395) | (17,090) |
| Other operating expenses | 13 | (229,054) | (204,321) |
| **Operating expenses** | | **(468,074)** | **(340,555)** |
| Share from loss of associates | 16 | (395) | (150) |
| **Profit before tax** | | **112,379** | **256,409** |
| Income tax expense | 27 | (91,336) | (41,675) |
| **Net profit for period** | | **21,043** | **214,734** |

The financial statements were authorized for issue by the Board of Directors on 24 April 2019 and were signed on its behalf by:

**Sergiu Oprescu**
**Executive President**

**Gabriel Mateescu**
**Executive Financial Vice-president**

The accompanying notes form an integral part of these financial statements.

**ALPHA BANK ROMANIA SA**
**STATEMENT OF OTHER COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
***(all amounts are expressed in RON thousand ("RON '000")***

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | **RON'000** | **RON'000** |
| **Net profit for the period** | **21,043** | **214,734** |
| **Other comprehensive income:** | | |
| **Items that may be reclassified to profit or loss** | | |
| Net change in reserves of securities designated as at fair value through other comprehensive income: | 5,580 | - |
| Net change in reserves of available-for-sale financial assets | - | (1,694) |
| Income tax | (858) | 271 |
| **Total amount that may be reclassified to profit or loss, after income tax** | **4,722** | **(1,423)** |
| **Amounts that will not be reclassified to profit or loss** | | |
| Gains/(Losses) from equity instruments designated as at fair value through other comprehensive income | 1,543 | - |
| Income tax | (247) | - |
| **Total amount that will not be reclassified to profit or loss, after income tax** | **1,296** | **-** |
| **Other comprehensive income, net of tax** | **6,018** | **(1,423)** |
| **Total comprehensive income** | **27,061** | **213,311** |

The financial statements were authorized for issue by the Board of Directors on 24 April 2019 and were signed on its behalf by:

**Sergiu Oprescu**
**Executive President**

**Gabriel Mateescu**
**Executive Financial Vice-president**

**ALPHA BANK ROMANIA SA**
**STATEMENT OF FINANCIAL POSITION**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
***(all amounts are expressed in RON thousand ("RON '000"), unless otherwise stated)***

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| | | RON'000 | RON'000 |
| **ASSETS** | | | |
| Cash and balances with National Bank of Romania | **14** | 2,694,448 | 2,044,314 |
| Derivative financial assets | **19** | - | 1,566 |
| Due from other banks | **15** | 1,706,029 | 914,671 |
| **Investment securities** | | | |
| Available-for-sale securities | **16** | - | 1,323,342 |
| Measured at fair value through other comprehensive income | **16** | 1,218,365 | - |
| Investments in associates | **16** | 409 | 804 |
| Loans and advances to customers | **17** | 11,153,438 | 10,938,335 |
| Property and equipment | **18** | 99,082 | 91,803 |
| Intangible assets | **18** | 27,701 | 17,800 |
| Assets held for sale | **20** | 9,063 | 266,291 |
| Other assets | **20** | 46,139 | 36,992 |
| **TOTAL ASSETS** | | **16,954,674** | **15,635,918** |
| **LIABILITIES AND EQUITY** | | | |
| Due to banks | **21** | 2,260,417 | 3,369,298 |
| Derivative financial liabilities | **19** | 1,420 | 1,714 |
| Due to customers | **22** | 11,572,626 | 9,440,296 |
| Other borrowed funds | **23** | 488,551 | 232,791 |
| Subordinated debt | **24** | 724,574 | 723,978 |
| Provisions | **25** | 23,162 | 13,627 |
| Liabilities for current income tax and other liabilities | **26** | 129,643 | 88,658 |
| Deferred tax liabilities | **27** | 406 | 1,346 |
| **Total liabilities** | | **15,200,799** | **13,871,708** |
| Share capital | **28** | 983,145 | 983,145 |
| Reserves | **29** | 159,674 | 152,208 |
| Retained earnings | | 611,056 | 628,857 |
| **Total equity** | | **1,753,875** | **1,764,210** |
| **TOTAL LIABILITIES AND EQUITY** | | **16,954,674** | **15,635,918** |

The financial statements were authorized for issue by the Board of Directors on 24 April 2019 and were signed on its behalf by:

**Sergiu Oprescu**
**Executive President**

**Gabriel Mateescu**
**Executive Financial Vice-president**

The accompanying notes form an integral part of these financial statements.

**ALPHA BANK ROMANIA SA**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
***(all amounts are expressed in RON thousand ("RON '000"), unless otherwise stated)***

| | Share capital | Reserves | Retained earnings | Total |
|---|---|---|---|---|
| **Balance as at 01 January 2017** | **983,145** | **140,803** | **426,961** | **1,550,909** |
| **Changes for the period 1.1.-31.12.2017** | | | | |
| Net profit for the period | - | - | 214,734 | **214,734** |
| **Other comprehensive income, net of income tax** | | | | |
| Net change in available-for-sale financial assets, net of tax | - | (1,423) | - | **(1,423)** |
| Appropriation of legal reserves | - | 12,828 | (12,828) | **-** |
| **Total other comprehensive income** | **-** | **11,405** | **(12,828)** | **(1,423)** |
| **Total comprehensive income for the period** | **-** | **11,405** | **201,906** | **213,311** |
| Other | - | - | (10) | **(10)** |
| **Balance as at 31 December 2017** | **983,145** | **152,208** | **628,857** | **1,764,210** |
| Impact from the implementation of IFRS 9 | **-** | (2,875) | (34,521) | **(37,396)** |
| **Balance as at 01 January 2018** | **983,145** | **149,333** | **594,336** | **1,726,814** |
| **Changes for the period 1.1.-31.12.2018** | | | | |
| Net profit for the period | - | - | 21,043 | **21,043** |
| **Other comprehensive income, net of income tax** | | | | |
| Other comprehensive income recognised directly in equity, after income tax | - | 4,722 | 1,296 | **6,018** |
| Appropriation of legal reserves | - | 5,619 | (5,619) | **-** |
| **Total other comprehensive income** | - | **10,341** | **(4,323)** | **6,018** |
| **Total comprehensive income for the period** | **-** | **10,341** | **16,720** | **27,061** |
| **Balance as at 31 December 2018** | **983,145** | **159,674** | **611,056** | **1,753,875** |

The financial statements were authorized for issue by the Board of Directors on 24 April 2019 and were signed on its behalf by:

**Sergiu Oprescu**
**Executive President**

**Gabriel Mateescu**
**Executive Financial Vice-president**

**ALPHA BANK ROMANIA SA**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
***(all amounts are expressed in RON thousand ("RON '000"), unless otherwise stated)***

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before taxation | | 112,379 | 256,409 |
| Adjustments: | | | |
| Impairment losses and provisions to cover credit risk | **11** | 39,955 | (32,116) |
| Dividend and similar income | | (1,025) | (886) |
| Depreciation and amortization | **18** | 20,395 | 17,090 |
| Fixed assets written-off and impairment | **18** | 368 | 952 |
| Loss/(Gain) from sales of assets recovered from customers | | 597 | (172) |
| Share of loss in associates | | 395 | 150 |
| Other adjustments | | (10,570) | 49,145 |
| **Operating profit before changes in operating assets and liabilities** | | **162,494** | **290,572** |
| **Changes in operating assets:** | | | |
| Decrease/(increase) in amounts due from other banks | | (95,834) | (237,393) |
| Decrease/(increase) in loans and advances to customers | | (254,886) | (858,293) |
| Decrease/(increase) in other assets | | 245,290 | 6,689 |
| **Total changes in operating assets** | | **(105,430)** | **(1,088,997)** |
| **Changes in operating liabilities** | | | |
| (Decrease)/increase in amounts due to banks | | (1,108,889) | (1,102,708) |
| (Decrease)/increase in amounts due to customers | | 2,117,791 | 1,518,159 |
| (Decrease)/increase in other liabilities | | 11,686 | (12,715) |
| **Total changes in operating liabilities** | | **1,020,588** | **402,736** |
| **Net cash from operations** | | **1,077,652** | **(395,689)** |
| Income tax paid | | (66,213) | - |
| **Net cash flows from operating activities** | | **1,011,439** | **(395,689)** |
| **Cash flow from investing activities** | | | |
| Purchase of property and equipment and intangibles | **18** | (37,943) | (23,757) |
| Proceeds from sale/maturities of investment securities | | 1,458,220 | 1,887,302 |
| Purchase of investment securities | | (1,340,908) | (1,959,296) |
| Dividends received | | 1,025 | 886 |
| **Net cash flows from investing activities** | | **80,394** | **(94,865)** |

The accompanying notes form an integral part of these financial statements.

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Finance lease repayments | | (54) | (150) |
| Other borrowed funds | **23** | 254,958 | 228,378 |
| **Net cash flows from financing activities** | | **254,904** | **228,228** |
| Effect of exchange rate differences on cash and cash equivalents | | (217) | (131) |
| **Net increase / (decrease) in cash and cash equivalents** | | 1,346,520 | (262,457) |
| **Cash and cash equivalents at 1 January** | **34** | 2,704,514 | 2,966,971 |
| **Cash and cash equivalents at 31 December** | **34** | **4,051,034** | **2,704,514** |
| Interest received | | 568,112 | 523,334 |
| Interest paid | | 114,602 | 85,718 |

The financial statements were authorized for issue by the Board of Directors on 24 April 2019 and were signed on its behalf by:

**Sergiu Oprescu**
**Executive President**

**Gabriel Mateescu**
**Executive Financial Vice-president**

## 1. REPORTING ENTITY

Alpha Bank Romania SA (the "Bank") was incorporated in Romania in 1994 and is licensed by the National Bank of Romania to conduct banking activities. The Bank is principally engaged in wholesale and retail banking operations in Romania. Currently, the Bank operates through its head office located in Bucharest and 130 branches (31 December 2017: 130). As of 31 December 2018, 36 were located in Bucharest (31 December 2017: 36) and 94 in other cities in Romania (31 December 2017: 94).

The registered office of the Bank is:

Alpha Bank Romania SA
Calea Dorobantilor no. 237B, District 1
Bucharest
Romania

As of 31 December 2018, the members of Board of Directors were as follows:

- Mr. Christos Giampanas, Chairman
- Mr. Sergiu Bogdan Oprescu, Member and Executive President
- Mr. Evangelos Kalamakis, Member
- Mr. Nikolaos Zagorisios, Member
- Mr. Lazaros Papagaryfallou, Member
- Mr. Georgios Michalopoulos, Member
- Mr. Stelios Louisides, Member
- Mrs. Irene Rouvitha Panou, Independent Member
- Mr. Radu Gheorghe Deac, Independent Member

The Bank serves a broad client base that includes corporations and individuals and offers banking services to local and international entities which include but are not limited to wholesale and retail banking operation, issuing of cards under the VISA and MasterCard network, mortgage and consumer loans, money transfers, trade finance.

The number of employees as at 31 December 2018 was 2,052 (31 December 2017: 1,973).

Alpha Bank AE, the parent company of the Bank, based in Greece, 40 Stadiou Street 102 52 Athens, prepares a set of consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union for the year ended 31 December 2018, available on the following web site: www.alpha.gr.

As at 31 December 2018 and 31 December 2017, the Bank had no subsidiaries.

## 2. BASIS OF PRESENTATION

### a) Statement of compliance

These financial statements relate to the financial year ended 31 December 2018 and they have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed 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 sanctioned by the Order no. 27/2010 issued by National Bank of Romania.

The accounts of the Bank are maintained in RON.

### b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for some assets and liabilities that are measured at fair value:

- investment securities designated as at fair value through other comprehensive income (applicable to the current reporting period)
- available for sale debt instruments (applicable to 2017)
- investment securities designated as at fair value through profit or loss (applicable to the current reporting period)
- derivative financial instruments.

The Bank applied the going concern principle for the preparation of the financial statements as at 31.12.2018.

### c) Functional and presentation currency

The Bank's management considers that the functional currency, as defined by IAS 21 "The Effects of Changes in Foreign Exchange Rates" is RON. The financial statements are presented in Romanian Lei ("RON"), rounded to the nearest thousand, unless otherwise indicated.

The exchange rates of major foreign currencies were:

| Currencies | 31 December 2018 | 31 December 2017 | % Increase/(Decrease) |
|---|---|---|---|
| Euro (EUR) | 1: RON 4.6639 | 1: RON 4.6597 | 0.09% |
| US Dollar (USD) | 1: RON 4.0736 | 1: RON 3.8915 | 4.68% |

### d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments' in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Notes 4 and 6.

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies

All changes in accounting policies represent the effect of changes in relevant International Financial Reporting Standards as endorsed by the European Union.

The accounting policies for the preparation of the financial statements have been consistently applied by the Bank 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)

Effective for annual periods beginning on or after 1.1.2018

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

- in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions shall follow the same approach as for equity-settled share-based payments,
- where tax law requires an entity to withhold a specified amount of tax (that constitutes a tax obligation of the employee) that relates to share-based payments and shall be remitted to the tax authority, such an arrangement shall be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature,
- if the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification.

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

- **Amendment to International Financial Reporting Standard 4 "Insurance Contracts":** applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Regulation 2017/1988/3.11.2017)

Effective for annual periods beginning on or after 1.1.2018

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

- it provides insurers, whose activities are predominantly connected with insurance, with a temporary exemption from application of IFRS 9 until 1.1.2021 and
- following full adoption of IFRS 9 and until applying IFRS 17, it gives all entities with insurance contracts the option to present changes in fair value on qualifying designated financial assets in other comprehensive income instead of profit or loss.

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

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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

Effective for annual periods beginning on or after 1.1.2018

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

***Classification and measurement***

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

i. The entity's business model for managing the financial assets. Three categories of Business Models are defined:

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

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

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

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

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

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

In addition, IFRS 9 permits, at initial recognition, equity instruments to be classified at fair value through other comprehensive income. The option precludes equity instruments held for trading.

Moreover, with regards to embedded derivatives, if the hybrid contact contains a host that is within the scope of IFRS 9, the embedded derivative shall not be separated and the accounting treatment of the hybrid contact should be based on the above requirements for the classification of the financial instruments.

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

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

***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.

- **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)

Effective for annual periods beginning on or after 1.1.2018

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

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

According to the new standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A new revenue recognition model is introduced, by applying the following five steps:

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

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

The new IFRS 15 supersedes:

(a) IAS 11 "Construction Contracts";

(b) IAS 18 "Revenue";

(c) IFRIC 13 "Customer Loyalty Programmes";

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

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

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

The Bank applies the new standard from 1.1.2018 without reforming comparative information for 2017.

It is noted that the main part of the Bank's income is net interest income which is not affected by the application of IFRS 15. In the Bank, the contracts most affected by the new standard relate to the provision of the banking services (fees related to the execution of banking operations and to asset management or to loan syndication).

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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

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) and 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.

There was no change necessary in the accounting treatment for the recognition of revenue due to the application of IFRS 15.

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

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

Effective for annual periods beginning on or after 1.1.2018

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

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

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

Effective for annual periods beginning on or after 1.1.2018.

As part of the annual improvements project, the International Accounting Standards Board issued, on 8.12.2016, non- urgent but necessary amendments to IFRS 1 and IAS 28.

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

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

Effective for annual periods beginning on or after 1.1.2018

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

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

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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 1.1.2019 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 pre-payable financial assets with negative compensation features, that would otherwise been measured at fair value through profit or loss, to be measured at amortized cost or at fair value through OCI. The amendment to IFRS 9 clarifies that a financial asset passes the SPPI criterion regardless of the event or circumstance that cause the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

- **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. Under the new requirements, for lessees 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.

### Estimated impact from IFRS 16 Implementation

The Bank will apply the standard retrospectively with the cumulative effect of initially applying the standard recognized as at 1.1.2019 and will not restate comparative information.

The Bank 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 Bank 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 Bank has elected not to apply the requirements of the standard to leases for which the lease term ends within 12 months (short term), as well to leases for which the underlying asset is of low value when new (less than EUR 5,000).

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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

In order to determine the incremental borrowing rate the Bank will use as reference rate the secured funding rate of the Alpha Bank A.E., adjusted for its currency taking also into consideration local government yield curves. The Bank estimates that right-of-use assets of RON 176.2 million and lease liabilities of RON 173.8 million will be recognized with no impact on equity.

- **Amendments to IAS 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 re-measure its net defined benefit liability or asset. The amendments to IAS 19 require specifically a company to use the updated assumptions from this re-measurement 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 Bank is examining the impact from the adoption of the above amendment on its financial statements.

- **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 Bank.

- **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 Bank is examining the impact from the adoption of the above amendments on its financial statements.

- **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

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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 Bank 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 Bank.

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

- **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 recognize 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 recognizes the part of the gain or loss resulting from the re-measurement 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

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

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 recognized.

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.

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

Effective for annual periods beginning on or after 1.1.2016

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

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

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

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

Effective for annual periods beginning on or after 1.1.2021

On 18.5.2017 the International Accounting Standards Board issued IFRS 17 which replaces IFRS 4 "Insurance Contracts". 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 recognize and measure;
- recognizes and measures groups of insurance contracts at:
    i. a risk-adjusted present value of the future cash flows (the fulfillment cash flows) that incorporates all of the available information about the fulfillment 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);
- recognizes 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 recognizes the loss immediately;

## 2. BASIS OF PRESENTATION (CONTINUED)

### e) Changes in accounting policies (continued)

- 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 Bank.

• **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 above amendment had no impact on the financial statements of the Bank.

**Amendments to References to the Conceptual Framework in IFRS Standards**

Effective for annual periods beginning on or after 1.1.2020

On 29.03.2018, the International Accounting Standards Board published the Amendments to References to the Conceptual Framework in IFRS Standards, together with the revised Conceptual Framework for Financial Reporting.

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

### f) Consolidated entities: Associates

The Bank's participation in Alpha Finance Romania S.A is at the level of 26.68% share from capital, as can be seen in note 16.

The Bank accounts for this investment using the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the Bank's share of net assets of the associate. In case the losses according to the equity method exceed the investment in ordinary shares, they are recognized as a reduction of other elements that are essentially an extension of the investment in the associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies for the preparation of the financial statements have been consistently applied by the Bank 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.

### a) Transactions in foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at exchange rates at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of non-monetary financial assets measured at fair value through other comprehensive income, which are included in the fair value reserve in equity.

### b) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components.

Operating segments are determined and measured based on the information provided to the Executive Committee of the Bank, which is the body responsible for the allocation of resources between the Bank's operating segments and the assessment of their performance.

Based on the above, as well as the Bank's administrative structure and activities, the following operating segments have been determined:

- Retail Banking
- Wholesale Banking
- Treasury
- Other

It is noted that the methods used to measure operating segments for the purpose of reporting to the Executive Committee are not different from those required by the International Financial Reporting Standards.

### c) Interest income and expense

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 Bank 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### c) Interest income and expense (continued)

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.

### d) Fees and commission

Fees and commissions income and expenses that are integral to the effective interest rate as a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income arising on the financial services provided by the Bank are recognised as follows:

- For services provided by the Bank over time including cash management services, brokerage services, investment advice, financial planning, income is recognised as the service is being provided to the customer.
- If a performance obligation is not satisfied over time, it is satisfied at a point in time. For services such as executing transactions and services (e.g. money transfer, currency exhange transactions, customers' trading in securities and coordinating and arranging syndicated loan transactions), the execution and completion of the transaction requested by the customer signals the point in time when the service is transferred to the customer and the related fee / commission income is recognised.

### e) Gain less losses on financial transactions

Gains less losses on financial transaction 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 Bank entities that have not been classified as discontinued operations,
- exchange differences arising from the translation of financial instruments denominated in foreign currencies.

### f) Gains and losses arising from derecognition of financial assets measured at amortized 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### g) Dividends

Dividend income is recognized in the income statement when the right to receive income is established.

### h) Lease payments

*The Bank as a lessee*

Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is recognized as property, plant and equipment and the related liability is recognized in "Other Liabilities". The leased asset and the liability are initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the leased assets are depreciated over their useful lives unless the duration of the lease is less than the useful life of the leased asset and the Bank is not expected to obtain ownership at the end of the lease, in which case the asset is depreciated over the term of the lease. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Assets held under other leases are classified as operating leases and are not recognized in the Bank's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

*The Bank as a lessor*

The bank acts as a lessor only for assets under operating leases. The leased asset is recognized and depreciation is charged over its estimated useful life. Income arising from the leased asset is recognized as other income on an accrual basis.

### i) Income tax expense

Income tax for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is recognized using the balance sheet method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary deductible differences are the difference between the carrying amount of an asset or liability in the balance sheet and its tax base, which will result in amounts that are deductible in the determination of taxable profit for future periods in which the carrying amount of the asset or liability is recovered or settled.

The existence of a deductible temporary difference depends only on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and is not affected by any future changes in the carrying amount.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### i) Income tax expense (continued)

The amount of deferred tax recognized is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2018 is 16% (2017: 16%).

### j) Financial assets and liabilities

#### *i) Initial Recognition*

The Bank recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Upon initial recognition the Bank measures financial assets and liabilities at fair value. 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.

It is noted that loans and bonds are recognized in the balance sheet at the 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.

#### *ii) Classification and subsequent measurement of financial assets*

The Bank classifies its financial assets as:

- Financial assets measured at amortised cost
- Financial assets designated as 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 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 measured at amortised cost using effective interest method and is periodically assessed for expected credit losses, as it is further described in note 3.*p.i)* .

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

*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 achieved by both collecting contractual cash flows and selling financial assets,
- 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.

The above category is periodically assessed for expected credit losses, as it is further described in note 3.*p.i).*

*c) Equity instruments designated as 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 Bank 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:
- those acquired principally for the purpose of selling in the near term to obtain short term profit (held for trading).
- those that do not meet the criteria to be classified into one of the above categories
- those the Bank 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. amortized 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 Bank had not designated, at initial recognition, any financial assets as at fair value through profit or loss.

#### *iii) Business Model assessment*

The business model reflects how the Bank manages its financial assets in order to generate cash flows. That is, the Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Bank'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 Bank are determined by the Asset Liability Committee (ALCO) or the Executive Committee (ExCo) which decides on the determination of a new business model both for the loans 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)

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

- For bonds and in general for fixed income investments, the Bank 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 asset portfolios held within it are evaluated and reported to the Bank key management personnel.
- The risks that affect the performance of the business model (and the asset portfolios held within) and, in particular, the way those risks are managed.
- The way managers of the business are evaluated (e.g., whether the evaluation is based on the fair value of the assets managed or the contractual cash flows collected).
- The expected frequency and value of sales.

The Bank, 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 Bank 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 Bank 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.

#### *iv) Solely Payments of Principal and Interest (SPPI) assessment*

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 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

In this context, in assessing whether contractual cash flows are SPPI, the Bank 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 Bank's claim to the cash flows from specified assets or based on which the Bank 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 Bank 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 time value of money element must be considered in each reporting period and cumulatively over the life of the instrument. If the Bank 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 Bank, 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.

#### *v) Reclassification of financial assets*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

If the Bank reclassifies a financial asset out of the amortized 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 amortized cost of the financial asset and fair value is recognized in profit or loss. The same happens if the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, however in this case the difference between the previous amortized 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 Bank 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 Bank 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 loss allowance is recognized as an adjustment to the gross carrying amount of the financial asset from the reclassification date.

If the Bank 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.

#### *vi) Derecognition of financial assets*

The Bank derecognizes financial assets when:

- the cash flows from the financial assets expire,
- 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,
- loans or investments in securities are no longer recoverable and consequently are written off,
- the contractual cash flows of the assets are significantly modified.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

In the case of transactions where despite the transfer of the contractual right to recover the cash flows from financial assets both the risk and rewards remain with the Bank, 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 Bank 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 Bank's continuing involvement. If the Bank does not retain control of the assets then they are derecognised, and in their position the Bank recognizes, distinctively, the assets and liabilities which are created or retained during the transfer.

In 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 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
- 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 is 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 recognized in profit or loss (modification gain 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.

#### *vii) Subsequent measurement of financial liabilities*

The Bank 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; liabilities arising from either derivatives held for trading are presented as "derivative financial liabilities" and are measured according to the principles set out in note 3.j.x).

ii. This category also includes financial liabilities which are designated by the Bank 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

- 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 Bank's key management personnel;

or

- the contract contains one or more embedded derivatives and the Bank 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 Bank's own 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 amortized cost*

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

All financial instruments that don't qualify to be classified as financial liabilities at fair value through profit or loss are classified in this category.

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

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 payment.

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 recognized less cumulative amortization.

***viii) Derecognition of financial liabilities***

The Bank derecognizes a financial liability (or part thereof) when its contractual obligations are discharged or cancelled or expire.

In cases that a financial liability is exchanged with another one 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) Financial assets and liabilities (continued)

#### *ix) Offsetting financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, only in cases when the Bank has both the legal right and the intention to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

#### *x) Derivative financial instruments*

Derivatives are financial instruments that upon inception have a minimal or zero value that subsequently changes in accordance with a particular underlying instrument (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 trading purposes and they are measured at fair value.

In case a derivative is embedded in a financial asset, the embedded derivative is not separated and the hybrid contract is accounted for based on the classification requirements for financial assets.

### k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity including: cash, current accounts with banks, short term due from banks and Reverse Repo agreements. Short-term balances due from banks are amounts that mature within three months. Cash is carried at nominal value and cash equivalents are carried at amortized cost in the statement of financial position.

### l) 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 or, in its absence, the most advantageous market to which the Bank has access at the date. The fair value of a liability reflects its nonperformance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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 categorized 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### I) Fair value measurement (continued)

The best evidence of a fair value of a financial instrument at initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at the fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of an instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The principal inputs to the valuation techniques used by the Bank are:

- Bond prices - quoted prices available for government bonds and certain corporate securities.
- Credit spreads - these are derived from active market prices, prices of credit default swaps or other credit based instruments, such as debt. Values between and beyond available data points are obtained by interpolation and extrapolation.
- Interest rates - these are principally benchmark interest rates such as the LIBOR (London Interbank Offered Rate), OIS (Overnight Index Swaps) and other quoted interest rates in the swap, bond and futures markets. Values between and beyond available data points are obtained by interpolation and extrapolation.
- Foreign currency exchange rates - observable markets both for spot and forward contracts and futures.
- Equity and equity index prices - quoted prices are generally readily available for equity shares listed on stock exchanges and for major indices on such shares.
- Price volatilities and correlations - Volatility and correlation values are obtained from pricing services or derived from option prices.
- Unlisted equities - financial information specific to the company or industry sector comparables.
- Loans and Deposits - market data and Bank/customer specific parameters.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

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 summarized below:

- Assignment to the engineer - valuer
- Case study- Setting of additional data
- Autopsy - Inspection
- Data processing - Calculations
- Preparation of the valuation report

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### l) Fair value measurement (continued)

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.

Examples of inputs used to determine the fair value of properties and which are analyzed to the individual valuations, are the following:

- Commercial property: price per square meter, rent growth per annum, long-term vacancy rate, discount rate, expense rate of return, lease term, rate of non-leased properties/units for rent.
- Residential property: Net return, reversionary yield, net rental per square meter, rate of continually non leased properties/units, expected rent value per square meter, discount rate, expense rate of return, lease term etc.
- General assumptions such as the age of the building, residual useful life, square meter per building etc. are also included in the analysis of the individual valuation assessments.

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.

### m) Property and equipment

#### *i) Recognition and measurement*

Items of property and equipment are measured at their cost less accumulated depreciation value and impairment losses. Capital expenditure on property and equipment in the course of construction is capitalized and depreciated once the assets enter into use. Cost includes expenditures that are directly attributable to the acquisition of the asset.

#### *ii) Subsequent costs*

The Bank recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

#### *iii)Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### m) Property and equipment (continued)

| | |
|---|---|
| Buildings | 33 years |
| Equipment | 3 – 18 years |
| Motor vehicles | 5 - 9 years |
| Other tangible fixed assets | 3 – 24 years |

Land is not depreciated but it is tested for impairment.Depreciation methods, useful lives and residual values are reassessed periodically and adjusted if appropriate.

### n) Intangible assets

Intangible assets consist of purchased and in-house developed software.

Costs associated with developing or maintaining software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of the software is three to five years.

### o) Assets held for sale

Non-current assets or disposal groups that are expected to be recovered principally through a sale transaction, along with the related liabilities, are classified as held-for-sale. The above classification is used if the asset is available for immediate sale in its present condition and its sale is highly probable. Assets held for sale are initially recognized and subsequently remeasured at the lower of their carrying amount and fair value less cost to sell. Any loss arising from the above measurement is recorded in profit or loss and can be reversed in the future. Assets in this category are not depreciated. Gains or losses from the sale of these assets are recognized in the income statement.

Non - current assets that are acquired through enforcement procedures but are not available for immediate sale or are not expected to be sold within a year are included in "Other Assets" and are measured at the lower of cost (or carrying amount) and fair value. Non-current assets held for sale, that the Bank subsequently decides either to use or to lease, are reclassified to the categories of property, plant and equipment or investment property respectively. During their reclassification, they are measured at the lower of their recoverable amount and their carrying amount before they were classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the assets not been classified as held for sale.

### p) Identification and measurement of impairment

#### *i) Impairment losses for financial assets*

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

The Bank, 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, and 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

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 Bank has adopted as default definition non-performing exposures (NPE), as defined in the EC Regulation 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No. 680/2014 of the Commission with subsequent modifications, the definition of default used for accounting purposes being harmonized with the one used for regulatory purposes.

*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). If the exposure before derecognition was classified as impaired the new loan will be classified as POCI. However, especially for Wholesale Banking exposures, in the case where the newly recognized loan is the result of a change of borrower whose overall creditworthiness is better than the previous one, based on an assessment by the competent Credit Committee, the new borrower does not have financial difficulties and simultaneously has presented a viable business plan and no debt has been written-down, then the exposure will not be classified as POCI.

*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 Bank assesses, at each reporting date, the risk of default compared to the risk of default at initial recognition for all its performing exposures including those with no delinquencies.

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

- Quantitative Indicators: refers to the quantitative information used and more specifically to the comparison of the probability of default (PD) between the reporting date and the date of initial recognition. For Specialised Lending Exposures (e.g. IPRE) for which credit risk rating has deteriorated compared to the credit risk rating at initial recognition, this is considered to indicate significant increase in credit risk.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

- 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.
- 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:
  i. the contractual cash flows and
  ii. the cash flows that the Bank expects to receive
- For undrawn loan commitments, a credit loss is the present value of the difference between:
  i. the contractual cash flows that are due if the holder of the loan commitment draws down the loan; and
  ii. 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 Bank calculates impairment losses either on a collective (collective assessment) or on an individual basis (individual assessment), taking into account the significance of an exposure or the borrower's limit. In addition, exposures that do not have common credit risk characteristics or for which there are no sufficient historical behavioural data are assessed on an individual basis.

The Bank calculates expected credit losses based on the weighted probability of three scenarios, which are used in the computation of forward looking risk parameters such as PD, LGD weighted averaged. More specifically, the Bank's Chief Economist produces and reviews forecasts on a quarterly basis on 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 proposes the 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

- 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.

*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: the loss allowance is included in the carrying amount of the asset; however, its amount is disclosed in the notes to the financial statements.
- Undrawn loan commitments and letters of credit/letters of guarantee: loss allowance is recognized in line "Provisions" of liabilities in Balance Sheet.

The amount of expected credit losses charged 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.

*f) Write-offs*

The Bank 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.

*g) 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 Bank, making use of the exception provided by IFRS 9, did not adjust comparative information.

The full set of accounting policies for financial instruments that were applied until 31.12.2017, in accordance with IAS 39, is presented in the annual financial statements as at 31.12.2017.

### Credit impairment losses on due from banks and bonds

The Bank, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

*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 Bank 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 Bank.

*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 (available rating scales from Moody's, Fitch, S&P) and on the issuer / counterparty PD (12 months).

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 Bank 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

*d) Calculation of expected credit loss*

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

i. the contractual cash flows and
ii. the cash flows that the Bank expects to receive

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 Bank estimates the future unamortized cost in order to calculate the EAD. In particular, for each period, EAD is the maximum loss that would result from issuer / counterparty potential default.
- Loss given default (LGD) is the percentage of the total exposure that the Bank estimates as unlikely to recover at the time of the default. The Bank distinguishes sovereigns from non-sovereign issuers / counterparties as regards to the LGD estimation. In case the Bank 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: the loss allowance is included in the carrying amount of the asset; however, its amount is disclosed in the notes to the financial statements.

The amount of expected credit losses charged 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.

### *ii) Impairment losses for non-financial assets*

The Bank assess as at each balance sheet date its non-financial assets for impairment, particularly property, plant and equipment, investment property, and other intangible assets.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

In assessing whether there is an indication that an asset may be impaired both external and internal sources of information are considered, of which the following are indicatively mentioned:

- The asset's market value has declined significantly, more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect have taken place during the period or will take place in the near future, in the technological, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.
- Significant unfavorable changes in foreign exchange rates.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Identification and measurement of impairment (continued)

***ii) Impairment losses for non-financial assets (continued)***

- Market interest rates or other rates of return of investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use.
- The carrying amount of the net assets of the entity is greater than its market capitalization.
- Evidence is available of obsolescence or physical damage of an asset.

Fair value less costs to sell is the amount received from the sale of an asset (less the cost of disposal) in an orderly transaction between market participants.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash – generating unit through their use and not from their disposal. For the valuation of property, plant and equipment, value in use incorporates the value of the asset as well as all the improvements which render the asset perfectly suitable for its use by the Bank.

### q) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

### r) Employee benefits

***i. Short term service benefits***

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are measured on an un-discounted basis and recognized as expense when services are rendered. Short term employee benefits include items expected to be settled wholly before twelve months after the end of the period in which the employees rendered the related services.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

***ii. Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an entity and will have no legal or constructive obligation to pay further amounts.

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the income statement as incurred. The Bank does not have any further obligations.

The Bank does not operate any independent pension scheme and, consequently, have no obligation in respect of pensions. The Bank does not operate any other post retirement benefit plan. The Bank has no obligation to provide further services to former employees.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### r) Employee benefits (continued)

#### *iii. Termination benefits*

When the Bank decides to terminate the employment before retirement or the employee accepts the Bank's offer of benefits in exchange for termination of employment, the liability and the relative expense for termination benefits are recognized at the earlier of the following dates:

- when the Bank can no longer withdraw the offer of those benefits;
  and
- when the Bank recognizes restructuring costs which involve the payment of termination benefit.

## 4. RISK MANAGEMENT

### a) Introduction and overview

The Bank has exposure to the following main risks:

- credit risk
- liquidity risk
- market risk, comprising interest rate risk and foreign currency risk
- financial risk of the banking portfolio
- taxation risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

***Risk management framework***

The Bank Chief Risk Officer supervises the Risk Management Division and reports on a regular basis and ad hoc to the Management Committees, the Risk Management Committee and to the Board of Directors. As far as credit risk is concerned the reporting to the above mentioned committees and to the Credit Risk Committee covers the following areas:

- The portfolio risk profile by rating grade
- The transition among rating grades and / or states (migration matrices)
- The estimation of the relevant risk parameters by rating grade, group of clients, etc.
- The estimation of PD's and LGD's for impairment purposes
- The changes in the rating process, in the criteria or in each specific parameter.
- The concentration risk (by risk type, industry sector, regions, currency, collateral and portfolio etc.).

## 4. RISK MANAGEMENT (CONTINUED)

### a) Introduction and overview (continued)

Under the supervision of the Bank Chief Risk Officer the Risk Management Division has been assigned with the responsibility of implementing the risk management framework, according to the directions of the Risk Management Committee:

- Capital Management and Planning Department
- Wholesale Credit Risk Management Department
- Retail Credit Risk Management Department
- Market and Liquidity Risk Management Department
- Operational Risk Management Department
- Risk Controlling Department

Risk Management Division ensures compliance and monitors the implementation of the risk policies in line with the Group and local regulatory requirements. The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### b) Credit risk

***i) Management of credit risk***

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

**A. Legal entities portfolios**

Credit facilities belonging to Legal entities are included in the following categories subject to the characteristics of the credit facility and the obligor, as shown in the table below:

| | **Portfolio** | **Characteristics** |
|---|---|---|
| Obligors under the competence of Wholesale Banking | Corporate | Companies with turnover > Euro 50 million |
| | SME | Companies with turnover > Euro 2.5 million and < Euro 50 million or companies with credit limit > Euro 1 million |
| Obligors under the competence of Retail Banking | SME | Companies with turnover < Euro 2.5 million and credit limit < Euro 1 million |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *i) Management of credit risk (continued)*

### 1. Credit Risk Approval Process

The limits of the Credit Committees are determined in accordance to Total Credit Exposure, which can be approved by the Bank. Total Credit Exposure: A company's overall credit risk is defined as the sum of all credit risks arising from all credit facilities provided by the Bank as a whole, to a single company, or a group of associated companies, including any financing provided to their owners (mortgages, loans for share acquisition, personal/consumer loans, credit cards, etc.). The total credit exposure (company or group of companies and their owners') includes the following:

- Working Capital limits and credit lines;
- Letters of Credit/Letters of Guarantee limits;
- Credit Cards prepayment limit;
- Corporate Cards limits;
- Medium and long-term loans (current outstanding/exposure for facilities that have been fully drawn or limit amount of undrawn facilities);
- Special credit limits or loans, or any form of personal financing to the company's business owners (mortgage loans, consumer loans, shares' purchase, credit cards etc.)

### *1.1 Credit Approval Limits - Credit Committees*

For legal entities, the Bank's Credit Committees Structure is the following:
- Country Credit Committee
- Credit Committee I
- Credit Committee II

In addition to Credit Approval Limits per Credit Committee competence, the Bank has set Country credit limits for direct and indirect exposures, used when assessing foreign counterparty's credit risk.

### *1.2. Credit Limit Expiry/Renewal date*

The credit limits' expiry/renewal date is determined by the competent Credit Committees. The basic factor for the determination of the credit limit expiry is the client's credit rating, which is not a standalone approval or rejection criterion, but the basis for determining the minimum security/collateral required and the respective pricing. As a rule, for clients that have been rated in the Low, Medium and Acceptable credit risk zones, reviews are carried out on an annual basis, for moderate risk - Watch List clients, on a semi-annual basis while obligors that have been rated as in the High Risk zone are reviewed on a quarterly basis. Deviations from the above rule are not allowed, except when the request by the responsible Business Units is approved by the competent Credit Committees.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *i) Management of credit risk (continued)*

#### *1.3. Environmental and social risk*

Within Credit Risk Management Framework and 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 damage to the environment or the society or with any direct threat of such damage, having as a result a negative impact on the business operations and financial results of the Bank.

#### 2. Credit Risk Measurement and Internal Ratings

The assessment of the obligors' creditworthiness and their rating in credit risk scales is established through rating systems.

The rating of the Bank's obligors 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 the implementation of the appropriate pricing policy (interest rate spreads etc.).
- The estimation of the future behaviour of obligors which belong to a group with similar characteristics.
- The early recognition of potential troubled facilities (early alert mechanism) and the prompt, effective action for the minimization of the expected loss for the Bank.
- The assessment of the quality of the Bank's loan portfolio and the credit risk undertaken.

The aim of the credit risk rating systems is the estimation of the probability that the obligors will not meet their contractual obligations to the Bank.

The rating system employed by the Bank is Alpha Bank Rating System (ABRS) which incorporates different credit rating models. ABRS model - applied to companies with full financial statements, IPRE Slotting – rating model dedicated to real estate transactions.

All current and prospective clients of the Bank are assessed based on the appropriate credit risk rating model and within pre-specified time frames.

For the estimation of the obligor's credit risk, the Bank uses credit rating models to evaluate a series of parameters, which can be grouped as follows:

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

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *i) Management of credit risk (continued)*

The credit rating models which are currently employed by the Bank are differentiated based on:

- The credit facility's specific characteristics.
- The available information for the obligor's assessment.

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

***Borrowers Rating Scale***

Obligors are rated in the following rating scales: ABRS – rating scale: AA, A+, A, A-, BB+, BB, BB- ,B+, B, B-, CC+, CC, CC-, C, D, D0, D1, D2.
For special purpose finance (Income Producing Real Estate / IPRE) special models have been designed (slotting approach) with the categorization scale 1 to 5, category 5 represents defaulted customers.
For presentation purposes of table "Loans by credit quality and IFRS9 Stage", the "strong" rating includes the ABRS rating scales AA, A+, A, A- , BB+, and IPRE Category 1 , "satisfactory" rating includes the ABRS rating scales BB, BB-, B+, B, B-, CC+, CC and IPRE Categories 2 and 3, and "under close monitoring" (higher risk) includes the ABRS rating scales CC-, C and IPRE Category 4. Last, "default" category, includes the rating scales D, D0, D1, D2 and IPRE category 5.

**B. Retail banking portfolio**

Retail banking involves the lending facilities offered to borrowers covering traditional banking products and services such as:

- Housing loans/Mortgages
- Consumer Loans and Credit Cards
- Very small entities (VSE), i.e. personal or family businesses regardless of the credit limit and annual turnover

**1. Credit Risk Approval Process**

Alpha Bank monitors customer Total Credit Risk Exposure (For Individuals and Small Businesses), which refers to the sum of all revolving limits of an obligor, all the balances of long term facilities and for the case of legal entities the total exposure of facilities given to stakeholders of customer companies.

Additionally, facilities for which the customer is guarantor or co-debtor are also taken into account.
Individuals:

- Requested loan amount or limit.
- Limits of credit/charge cards, revolving loans and overdraft facilities, as well as outstanding balances of Consumer loans.
- Housing loans (the outstanding balances of the loans which have been fully disbursed or the initial approved loan amount for cases of loans which have not been fully disbursed).

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *i) Management of credit risk (continued)*

### 2. Credit Risk Measurement

A fundamental parameter in assessing Retail Banking Credit Risk is the existence of Credit Rating Models that are developed and employed throughout the credit cycle at Bank level. The aforementioned models are segmenting population in homogenous risk groups (pools) and are categorized, as follows, in:

- Behaviour Models, which assess the customer's performance and predict the probability of going default within the following months.
- Application Credit Scoring Models, which assess application data – mainly demographic- and predict the probability of going default within the following months.

These models and the probabilities of default that derive from them, contribute a significant role in risk management and decision making throughout Alpha Bank.

Specifically, the models are used in the following segments:

- In decision making of credit assessment and credit limit assignment.
- In predicting future performance of customers belonging to the same pool of common characteristics.
- In identifying high risk accounts in time to schedule all necessary actions so as to reduce expected losses for the Bank.
- In assessing the Bank's portfolio quality and credit risk.

The parameters taken into consideration vary, according to the model's type and product category that it assesses. Indicatively, the following factors are listed:

- Personal/ demographic: data the customer's age, profession, marital status
- Loan characteristics: product that he applied for, loan term, loan amount, financing purpose.
- Behaviour data: payments during latest period of time, max delinquency, outstanding loan balance versus loan limit, transaction type.

Moreover, the models are reviewed, validated and updated on an annual basis and are subject to continuous quality control so as to ensure at any time their predictive power.

Furthermore, on a regular basis the Bank conducts exercises simulating crisis situations (Stress Tests) where the potential impact on the financial results of the Bank are explored due to unfavourable developments both in obligors' transactional behaviour as well as in the broader financial - macroeconomic environment.

For presentation purposes of table "Loans by credit quality and IFRS 9 Stage", the classification in "Strong", "Satisfactory" and "Watch List" categories, for Retail Banking loans is based on the twelve-month Probability of Default. The range of probabilities that determines this classification has derived from an analysis aiming at optimizating discriminatory power between categories; therefore ranges might differ for each category as presented below:

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

| | Range of probability of default | | |
|---|---|---|---|
| **Rating classification** | **Secured** | **Unsecured** | **Credit cards** |
| **Strong** | up to 1% | up to 1.30% | up to 1% |
| **Satisfactory** | From 1% up to 18.50% | From 1.3% up to 18.50% | From 1% up to 18.50% |
| **Watch list** | over 18.5% | over 18.5% | over 18.5% |

**Definitions**

The following definitions are applied in order to complete the following tables:

The Public Sector includes:

- The Central Government (all departments or Ministries and Public Administration)
- Local Authorities
- Companies dedicated to public sector activities

**Past Due Exposures**

Past due exposures are defined as exposures that are more than one day past due.

**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 more than 90 days past due (NPL).
- Legal actions have been undertaken by the Bank (NPL).
- The exposure is classified as Forborne Non-Performing Exposure, as defined in the Implementing Regulation (EU) 227/9.1.2015.
- It is assessed as Unlikely to Pay (UTP).

When a Wholesale Banking borrower has an exposure that is more than 90 days past due and the amount of this exposure exceeds 20% of total exposures of the borrower, then all exposures of the borrower are considered as non-performing.

For the Curing of a Non-Performing Exposure and reclassification as Performing Exposure, any concerns for the ability of the borrower to meet their contractual obligations should have been eliminated (Absence of Concern), specifically:

- An exposure over 90 days past due (NPL) can be directly cured only by Cash Payment of the amount over 90 days past due (NPL Curing).
- An exposure may be assessed as UTP for a reporting period, however, if the trigger ceases to apply at some point, then automatically the exposure may no longer be flagged as UTP (UTP Curing).
- For the curing of forborne non-performing exposures (FNPL), it is necessary to assess the borrower's ability to comply with the conditions agreed after the forbearance (FNPL Curing).

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

The Forborne Exposures that meet any of the following criteria are classified as Non-performing forborne:

1. They are supported by insufficient payment plans (either initial or subsequent payment plans, depending on the case)
2. They include contractual terms that delay the timing of regular repayment installments in a manner that prevents the appropriate classification assessment, such as when grace periods over two years for capital repayment are granted.
3. They have been reclassified from the performing classification, including remodified exposures or exposures over 30 days past due.

**Default Exposures**
An exposure is considered as Default when the criteria specified by the definition of Non-Performing Exposures are met.

**Impaired Exposures**
An exposure is considered as Credit Impaired when the criteria specified by the definition of Non-Performing Exposures are met.

**Unlikely to Pay Exposures**

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 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).

For Wholesale Banking, the procedure is distinguished in two pillars:
(a) *Hard UTP Triggers* – events that determine the classification of the exposure as Non-Performing without any assessment by any Credit Committee,
(b) *Soft UTP Triggers* - the borrower should be assessed by the relative Credit Committee to decide if the borrower's exposures should be identified as Non-Performing or not. This assessment takes place at the date of revision of the borrower's credit limits based on the credit risk rating, as defined in the International Network Wholesale Banking Credit Manual.

**The following Hard UTP Triggers apply for Wholesale Banking Division Borrowers**

- Denouncement of loan agreement.
- Liquidation of collaterals and initiation of foreclosure measures by the Bank when the borrower does not have operational cash flows for the repayment of his debt obligations (excluding e.g. checks).
- Legal actions, sale or judicial sale in order to collect the claim.
- Withdrawal of a license of particular importance in companies that require public authorization to carry out their activities.
- Refinancing/Extensions of loans whose lifetime exceeds the economic lifetime of the funded investment.
- There are strong indications that the borrower is unable to meet his debt obligations (e.g. termination of business).
- Fraud cases.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

- Excess of the minimum acceptable Loan to Value (LTV), as depicted contractually, for loans collateralized with securities, e.g. bonds, shares, etc (Margin Financing).
- Disappearance of an active market for the debtor's financial instruments, hold by the Bank.
- Write-off because of default.
- Debt Forgiveness with or without forbearance (conditional or not) at least for the first 12 months since the debt forgiveness.
- A credit event is declared under the International Swaps and Derivatives Association - ISDA).
- Out-of-court settlement/negotiation between Banks and Borrower for settlement / debt repayment of borrowers that are under bankruptcy proceedings (application for the bankruptcy).
- The borrower has requested to enter into bankruptcy or insolvency status.
- A Bank has initiated bankruptcy or insolvency proceedings.

**The following Soft UTP Triggers apply for Wholesale Banking Divisions Borrowers:**

- Exposures that were modified by providing a 'balloon' payment while the initial terms of the loan agreement did not include this repayment method, as well as exposures that the initial terms of the loan agreement included the 'balloon' payment and were modified by including an increase of the amount of "balloon" and simultaneously by reducing the current installment.
- Multiple modifications in the same exposure.
- Deterioration of the leverage ratio (Debt to Equity) by at least 25% compared to the corresponding ratio at the time of initial financing when it is not due to a positive event for the company (e.g. sales increase, investment plan development), or decrease of equity by 50% compared to the time of initial financing.
- An exposure was purchased or sold with deep discount that reflects the low credit quality of the borrower.
- The debt service coverage ratio indicates that debt is not viable and in particular the EBITDA/interest ratio is less than 1.
- 5 Years Credit Default Swaps (CDS) above 1.000 bps in the last 12 months.
- Loss of an important customer or lessee representing at least 20% of the turnover or the total property income, respectively.
- A turnover decrease resulting in a cash flows reduction of at least 30%.
- An affiliated customer, representing at least 20% of turnover, has applied for bankruptcy.
- An external auditor report with restrictions or reservations that results to significant deterioration of key financial ratios of the borrower and to worsened estimated future cash flows of the borrower.
- It is expected that an exposure with repayment at maturity or a due installment cannot be refinanced under current market conditions.
- Disappearance of an active market for the debtor's financial instruments, not hold by the Bank.
- The borrower has exceeded the financial terms of the loan agreement by at least 10%.
- There is significant deterioration of the borrower's sector activity prospects.
- Adverse changes in the ownership structure or the management of the company or serious administrative problems.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

- A third party (excluding Banks) has started bankruptcy or insolvency proceedings (application for Bankruptcy).
- Due payments to Tax Authorities and Social Security Funds.

If finally a borrower is flagged as UTP, then his credit risk rating is classified to "D" in the Bank systems or Slotting category 5 for Borrowers assessed using Slotting Models. It is noted that if a borrower flagged as UTP belongs to a Group of companies, then this group is also assessed as a whole by the competent Credit Committee for the existence or not of UTP.

For the retail Banking Portfolio, the procedure is the following:

(a) Identification of events which when occur lead to the transfer of the exposure to Non - Performing status without requiring an assessment by any Credit Committee (Hard UTP Triggers),

(b) Identification of triggers which when occur, lead to borrower's credit assessment by the relevant Retail Banking Credit Committee in order to determine whether borrower's exposures should be classified as Non-Performing or not (Soft UTP Triggers).

This assessment takes place at the date of a forbearance request. If an exposure is flagged as UTP, then it is classified as Non-Performing by the Bank.

For Retail Banking exposures the following triggers are considered for classification of exposures as unlikely to pay:

a) Hard UTP triggers

- A trial date is set for registration under Bankruptcy Law.
- Fraud has been confirmed at the expense of the Bank.
- The borrower has passed away.
- At least 3 forbearances for the same exposure within a 12 months' time period.
- An out-of-court settlement / negotiation is underway between banks and borrower for settlement / repayment of debts of borrowers who are under bankruptcy proceedings (application for bankruptcy).
- Denouncement of loan agreement.
- Collaterals liquidation and foreclosure procedures have been initiated by the Bank
- Debt Forgiveness with or without forbearance (conditional or not), at least for the first 12 months since the debt forgiveness.
- The borrower has notified the Bank upon the decision of giving in the immovable property to the bank in order to extinguish / close the debt from the mortgage contract, based on the provisions of the Law No. 77/ 2016.

b) **Soft UTP Triggers:**

- Multiple forbearances in the same exposure
- The borrower has other exposures in default.
- The borrower is unemployed.
- The borrower has applied for bankruptcy or insolvency (application for bankruptcy).
- The borrower is the sole owner of a company with exposures in default and for which he has provided personal guarantees.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *i) Management of credit risk (continued)*

#### C. Expected Credit Loss Estimation Methodology

The procedure implemented for the impairment calculation in respect to Exposures and other claims stemming from Retail Banking and Wholesale Banking activities is in accordance with the International Financial Reporting Standards 9 (IFRS 9).

The Bank recognizes an exposure in the financial statement position when it becomes a party to the contractual provisions of the exposure. Subsequently, the exposures are classified in Stages based on the criteria defined below.

**Portfolio Classification in stages based on the credit risk (staging)**

The classification of loans in stages is based on the changes of the credit quality compared to the initial recognition. The adoption of this model aims to: a) the timely recognition and measurement of credit losses prior to their realization, b) the classification of exposures depending on the deterioration of their credit quality, c) the more accurate measurement of expected credit losses.

Upon initial recognition of an exposure, the Bank determines whether this exposure is considered as credit impaired (Credit Impaired at Initial Recognition).The Bank is likely to create credit impaired exposures as in the case of major modifications in the contractual repayment terms that result in the de-recognition of the initial credit exposure in the Bank's financial statement position. An exposure classified as POCI remains POCI, throughout its lifetime and provided that no de recognition has taken place in the meantime.

For exposures not classified as POCI, the classification in stages is performed as follows:

**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 financial statements and the assessment is carried out on a collective basis with the exception of borrowers assessed on an individual basis as per criteria defined below.

**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.

**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 as per criteria below.

**Significant increase in credit risk**

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 those with no days past due.

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

- Quantitative Indicators: They refer specifically to the comparison between the probability of default (PD) at the reference date and the probability of default at the initial recognition date. For Specialised Lending Exposures (e.g. IPRE) the credit risk rating deterioration compared to credit risk rating at initial recognition is considered to indicate significant increase in credit risk.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

- Qualitative Indicators: They refer to 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); qualitative indicators are included in Early Warning Policy, indicators which are identified through credit risk rating (e.g. economic data evolution, activity sector).
- Backstop Indicators: 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.

In case of exposures to Companies, the following are assessed on an individual basis:

- Borrowers with at least one Non-Performing Exposure whose Customer General Limit in the Bank exceeds the amount of Euro 400,000.
- Exposures that do not share common risk characteristics or for which no relevant historical data that enables a collective analysis is available.

In case of exposures to Individuals, exposures are assessed individually, per portfolio, if they are Non-Performing Exposures (NPE), and if total debit outstanding balances is over Euro 250,000.

Any other exposure is assessed collectively.

**Expected Credit Loss Calculations**

According to IFRS 9 standard, recognition of credit losses can occur irrespectively of a credit event. On the contrary, an entity always estimates the expected credit losses and the changes in expected credit losses. The amount of expected credit losses is updated monthly so as to reflect the changes in the credit risk since initial recognition and thus provide timely information on expected credit losses.

The assessment is carried out at the customer level for the individually assessed Borrowers and at loan level for the collectively assessed customers.

**EXPECTED CREDIT LOSS CALCULATION METHODOLOGY - INDIVIDUAL ASSESSMENT**

The discounted cash flows represent the amount calculated according to the following methodology:

- The estimation of future cash flows.
- The measurement of the recoverable amount that reflects the cash flows that may result from the liquidation of collateral.
- The time period until the liquidation / sale.
- The discounting of the above described cash flows by the exposure's Effective Interest Rate (EIR), where for fixed rate exposures is the original effective interest rate, while for variable rate exposures is the current effective interest rate. When the EIR of exposure is not available, the current nominal interest rate is used.

The estimation of the future cash flows is carried out according to the following two approaches:

- Scenario Going Concern. In this case, the operating cash flow of the borrower or the guarantor continues to be used and can be used for debt repayments, while there is limited value of collateral for the exposure or the collaterals cannot be executed without affecting the operating cash-flows.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

#### *i) Management of credit risk (continued)*

In this case, the detailed cash flow analysis requires a thorough analysis of: the borrower's financial situation, the business plans, the projections etc. so as to determine the future cash flows available for collection.

- Scenario 'Gone Concern', when the collaterals are liquidated. This occurs if:

a. The exposure is past due for a long time.
b. The future operating cash flows of the borrower are estimated to be low or negative.
c. The exposure is covered by collaterals at a significant level and these collaterals are crucial for generating cash flows.
d. The implementation of the 'Going Concern' scenario is going to significantly affect in a negative way the amount that the Bank can recover.
e. There is a significant degree of uncertainty regarding the estimation of future operating cash flows.

The bank uses three scenarios for the calculation of expected loss: base scenario, optimist and pessimist (adverse). The weight allocated to each scenario is proposed by the Risk Management Division and approved by the Credit Risk Committee. For 2018, the weights allocated to each scenario as per Bank's Chief Economist view on the business cycle evolution were: 50 % base scenario, 30% optimist and 20 % pessimist.

For purposes of the expected credit loss calculation, the value of the collaterals - if the liquidation is not consensual – is reduced by a percentage which depends on the type of collateral in order to adapt the current value of the collateral at market value under foreclosure.

- Exposures classified as POCI are assessed using individual assessment methodology.

**EXPECTED CREDIT LOSS CALCULATION METHODOLOGY - COLLECTIVE ASSESSMENT**

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 followings are considered:

- Staging according to Credit Risk
- Type of Product
- Days Past Due
- Indication of default
- Modification of contractual terms for borrowers showing financial difficulty (Forbearance Measures)
- Collateral existence taking into account the type and coverage rate (Loan to Value)
- Write-Off
- Credit Risk Rating
- Activity Sector
- Time in default

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

#### Calculation of expected credit loss

Expected Credit Loss is updated at each reporting date to reflect the changes in the credit risk since initial recognition and thus provide timely information on evolution of 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:
  - the contractual cash flows and
  - the cash flows that the Bank expects to receive
- For undrawn loan commitments, a credit loss is the present value of the difference between:
  - the contractual cash flows that are due if the loan commitment drawn down the loan; and
  - 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.

#### Incorporation of forward-looking information

The Bank calculates Expected Credit Losses based on the weighted probability of three alternative scenarios. More specifically, the Bank's Chief Economist 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 two alternative macroeconomic scenarios (an upside and an adverse one) and also produces the cumulative probabilities associated with these scenarios.

The macroeconomic variables affecting the level of expected credit losses are the Gross Domestic product (GDP), the unemployment rate, the long-term government bond yields and forward looking prices of residential and commercial real estates.

The yearly average for the period 2018 - 2020 of macroeconomic variables affecting both the Probability of Default and the expected Loss Given Default are the following:

| | **2018-2020** | | |
|---|---|---|---|
| | **Adverse** | **Base** | **Upside** |
| **Real GDP growth** | 1.4% | 3.8% | 6.1% |
| **Unemployment** | 5.3% | 4.6% | 3.9% |
| **RRE prices (% change)** | -3.2% | 6.5% | 11.3% |
| **CRE Price Index (% change)** | -4.1% | 5.8% | 10.8% |
| **HICP (change, %)** | 3% | 3.6% | 4.2% |

The production of baseline scenario, supported by a consistent economic description, constitutes the most likely scenario according to the current economic conditions and the Bank's basic assessment of the course of the economy. The cumulative probabilities of the macroeconomic scenarios for the economy will indicate that the economy performs better or worse than forecasts of the baseline scenario and the alternative scenarios, i.e. the upside and downside scenario. For each one of the alternative scenarios, the expected credit loss is calculated and weighted against the probability of each scenario in order to calculate the weighted expected credit loss.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

The cumulative probability assigned to the base scenario is 50%, while probability assigned to the adverse scenario is 20 % and upside scenario is 30%.

**Credit risk parameters**

Calculation of Expected Credit Loss is based on the following credit risk parameters which are developed parameters, through internal statistical models based on historical data:

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

For assessing the probability of default, the credit risk rating models assess a series of parameters that can be grouped as follows:

- Financial Analysis: The Borrower's Financial Capacity (Liquidity Indicators, Debt to Revenue etc.)
- Competitor's analysis: the borrower's comparative position in the market in which operates, mainly in relation to its competitors (mainly applicable to debtors of Wholesale Banking)
- Current and historical debtor's behavioral data either towards the Bank or towards third parties (delinquencies, repayment behavior, etc.), and
- Qualitative characteristics of the debtor (strong and sound management, management succession, appropriate facilities and equipment, etc.).

Credit Ratings constitute the main input in order to determine the probability of default. The Bank uses statistical models in order to analyze the collected data and make estimates of the remaining probability of default over the life of the exposures and how they will evolve over time based, among other things, on macroeconomic variables.

• **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. The maximum period for which credit losses are calculated is the remaining contractual maturity of a financial instrument unless the Bank has the legal right to recall the financial instrument earlier. In particular, for Credit Cards and revolving exposures to individuals, the maximum period is set at three years, while for revolving loans to Small Businesses, the corresponding maturity is set at four years. Regarding Wholesale Banking revolving exposures, the period is set to one year, given the throrough credit review performed at least once a year.

The Bank uses EAD models that reflect the characteristics of the portfolios.

• **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 based on historical data or based on relevant the Business Plan, which incorporates the estimated evolution of management actions. Furthermore, in cases that cash flows are expected to derive from the sale of loans, the Bank has incorporated, as the base scenario, the expected sales price into Expected Credit Losses calculation.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

For unsecured loans, the estimated expected losses at the time of the default, take into account expected recovery rates which vary throughout the recovery period as well as the probability of curing.

Expected recoveries from tangible collaterals take into account the following inputs: the most recent valuation (updated within the year) for the market value of the collateral, the time required for the liquidation or sale of the tangible collateral (ranging between 1 to 3 years depending on the legal action status of the loan), the expected market value at liquidation /sale date based on the evolution of RRE/ CRE indices for the next 3 years, the expected recoveries through foreclosure process or sale as derived from historical data obtained for foreclosures and sales of collateral. Last, the recovery rate of the group is adjusted to reflect value of preferential claims. Expected cash flows are discounted using the original effective interest rate.

In addition, cure rate are in line with Bank's business plan for the reduction of NPE (sale, restructuring etc.)

Last, for secured exposures, the LGD varies based on each macroeconomic scenario.

**Undrawn commitments**

According to IFRS 9, these contracts fall within the scope for expected credit losses recognition. In estimating the expected credit losses over the life of an undrawn loan commitment, the Bank assesses the expected part of the loan commitment that will be used throughout its expected life.

***Credit impairment losses on due from banks and bonds***

The Bank, 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.

For the purposes of calculating expected credit losses, the exposures are classified into stages.

The expected credit loss is the present value of the difference between the contractual cash flows and the cash flows that the Bank expects to receive. For present value calculation, original effective interest rate is used as a discount rate.

The classification into stages for the purpose of expected credit loss measurement is based on the credit rating of rating agencies (Moody's, Fitch, S&P) and on the issuer / counterparty PD (12 months).

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### i) Management of credit risk (continued)

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 (at least two notches).
- 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 (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).

Additionally, the Bank monitors the change in the credit spread since initial recognition. A change in credit spread at the reporting date that exceeds a specific threshold (500 bps) compared to the credit margin prevailing at the date of initial recognition is a trigger for reviewing the securities classification stage.

### *ii) Credit risk mitigation*

*1. Collaterals*

The regular repayment of credit facilities is directly connected with the obligors' viability and prospects, the strength of the companies and their shareholders, the sector in which they operate and the current market conditions, as well as other unforeseeable factors that may arise during the companies' operating cycle and influence their operations in a positive or negative way.

Collaterals are received both for Wholesale and Retail lending in order to mitigate credit risk that may arise from the obligor's inability to fulfil their contractual obligations.

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

*2. Intangible Collaterals*

Intangible collaterals encompass the protection commitments and mechanisms and 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 undertaken involve a third party to substitute for the primary debtor in the event of the latter's default or the primary debtor itself (natural or legal entities) to honour the contractual loan agreements and their prompt repayment to the Bank and on the other hand the Bank has the right to claim them.

The main type of intangible collateral that the Bank uses to protect the bank against the risk of losses due to debtor insolvency is the Guarantee (i.e. personal guarantee, corporate guarantee, letter of guarantee etc.)

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *ii) Credit risk mitigation (continued)*

*3. Tangible Collaterals*

Tangible collaterals provide the Bank with the right of possessing ownership on an asset (movable or immovable). Tangible collaterals are distinguished between mortgages registered over immovable properties and mortgages (pledges) on movable assets (e.g., commodities, checks, bills of exchange) or on claims and rights.

In order to better secure credit facilities granted, mortgage and pledged assets are covered by an insurance contract, with assignment of the relevant insurance contract to the Bank.

3.1. 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
- Ships and aircrafts.

*Periodic revaluation of mortgaged property*

According to Alpha Bank Credit Policy, the existence and the valuation of mortgaged property is closely monitored. The frequency of the appraisal is usually not exceeding one year, except for residential real estate properties, for which the reassessment is carried out in an interval of up to 3 years, for households loans.

All valuations are carried out by certified appraisers (ANEVAR members).

3.2. Pledges

A Pledge is tangible collateral which provides seniority right from a movable asset whose ownership remains with a third party.

Pledges can be registered on movable assets or on rights that have not been excluded or banned from exchanges and are liquid as indicatively indicated below:

- Raw materials, products or commodities
- Machinery (movable)
- Bill of Lading
- Bill of exchange
- Cheques and promissory notes
- Securities
- Deposit
- Any type of claim that can be pledged

*Periodic revaluation of pledges*

Depending on the right or the underlying asset on which a pledge is registered, the periodic revaluation varies from one month to one year.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *ii) Credit risk mitigation (continued)*

*4. Acceptable Value*

The Bank calculates the value of the received securities/collaterals based on the potential proceeds that could arise if and when these are liquidated. This calculation refers to the acceptable value/haircut of the securities/collaterals provided to the Bank by its obligors.

For the calculation of the forced-sale value, the following need to be considered:

- The quality of the securities/assets
- Their market value
- The degree of ability to liquidate
- The time required for their liquidation
- Their liquidation cost
- The current charges on the assets
- The privileged priority of third parties on the product of liquidation (e.g. Public Sector, employees, etc.)

The above have to be accounted for when determining the haircuts for each collateral/security. Haircuts, depending on their nature are expressed as a percentage of their market value, their nominal value or their weighted average value.

### *iii) Exposure to credit risk*

### *Forbearance*

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

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.

In the context of the Commission Implementing Regulation (EU) 227/2015 of the European Committee dated 9 January 2015 and the executive technical standards of European Banking Authority, with subsequent modifications and amendments, translated in NBR Order 9/2017, the Bank assumes the resulting regulatory obligations for forborne exposures.

Forbearance measures should be applied on the basis of the risk, cooperativeness and viability of each debtor and consist of concessions that are robust and sustainable, through the renegotiation of the initial terms and conditions of the debt contract duly taking into account the causes of the debtor's financial difficulties.

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

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *iii) Exposure to credit risk (continued)*

- Difference in favour of the debtor between the modified and the previous terms of the contract.
- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the same institution.

***Write-offs and write-downs of bad debts***

**Bad Debt Write-off** is defined as the reduction of the gross carrying amount of a financial asset, when there is no reasonable expectation of recovery. The write-off refers to the accounting write-off of a debt or a portion of it, i.e. the removal of the financial asset or part of it from the balance sheet, which does not necessarily entail the waiver of the legal right to recover the debt. In the event that the Bank decides to waive its legal right to recover the debt, this is called Debt Relief 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, in accordance with the Non-Performing Loans Manuals in force for Wholesale Banking and Retail Banking, respectively, 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.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *iii) Exposure to credit risk (continued)*

#### I. Financial instruments credit risk

| | 31.12.2018 | | | 31.12.2017 | | |
|---|---|---|---|---|---|---|
| | **Exposure before impairment** | **Impairment** | **Net exposure to credit risk** | **Exposure before impairment** | **Impairment** | **Net exposure to credit risk** |
| **A. Credit risk exposure relating to balance sheet items** | | | | | | |
| Balances with Central Banks | 2,395,632 | 431 | 2,395,201 | 1,791,280 | - | 1,791,280 |
| Due from Banks | 1,706,417 | 388 | 1,706,029 | 914,671 | - | 914,671 |
| Loans and advances to customers | 11,647,312 | 493,874 | 11,153,438 | 11,372,182 | 433,847 | 10,938,335 |
| Derivative Financial Assets | - | - | - | 1,566 | - | 1,566 |
| Available for sale securities | - | - | - | 1,323,485 | 143 | 1,323,342 |
| Debt Investment Securities at FVOCI | 1,218,582 | 217 | 1,218,365 | - | - | - |
| Assets Held for Sale (Note 20) | - | - | - | 256,953 | - | 256,953 |
| **Total carrying amount of on balance sheet items exposed to credit risk (a)** | **16,967,943** | **494,910** | **16,473,033** | **15,660,137** | **433,990** | **15,226,147** |
| Other on balance sheet items not exposed to credit risk | 481,641 | - | 481,641 | 409,771 | - | 409,771 |
| **Total assets** | **17,449,584** | **494,910** | **16,954,674** | **16,069,908** | **433,990** | **15,635,918** |
| **B. Credit risk exposures relating to off balance sheet items:** | | | | | | |
| Letters of guarantee and letters of credit (Note 30) | 493,285 | 4,623 | 488,662 | 429,373 | 3,117 | 426,256 |
| Undrawn credit facilities (Note 30) | 1,429,852 | 9,904 | 1,419,948 | 1,262,564 | - | 1,262,564 |
| **Total carrying amount of off balance sheet items exposed to credit risk (b)** | **1,923,137** | **14,527** | **1,908,610** | **1,691,937** | **3,117** | **1,688,820** |
| **Total credit risk exposure (a+b)** | **18,891,080** | **509,437** | **18,381,643** | **17,352,074** | **437,107** | **16,914,967** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *iii) Exposure to credit risk (continued)*

#### II. Loans and advances to customers by asset quality

| | 31.12.2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | AT AMORTISED COST | | | | | | | | | |
| | Stage 1 | | | | | Stage 2 | | | | |
| | Non past due | Past due | Total | Allowance | Total carrying amount | Non past due | Past due | Total | Allowance | Total carrying amount |
| **Retail Lending** | **4,724,472** | **280,920** | **5,005,392** | **8,037** | **4,997,355** | **503,986** | **415,494** | **919,480** | **25,719** | **893,761** |
| Mortgage | 4,020,722 | 226,998 | **4,247,720** | 1,446 | **4,246,274** | 394,504 | 306,481 | **700,985** | 9,939 | **691,046** |
| Consumer | 634,265 | 49,730 | **683,995** | 6,348 | **677,647** | 98,863 | 100,546 | **199,409** | 14,139 | **185,270** |
| Credit Card | 66,196 | 4,192 | **70,388** | 196 | **70,192** | 9,709 | 8,194 | **17,903** | 1,636 | **16,267** |
| Other (Incl. SBL) | 3,289 | - | **3,289** | 47 | **3,242** | 910 | 273 | **1,183** | 5 | **1,178** |
| **Corporate Lending** | **3,561,466** | **18,908** | **3,580,374** | **21,983** | **3,558,391** | **1,401,666** | **15,104** | **1,416,770** | **63,820** | **1,352,950** |
| Large | 3,119,415 | 8,239 | **3,127,654** | 19,004 | **3,108,650** | 1,323,808 | 7,206 | **1,331,014** | 60,337 | **1,270,677** |
| SMEs | 442,051 | 10,669 | **452,720** | 2,979 | **449,741** | 77,858 | 7,898 | **85,756** | 3,483 | **82,273** |
| **Public Sector** | **8,986** | **-** | **8,986** | **87** | **8,899** | **1,333** | **1,235** | **2,568** | **158** | **2,410** |
| **Total** | **8,294,924** | **299,828** | **8,594,752** | **30,107** | **8,564,645** | **1,906,985** | **431,833** | **2,338,818** | **89,697** | **2,249,121** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit risk (continued)

### *iii) Exposure to credit risk (continued)*

### II. Loans and advances to customers by asset quality (continued)

| | 31.12.2018 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AT AMORTISED COST | | | | | | | | | | | |
| | Stage 3 | | | | | POCI | | | | | Total net amount at amortised cost | Value of collateral |
| | Non past due | Past due | Total | Allowance | Total carrying amount | Non past due | Past due | Total | Allowance | Total carrying amount | | |
| **Retail Lending** | **32,378** | **355,407** | **387,785** | **216,336** | **171,449** | **2,361** | **555** | **2,916** | **1,096** | **1,820** | **6,064,385** | **5,357,978** |
| Mortgage | 21,115 | 186,091 | **207,206** | 106,131 | **101,075** | 1,162 | 345 | **1,507** | 634 | **873** | **5,039,268** | 4,940,620 |
| Consumer | 11,149 | 164,018 | **175,167** | 106,774 | **68,393** | 1,199 | 210 | **1,409** | 462 | **947** | **932,257** | 413,798 |
| Credit Card | 114 | 5,205 | **5,319** | 3,404 | **1,915** | - | - | - | - | - | **88,374** | - |
| Other (Incl. SBL) | - | 93 | **93** | 27 | **66** | - | - | - | - | - | **4,486** | 3,560 |
| **Corporate Lending** | **83,563** | **236,097** | **319,660** | **156,638** | **163,022** | - | **3,381** | **3,381** | - | **3,381** | **5,077,744** | **4,535,629** |
| Large | 81,315 | 215,073 | **296,388** | 147,562 | **148,826** | - | 3,381 | **3,381** | - | **3,381** | **4,531,534** | 4,118,572 |
| SMEs | 2,248 | 21,024 | **23,272** | 9,076 | **14,196** | - | - | - | - | - | **546,210** | 417,057 |
| **Public Sector** | - | - | - | - | - | - | - | - | - | - | **11,309** | **11,303** |
| **Total** | **115,941** | **591,504** | **707,445** | **372,974** | **334,471** | **2,361** | **3,936** | **6,297** | **1,096** | **5,201** | **11,153,438** | **9,904,910** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### II. Loans and advances to customers by asset quality (continued)

| | 31.12.2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Non impaired L&As | | Impaired L&As | | | Impairment Allowance | | | |
| | Neither past due nor impaired | Past due but not impaired | Individually assessed | Collectively assessed | Total Gross amount | Individually assessed | Collectively assessed | Total Net amount | Value of collateral |
| **Retail Lending** | **4,881,769** | **723,739** | **180,244** | **213,400** | **5,999,152** | **121,577** | **132,250** | **5,745,325** | **5,046,023** |
| Mortgage | 4,099,993 | 565,969 | 101,583 | 125,700 | 4,893,245 | 69,510 | 63,965 | 4,759,770 | 4,585,484 |
| Consumer | 706,717 | 146,434 | 78,534 | 84,494 | 1,016,179 | 51,941 | 64,623 | 899,615 | 457,933 |
| Credit Card | 72,060 | 11,336 | 127 | 3,121 | 86,644 | 126 | 3,615 | 82,903 | - |
| Other (Incl. SBL) | 2,999 | - | - | 85 | 3,084 | - | 47 | 3,037 | 2,606 |
| **Corporate Lending** | **4,999,252** | **68,688** | **272,650** | **14,620** | **5,355,210** | **141,172** | **38,824** | **5,175,214** | **4,680,742** |
| Large | 4,528,086 | 50,305 | 263,287 | 3,787 | 4,845,465 | 136,079 | 29,580 | 4,679,806 | 4,284,305 |
| SMEs | 471,166 | 18,383 | 9,363 | 10,833 | 509,745 | 5,093 | 9,244 | 495,408 | 396,437 |
| **Public Sector** | **16,292** | **1,528** | - | - | **17,820** | - | **24** | **17,796** | **17,795** |
| **Total** | **9,897,313** | **793,955** | **452,894** | **228,020** | **11,372,182** | **262,749** | **171,098** | **10,938,335** | **9,744,560** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### III. Analysis of loans and advances to customers by credit risk rating

| | Amortised cost | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | 2017* |
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | POCI | Total | Total |
| ***Mortgage*** | | | | | | |
| Strong | 4,219,099 | 378,662 | - | - | **4,597,761** | 4,355,955 |
| Satisfactory | 28,426 | 253,754 | - | - | **282,180** | 248,789 |
| Watch list (higher risk) | 195 | 68,569 | - | - | **68,764** | 60,563 |
| Default | - | - | 207,206 | 1,507 | **208,713** | 227,938 |
| **Total gross amount** | **4,247,720** | **700,985** | **207,206** | **1,507** | **5,157,418** | **4,893,245** |
| Loss allowance | 1,446 | 9,939 | 106,131 | 634 | **118,150** | 133,475 |
| **Carrying amount** | **4,246,274** | **691,046** | **101,075** | **873** | **5,039,268** | **4,759,770** |
| Collateral held for credit impaired assets | - | - | 134,574 | 1,258 | **135,832** | **146,595** |
| ***Consumer*** | | | | | | |
| Strong | 531,637 | 21,236 | - | - | **552,873** | 548,116 |
| Satisfactory | 150,757 | 141,525 | - | - | **292,282** | 270,552 |
| Watch list (higher risk) | 1,601 | 36,648 | - | - | **38,249** | 34,242 |
| Default | - | - | 175,167 | 1,409 | **176,576** | 163,269 |
| **Total gross amount** | **683,995** | **199,409** | **175,167** | **1,409** | **1,059,980** | **1,016,179** |
| Loss allowance | 6,348 | 14,139 | 106,774 | 462 | **127,723** | 116,564 |
| **Carrying amount** | **677,647** | **185,270** | **68,393** | **947** | **932,257** | **899,615** |
| Collateral held for credit impaired assets | - | - | 75,541 | 947 | **76,488** | **94,616** |
| ***Credit cards*** | | | | | | |
| Strong | 66,045 | 4,775 | - | - | **70,820** | 66,372 |
| Satisfactory | 4,330 | 10,618 | - | - | **14,948** | 15,261 |
| Watch list (higher risk) | 13 | 2,510 | - | - | **2,523** | 1,763 |
| Default | - | - | 5,319 | - | **5,319** | 3,248 |
| **Total gross amount** | **70,388** | **17,903** | **5,319** | - | **93,610** | **86,644** |
| Loss allowance | 196 | 1,636 | 3,404 | - | **5,236** | 3,741 |
| **Carrying amount** | **70,192** | **16,267** | **1,915** | - | **88,374** | **82,903** |
| Collateral held for credit impaired assets | - | - | - | - | - | |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### III. Analysis of loans and advances to customers by credit risk rating (continued)

| | Amortised cost | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | 2017* |
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | POCI | Total | Total |
| ***Other (incl. SBL)*** | | | | | | |
| Strong | - | - | - | - | - | - |
| Satisfactory | 3,289 | 1,183 | - | - | **4,472** | 2,999 |
| Watch list (higher risk) | - | - | - | - | **-** | 85 |
| Default | - | - | 93 | - | **93** | - |
| **Total gross amount** | **3,289** | **1,183** | **93** | - | **4,565** | **3,084** |
| Loss allowance | 47 | 5 | 27 | - | **79** | 47 |
| **Carrying amount** | **3,242** | **1,178** | **66** | - | **4,486** | **3,037** |
| Collateral held for credit impaired assets | - | - | 93 | - | **93** | **85** |
| ***Large Corporate*** | | | | | | |
| Strong | 899,681 | 33 | - | - | **899,714** | 682,629 |
| Satisfactory | 2,227,973 | 1,254,503 | - | - | **3,482,476** | 3,790,027 |
| Watch list (higher risk) | - | 76,478 | - | - | **76,478** | 105,735 |
| Default | - | - | 296,388 | 3,381 | **299,769** | 267,074 |
| **Total gross amount** | **3,127,654** | **1,331,014** | **296,388** | **3,381** | **4,758,437** | **4,845,465** |
| Loss allowance | 19,004 | 60,337 | 147,562 | - | **226,903** | 165,659 |
| **Carrying amount** | **3,108,650** | **1,270,677** | **148,826** | **3,381** | **4,531,534** | **4,679,806** |
| Collateral held for credit impaired assets | - | - | 270,601 | 3,381 | **273,982** | **247,810** |
| ***SME's Corporate*** | | | | | | |
| Strong | 73,164 | 10 | - | - | **73,174** | 26,464 |
| Satisfactory | 379,556 | 63,857 | - | - | **443,413** | 442,458 |
| Watch list (higher risk) | - | 21,889 | - | - | **21,889** | 23,334 |
| Default | - | - | 23,272 | - | **23,272** | 17,489 |
| **Total gross amount** | **452,720** | **85,756** | **23,272** | - | **561,748** | **509,745** |
| Loss allowance | 2,979 | 3,483 | 9,076 | - | **15,538** | 14,338 |
| **Carrying amount** | **449,741** | **82,273** | **14,196** | - | **546,210** | **495,408** |
| Collateral held for credit impaired assets | - | - | 17,398 | - | **17,398** | **15,261** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### III. Analysis of loans and advances to customers by credit risk rating (continued)

| | Amortised cost | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | 2017* |
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | POCI | Total | Total |
| ***Public Sector Other*** | | | | | | |
| Strong | 672 | - | - | - | **672** | 741 |
| Satisfactory | 8,314 | 2,568 | - | - | **10,882** | 17,079 |
| Watch list (higher risk) | - | - | - | - | - | - |
| Default | - | - | - | - | - | - |
| **Total gross amount** | **8,986** | **2,568** | - | - | **11,554** | **17,820** |
| Loss allowance | 87 | 158 | - | - | **245** | 24 |
| **Carrying amount** | **8,899** | **2,410** | - | - | **11,309** | **17,796** |
| Collateral held for credit impaired assets | - | - | - | - | **-** | **-** |
| ***Letters of guarantee, letters of credit and other guarantees*** | | | | | | |
| Strong | 228,249 | - | - | - | **228,249** | 103,486 |
| Satisfactory | 222,831 | 8,832 | - | - | **231,663** | 290,653 |
| Watch list | - | 1,598 | - | - | **1,598** | 30,785 |
| Default | - | - | 31,775 | - | **31,775** | 4,450 |
| **Exposure to credit risk** | **451,080** | **10,430** | **31,775** | - | **493,285** | **429,373** |
| Loss allowance | 668 | 172 | 3,783 | - | **4,623** | 3,117 |
| **Carrying amount** | **450,412** | **10,258** | **27,992** | - | **488,662** | **426,256** |
| Collateral held for credit impaired assets | - | - | 19,157 | - | **19,157** | **18,497** |
| ***Undrawn loan agreements and credit limits*** | | | | | | |
| Strong | 720,910 | 13,827 | - | - | **734,737** | 562,232 |
| Satisfactory | 529,204 | 122,436 | - | - | **651,640** | 683,061 |
| Watch list | 1,429 | 39,386 | - | - | **40,815** | 7,371 |
| Default | - | - | 2,660 | - | **2,660** | 9,899 |
| **Exposure to credit risk** | **1,251,543** | **175,649** | **2,660** | - | **1,429,852** | **1,262,564** |
| Loss allowance | 5,460 | 4,123 | 321 | - | **9,904** | - |
| **Carrying amount** | **1,246,083** | **171,526** | **2,339** | - | **1,419,948** | **1,262,564** |
| Collateral held for credit impaired assets | - | - | 127 | - | **127** | **145** |

* The presentation of the Analysis of loans and advances to customers by credit risk rating data for 2017 was reclassified in line with 2018 methodology.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### IV. Ageing analysis of loans and advances to customers

| | 31.12.2018 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Retail Lending | | | | | | | | | | | | | | |
| | Mortgage | | | | | Consumer | | | | | Credit Card | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| Current | 4,019,494 | 391,264 | 13,336 | 748 | **4,424,842** | 628,717 | 94,371 | 8,014 | 808 | **731,910** | 66,065 | 8,986 | 30 | - | **75,081** |
| 1-30 days | 226,780 | 165,007 | 10,274 | 36 | **402,097** | 48,930 | 50,366 | 4,406 | - | **103,702** | 4,127 | 5,247 | 11 | - | **9,385** |
| 31-60 days | - | 82,525 | 8,687 | 89 | **91,301** | - | 27,633 | 5,147 | - | **32,780** | - | 1,468 | 2 | - | **1,470** |
| 61-90 days | - | 52,250 | 12,023 | - | **64,273** | - | 12,900 | 4,698 | 139 | **17,737** | - | 566 | 5 | - | **571** |
| 91-180 days | - | - | 9,094 | - | **9,094** | - | - | 10,361 | - | **10,361** | - | - | 589 | - | **589** |
| 181-360 days | - | - | 5,252 | - | **5,252** | - | - | 6,126 | - | **6,126** | - | - | 571 | - | **571** |
| >360 days | - | - | 42,409 | - | **42,409** | - | - | 29,641 | - | **29,641** | - | - | 707 | - | **707** |
| **Total net amount** | **4,246,274** | **691,046** | **101,075** | **873** | **5,039,268** | **677,647** | **185,270** | **68,393** | **947** | **932,257** | **70,192** | **16,267** | **1,915** | - | **88,374** |
| Value of collateral | 4,129,136 | 675,652 | 134,574 | 1,258 | **4,940,620** | 269,632 | 67,678 | 75,541 | 947 | **413,798** | - | - | - | - | - |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### IV. Ageing analysis of loans and advances to customers (continued)

| | 31.12.2018 | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Retail Lending | | | | | Corporate Lending | | | | | | | | | |
| | Other (Incl. SBL) | | | | | Large | | | | | SMEs | | | | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Current | 3,242 | 907 | - | - | **4,149** | 3,100,467 | 1,264,500 | 74,937 | - | **4,439,904** | 439,140 | 74,853 | 2,186 | - | **516,179** |
| 1-30 days | - | 271 | - | - | **271** | 8,183 | 5,937 | 26,231 | - | **40,351** | 10,601 | 5,860 | 843 | - | **17,304** |
| 31-60 days | - | - | - | - | - | - | 239 | 1,536 | 793 | **2,568** | - | 811 | 622 | - | **1,433** |
| 61-90 days | - | - | - | - | - | - | 1 | - | - | **1** | - | 749 | 1,388 | - | **2,137** |
| 91-180 days | - | - | - | - | - | - | - | 5 | 2,588 | **2,593** | - | - | 935 | - | **935** |
| 181-360 days | - | - | - | - | - | - | - | 1,462 | - | **1,462** | - | - | 3,101 | - | **3,101** |
| >360 days | - | - | 66 | - | **66** | - | - | 44,655 | - | **44,655** | - | - | 5,121 | - | **5,121** |
| **Total net amount** | **3,242** | **1,178** | **66** | - | **4,486** | **3,108,650** | **1,270,677** | **148,826** | **3,381** | **4,531,534** | **449,741** | **82,273** | **14,196** | - | **546,210** |
| Value of collateral | 2,667 | 800 | 93 | - | **3,560** | 2,683,440 | 1,161,150 | 270,601 | 3,381 | **4,118,572** | 327,495 | 72,164 | 17,398 | - | **417,057** |

| | Public Sector | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Current | 8,899 | 1,297 | - | - | **10,196** |
| 1-30 days | - | 1,113 | - | - | **1,113** |
| 31-60 days | - | - | - | - | - |
| 61-90 days | - | - | - | - | - |
| 91-180 days | - | - | - | - | - |
| 181-360 days | - | - | - | - | - |
| >360 days | - | - | - | - | - |
| **Total net amount** | **8,899** | **2,410** | - | - | **11,309** |
| Market value of collateral | 8,735 | 2,568 | - | - | **11,303** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### IV. Ageing analysis of loans and advances to customers (continued)

**31.12.2017**

| | Retail Lending | | | | Corporate Lending | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgage | Consumer | Credit Card | Other (Incl. SBL) | Large | SMEs | Public Sector | Total non impaired |
| Current | 4,090,449 | 695,436 | 71,133 | 2,979 | 4,506,322 | 466,924 | 16,269 | **9,849,512** |
| 1-30 days | 433,572 | 103,226 | 9,158 | - | 40,425 | 13,044 | - | **599,425** |
| 31-60 days | 82,805 | 19,732 | 1,175 | - | 5,349 | 1,434 | - | **110,495** |
| 61-90 days | 40,079 | 13,167 | 336 | - | - | 1,918 | 1,527 | **57,027** |
| 91-180 days | - | - | - | - | - | - | - | - |
| 181-360 days | - | - | - | - | - | - | - | - |
| >360 days | - | - | - | - | - | - | - | - |
| **Total net amount** | **4,646,905** | **831,561** | **81,802** | **2,979** | **4,552,096** | **483,320** | **17,796** | **10,616,459** |
| Value of collateral | 4,439,430 | 363,558 | - | 2,521 | 4,036,495 | 381,176 | 17,795 | **9,240,975** |

| | Retail Lending | | | | Corporate Lending | | |
|---|---|---|---|---|---|---|---|
| | Mortgage | Consumer | Credit Card | Other (Incl. SBL) | Large | SMEs | Total impaired |
| Not past due | 20,731 | 15,645 | 16 | - | 64,530 | 848 | 101,770 |
| 1-30 days | 9,006 | 5,841 | 9 | - | 8,795 | 915 | 24,566 |
| 31-60 days | 4,197 | 1,936 | 17 | - | 262 | 3,329 | 9,741 |
| 61-90 days | 20,542 | 10,867 | 3 | - | - | 57 | 31,469 |
| 91-180 days | 11,224 | 5,780 | 407 | - | 1,189 | 178 | 18,778 |
| 181-360 days | 6,146 | 4,958 | 418 | - | - | 4,304 | 15,826 |
| >360 days | 41,019 | 23,027 | 231 | 58 | 52,934 | 2,457 | 119,726 |
| **Total net amount** | **112,865** | **68,054** | **1,101** | **58** | **127,710** | **12,088** | **321,876** |
| Value of collateral | 146,054 | 94,375 | - | 85 | 247,810 | 15,261 | 503,585 |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### V. Loan-to value ratio (LTV) of mortgage lending

| **Mortgages** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Less than 50% | 604,447 | 414,342 |
| 50%-70% | 955,910 | 695,642 |
| 71%-80% | 859,666 | 770,728 |
| 81%-90% | 969,570 | 724,685 |
| 91%-100% | 816,449 | 926,214 |
| 101%-120% | 464,620 | 677,425 |
| 121%-150% | 260,410 | 348,910 |
| Greater than 150% | 226,346 | 335,299 |
| **Total exposure** | **5,157,418** | **4,893,245** |
| Avg LTV | 77% | 80% |

### VI. Repossessed collaterals

Details of assets recognized by the Bank during the year by taking possession of collateral held as security against loans and advances at the year-end are shown below:

| | **31.12.2018** | | | | |
|---|---|---|---|---|---|
| | **Balance Sheet balances** | | **Disposals during the year** | | |
| | **Carrying amount of collaterals repossessed 31.12.2018** | **Of which in 2018** | **Disposals** | **Net sale price** | **Net gain/ (loss) on disposal** |
| **Real estate** | **9,440** | **377** | **4,909** | **4,312** | **(597)** |
| - Residential | 7,937 | 377 | 4,909 | 4,312 | (597) |
| - Commercial | 1,503 | - | - | - | - |
| Other | - | - | - | - | - |

| | **31.12.2017** | | | | |
|---|---|---|---|---|---|
| | **Balance Sheet balances** | | **Disposals during the year** | | |
| | **Carrying amount of collaterals repossessed 31.12.2017** | **Of which in 2017** | **Disposals** | **Net sale price** | **Net gain/ (loss) on disposal** |
| **Real estate** | **13,972** | **3,666** | **1,695** | **584** | **172** |
| - Residential | 12,469 | 3,666 | 1,695 | 584 | 172 |
| - Commercial | 1,503 | - | - | - | - |
| Other | - | - | - | - | - |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### VII. Breakdown of collateral and guarantees

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | Value of collateral received | | | | |
| | Real estate collateral | Financial collateral | Other collateral | Total value of collateral | Guarantees received |
| Retail Lending | 4,754,847 | 29,173 | 573,958 | **5,357,978** | 30,603 |
| Corporate Lending | 3,096,046 | 557,697 | 881,886 | **4,535,629** | 4,331,795 |
| Public Sector | - | - | 11,303 | **11,303** | 500 |
| **Total** | **7,850,893** | **586,870** | **1,467,147** | **9,904,910** | **4,362,898** |

| | 31.12.2017 | | | | |
|---|---|---|---|---|---|
| | Value of collateral received | | | | |
| | Real estate collateral | Financial collateral | Other collateral | Total value of collateral | Guarantees received |
| Retail Lending | 4,274,222 | 30,442 | 741,359 | **5,046,023** | 32,735 |
| Corporate Lending | 3,230,332 | 567,141 | 883,269 | **4,680,742** | 5,421,228 |
| Public Sector | - | - | 17,795 | **17,795** | 300 |
| **Total** | **7,504,554** | **597,583** | **1,642,423** | **9,744,560** | **5,454,263** |

Guarantees received include corporate and personal guarantees.

### VIII. Analysis of forborne loans and advances to customers

| | 31.12.2018 | | |
|---|---|---|---|
| | Total amount of L&As | Total amount of forborne L&As | Forborne Loans and Advances (%) |
| Stage 1 | 8,594,752 | - | 0% |
| Stage 2 | 2,338,818 | 265,111 | 11% |
| Stage 3 | 707,445 | 427,062 | 60% |
| POCI | 6,297 | 2,430 | 39% |
| **Exposure before impairment** | **11,647,312** | **694,603** | **6%** |
| Stage 1 Allowance | 30,107 | - | 0% |
| Stage 2 Allowance | 89,697 | 26,992 | 30% |
| Stage 3 Allowance | 372,974 | 191,944 | 51% |
| POCI Allowance /FVA | 1,096 | 1,027 | 94% |
| **Total Net Amount** | **11,153,438** | **474,640** | **4%** |
| Value of collateral | 9,904,910 | 516,494 | 5% |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### VIII. Analysis of forborne loans and advances to customers (continued)

| | 31.12.2017 | | |
|---|---|---|---|
| | **Total amount of L&As** | **Total amount of forborne L&As** | **Forborne Loans and Advances (%)** |
| Neither past due nor impaired | 9,897,313 | 127,355 | 1% |
| Past due but not impaired | 793,955 | 36,272 | 5% |
| Impaired | 680,914 | 434,911 | 64% |
| **Total Gross Amount** | **11,372,182** | **598,538** | **5%** |
| Individual Impairment Allowance | 262,749 | 152,044 | 58% |
| Collective Impairment Allowance | 171,098 | 71,075 | 42% |
| **Total Net Amount** | **10,938,335** | **375,419** | **3%** |
| Value of collateral | 9,744,560 | 424,894 | 4% |

The other assets exposed to credit risk are classified based on counterparty's country risk as following:

### IX. Credit quality per class of other financial assets

| | 31.12.2018 | | | | | 31.12.2017 |
|---|---|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL* not credit-impaired** | **Lifetime ECL* credit-impaired** | **Purchased credit-impaired** | **Total** | **Total** |
| **Balances with Central Bank** | | | | | | |
| AAA | - | - | - | - | - | - |
| AA+ to AA- | - | - | - | - | - | - |
| A+ to A- | - | - | - | - | - | - |
| BBB+ to BBB- | 2,395,632 | - | - | - | 2,395,632 | 1,791,280 |
| Lower than BBB- | - | - | - | - | - | - |
| Unrated | - | - | - | - | - | - |
| **Exposure before impairment** | **2,395,632** | **-** | **-** | **-** | **2,395,632** | **1,791,280** |
| Loss allowance | (431) | - | - | - | (431) | - |
| **Carrying amount** | **2,395,201** | **-** | **-** | **-** | **2,395,201** | **1,791,280** |
| **Due from Banks** | | | | | | |
| AAA | - | - | - | - | - | - |
| AA+ to AA- | 328,281 | - | - | - | 328,281 | 4,364 |
| A+ to A- | 48,217 | - | - | - | 48,217 | 39,900 |
| BBB+ to BBB- | 76,330 | 122,808 | - | - | 199,138 | 181,345 |
| Lower than BBB- | 810,677 | - | - | - | 810,677 | 689,062 |
| Unrated | - | 320,104 | - | - | 320,104 | - |
| **Exposure before impairment** | **1,263,505** | **442,912** | **-** | **-** | **1,706,417** | **914,671** |
| Loss allowance | (288) | (100) | - | - | (388) | - |
| **Carrying amount** | **1,263,217** | **442,812** | **-** | **-** | **1,706,029** | **914,671** |

*Lifetime ECL includes exposures (with short or very short maturity) on entities that have been classified as Lifetime ECLs based on difference in rating since initial recognition, or for entities not having an external rating.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### IX. Credit quality per class of other financial assets (continued)

| | 31.12.2018 | | | | | 31.12.2017 |
|---|---|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Purchased credit-impaired** | **Total** | **Total** |
| **Debt Investment Securities at FVOCI** | | | | | | |
| AAA | - | - | - | - | - | - |
| AA+ to AA- | 111 | - | - | - | 111 | 73 |
| A+ to A- | 12,295 | - | - | - | 12,295 | 10,737 |
| BBB+ to BBB- | 1,206,099 | - | - | - | 1,206,099 | 1,312,598 |
| Lower than BBB- | 77 | - | - | - | 77 | 77 |
| Unrated | - | - | - | - | - | - |
| **Exposure before impairment** | **1,218,582** | **-** | **-** | **-** | **1,218,582** | **1,323,485** |
| Loss allowance | (217) | - | - | - | (217) | (143) |
| **Carrying amount** | **1,218,365** | **-** | **-** | **-** | **1,218,365** | **1,323,342** |

| **Derivative Financial Assets** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| AAA | - | - |
| AA+ to AA- | - | - |
| A+ to A- | - | - |
| BBB+ to BBB- | - | - |
| Lower than BBB- | - | 1,566 |
| Unrated | - | - |
| **Carrying amount** | **-** | **1,566** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### X. Risk concentrations of the maximum exposure to credit risk

Concentration Risk is a specific form of credit risk and arises due to low degree of diversification between counterparties or group of counterparties, sectors, geographic regions, or collaterals.
The Bank monitors on a regular basis concentration risk through detail reporting which informs Senior management and the Board of Directors. According to the supervisory framework, the Bank complies with the regulatory directives regarding large exposures, while the capital requirements for single name and sector concentration risks are estimated in the context of Pillar 2 of Basel III.
As at 31 December 2018 and 31 December 2017, an industry sector analysis of the Bank's financial assets exposed to credit risk is as follows:

| | 31.12.2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Financial Institutions and other financial services** | **Manufacturing** | **Construction and real estate** | **Wholesale and retail trade** | **Public sector/ Government securities** | **Transportation** | **Hotels-Tourism** | **Services and other sectors** | **Retail and small businesses** | **Total** |
| **Credit risk exposure relating to balance sheet items** | | | | | | | | | | |
| Balances with Central Banks | 2,395,632 | - | - | - | - | - | - | - | - | **2,395,632** |
| Due from banks | 1,706,417 | - | - | - | - | - | - | - | - | **1,706,417** |
| Loans and advances to customers at amortised cost | 331,221 | 576,036 | 2,365,605 | 765,009 | 11,554 | 377,817 | 237,891 | 666,607 | 6,315,572 | **11,647,312** |
| Debt Investment Securities at FVOCI | 13,394 | - | - | - | 1,205,188 | - | - | - | - | **1,218,582** |
| **Total amount of balance sheet items exposed to credit risk (a)** | **4,446,664** | **576,036** | **2,365,605** | **765,009** | **1,216,742** | **377,817** | **237,891** | **666,607** | **6,315,572** | **16,967,943** |
| Other assets | 481,641 | - | - | - | - | - | - | - | - | **481,641** |
| **Total assets** | **4,928,305** | **576,036** | **2,365,605** | **765,009** | **1,216,742** | **377,817** | **237,891** | **666,607** | **6,315,572** | **17,449,584** |
| **Credit risk exposure relating to off-balance sheet items** | | | | | | | | | | |
| Letters of guarantee and letters of credit | 68,394 | 35,352 | 131,561 | 67,163 | - | 8,485 | 13,608 | 168,670 | 52 | **493,285** |
| Undrawn credit facilities | 129,295 | 151,220 | 249,094 | 303,331 | 500 | 22,459 | 56,013 | 257,061 | 260,879 | **1,429,852** |
| **Total amount of off-balance sheet items exposed to credit risk (b)** | **197,689** | **186,572** | **380,655** | **370,494** | **500** | **30,944** | **69,621** | **425,731** | **260,931** | **1,923,137** |
| **Total credit risk exposure (a+b)** | **4,644,353** | **762,608** | **2,746,260** | **1,135,503** | **1,217,242** | **408,761** | **307,512** | **1,092,338** | **6,576,503** | **18,891,080** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### X. Risk concentrations of the maximum exposure to credit risk (continued)

| | 31.12.2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Institutions and other financial services | Manufacturing | Construction and real estate | Wholesale and retail trade | Public sector/ Government securities | Transportation | Hotels-Tourism | Services and other sectors | Retail and small businesses | Total |
| **Credit risk exposure relating to balance sheet items** | | | | | | | | | | |
| Balances with Central Banks | 1,791,280 | - | - | - | - | - | - | - | - | **1,791,280** |
| Due from banks | 914,671 | - | - | - | - | - | - | - | - | **914,671** |
| Loans and advances to customers | 258,814 | 546,551 | 2,478,995 | 824,093 | 17,820 | 393,697 | 215,844 | 637,216 | 5,999,152 | **11,372,182** |
| Derivative financial assets | 1,566 | - | - | - | - | - | - | - | - | **1,566** |
| Available for sale securities | 11,941 | - | - | - | 1,311,544 | - | - | - | - | **1,323,485** |
| Assets held for sale | 256,953 | - | - | - | - | - | - | - | - | **256,953** |
| **Total amount of balance sheet items exposed to credit risk (a)** | **3,235,225** | **546,551** | **2,478,995** | **824,093** | **1,329,364** | **393,697** | **215,844** | **637,216** | **5,999,152** | **15,660,137** |
| Other assets | 409,771 | - | - | - | - | - | - | - | - | **409,771** |
| **Total assets** | **3,644,996** | **546,551** | **2,478,995** | **824,093** | **1,329,364** | **393,697** | **215,844** | **637,216** | **5,999,152** | **16,069,908** |
| **Credit risk exposure relating to off-balance sheet items** | | | | | | | | | | |
| Letters of guarantee and letters of credit | 73,303 | 27,963 | 126,519 | 67,751 | - | 7,731 | 12,174 | 113,932 | - | **429,373** |
| Undrawn credit facilities | 147,463 | 146,983 | 157,645 | 327,941 | 300 | 18,515 | 28,048 | 199,852 | 235,817 | **1,262,564** |
| **Total amount of off-balance sheet items exposed to credit risk (b)** | **220,766** | **174,946** | **284,164** | **395,692** | **300** | **26,246** | **40,222** | **313,784** | **235,817** | **1,691,937** |
| **Total credit risk exposure (a+b)** | **3,455,991** | **721,497** | **2,763,159** | **1,219,785** | **1,329,664** | **419,943** | **256,066** | **951,000** | **6,234,969** | **17,352,074** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

#### XI. Exposure to higher risk Eurozone countries

For the purpose of this disclosure higher risk Eurozone country was considered Greece, therefore the table below set out the Bank direct exposure to this country:

| | 31-Dec 2018 | 31-Dec 2017 |
|---|---|---|
| Due from other banks | 810,611 | 688,996 |
| Impairment loss | (182) | - |
| **Total** | **810,429** | **688,996** |

As at 31 December 2018, the direct exposure refers to current accounts and deposits placed to Greek banks (mainly placements with Alpha Bank A.E). An impairment loss of RON 182 thousands was recorded for the above exposures, according to IFRS 9 provisions.

#### XII. Credit risk disclosure of financial instruments

This disclosure presents information regarding credit risk for the categories of financial instruments for which expected credit losses are recognized, in accordance with IFRS 9.

It is particularly presented the classification of financial instruments and a reconciliation of impairment losses per stage as at 31.12.2018.

**a. Due from Banks**

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Due from banks** | | | | | |
| Book value before impairment | 1,263,505 | 442,912 | - | - | **1,706,417** |
| Expected credit losses | (288) | (100) | - | - | **(388)** |
| **Net book value** | **1,263,217** | **442,812** | **-** | **-** | **1,706,029** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

**a. Due from Banks (continued)**

| | Accumulated allowance for impairment losses | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Opening balance 1.1.2018** | **15** | **9** | **-** | **-** | **24** |
| **Changes for the period 1.1. – 31.12.2018** | | | | | |
| Transfer to stage 1 (from 2 or 3) | (29) | 29 | - | - | **-** |
| Transfer to stage 2 (from 1 or 3) | 526 | (526) | - | - | **-** |
| Reassessment of expected credit losses | (1,831) | 92 | - | - | **(1,739)** |
| Impairment on initial recognition | 2,098 | - | - | - | **2,098** |
| Foreign exchange differences and other movements | (491) | 496 | - | - | **5** |
| **Balance 31.12.2018** | **288** | **100** | **-** | **-** | **388** |

**b. Loans to customers measured at amortized cost**

The following table presents loans measured at amortized cost per IFRS 9 stage, as at 31.12.2018:

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Mortgage** | | | | | |
| Book value before impairment | 4,247,720 | 700,985 | 207,206 | 1,507 | **5,157,418** |
| Expected credit losses | (1,446) | (9,939) | (106,131) | (634) | **(118,150)** |
| **Net book value** | **4,246,274** | **691,046** | **101,075** | **873** | **5,039,268** |
| **Consumer** | | | | | |
| Book value before impairment | 683,995 | 199,409 | 175,167 | 1,409 | **1,059,980** |
| Expected credit losses | (6,348) | (14,139) | (106,774) | (462) | **(127,723)** |
| **Net book value** | **677,647** | **185,270** | **68,393** | **947** | **932,257** |
| **Credit cards** | | | | | |
| Book value before impairment | 70,388 | 17,903 | 5,319 | - | **93,610** |
| Expected credit losses | (196) | (1,636) | (3,404) | - | **(5,236)** |
| **Net book value** | **70,192** | **16,267** | **1,915** | **-** | **88,374** |
| **Small Business** | | | | | |
| Book value before impairment | 3,289 | 1,183 | 93 | - | **4,565** |
| Expected credit losses | (47) | (5) | (27) | - | **(79)** |
| **Net book value** | **3,242** | **1,178** | **66** | **-** | **4,486** |
| **Total retail loans** | | | | | |
| Book value before impairment | 5,005,392 | 919,480 | 387,785 | 2,916 | **6,315,573** |
| Expected credit losses | (8,037) | (25,719) | (216,336) | (1,096) | **(251,188)** |
| **Net book value** | **4,997,355** | **893,761** | **171,449** | **1,820** | **6,064,385** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued*)*

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

| | | | | | |
|---|---|---|---|---|---|
| **Corporate and public sector** | | | | | |
| Book value before impairment | 3,589,360 | 1,419,338 | 319,660 | 3,381 | **5,331,739** |
| Expected credit losses | (22,070) | (63,978) | (156,638) | - | **(242,686)** |
| **Net book value** | **3,567,290** | **1,355,360** | **163,022** | **3,381** | **5,089,053** |
| **Loans and advances to customers** | | | | | |
| Book value before impairment | 8,594,752 | 2,338,818 | 707,445 | 6,297 | **11,647,312** |
| Expected credit losses | (30,107) | (89,697) | (372,974) | (1,096) | **(493,874)** |
| **Net book value** | **8,564,645** | **2,249,121** | **334,471** | **5,201** | **11,153,438** |

"Purchased or originated credit impaired loans" (POCI) include loans amounting to RON 2 million, which as at 31.12.2018 are not impaired/non performing.

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

The following table presents the movement of accumulated allowance for impairment losses:

| | Retail | | | | | Corporate and public sector | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Balance 1.1.2018** | **4,985** | **18,760** | **210,207** | **905** | **234,857** | **14,774** | **66,726** | **145,702** | **-** | **227,202** | **19,759** | **85,486** | **355,909** | **905** | **462,059** |
| Transfer to stage 1 (from 2 or 3) | 3,692 | (3,415) | (277) | - | - | 10,724 | (10,724) | - | - | - | 14,416 | (14,139) | (277) | - | - |
| Transfer to stage 2 (from 1 or 3) | (408) | 8,477 | (8,069) | - | - | (793) | 1,101 | (308) | - | - | (1,201) | 9,578 | (8,377) | - | - |
| Transfer to stage 3 (from 1 or 2) | (132) | (2,795) | 2,927 | - | - | (266) | (1,364) | 1,630 | - | - | (398) | (4,159) | 4,557 | - | - |
| Net remeasurement of loss allowance | (3,749) | (1,882) | 6,610 | 168 | **1,147** | (15,747) | (2,096) | 20,684 | - | **2,841** | (19,496) | (3,978) | 27,294 | 168 | **3,988** |
| Impairment losses on new assets | 9,328 | - | - | - | **9,328** | 10,885 | - | - | - | **10,885** | 20,213 | - | - | - | **20,213** |
| Changes in models/risk parameters | 2,842 | (750) | (3,641) | (106) | **(1,655)** | 3,214 | 8,658 | 1,378 | - | **13,250** | 6,056 | 7,908 | (2,263) | (106) | **11,595** |
| Derecognition of loans | (2) | (9) | (1,323) | - | **(1,334)** | (8) | (12) | - | - | **(20)** | (10) | (21) | (1,323) | - | **(1,354)** |
| Write-offs | - | - | (1,118) | - | **(1,118)** | - | - | (22,594) | - | **(22,594)** | - | - | (23,712) | - | **(23,712)** |
| Foreign exchange differences and other movements | (8,519) | 7,333 | 10,406 | 36 | **9,256** | (713) | 1,689 | 3,569 | - | **4,545** | (9,232) | 9,022 | 13,975 | 36 | **13,801** |
| Change in the present value of the allowance account | - | - | 614 | 93 | **707** | - | - | 6,577 | - | **6,577** | - | - | 7,191 | 93 | **7,284** |
| **Balance 31.12.2018** | **8,037** | **25,719** | **216,336** | **1,096** | **251,188** | **22,070** | **63,978** | **156,638** | - | **242,686** | **30,107** | **89,697** | **372,974** | **1,096** | **493,874** |

where:

*Net remeasurement of loss allowance* present the impairment charge recorded in the reference period regarding the accounts transferred from one stage to another.
*Impairment losses on new assets* present the impairment charge recorded in the reference period regarding new loans originated or purchased within the reporting period.
*Changes in models/risk parameters* present the impairment charge recorded in the reference period regarding the accounts that remained in the same stage within the reference period.

## 4. RISK MANAGEMENT (CONTINUED)

## b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

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

| | Retail | | | | | Corporate and public sector | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Gross balance 1.1.2018** | **4,925,350** | **679,233** | **392,444** | **2,137** | **5,999,164** | **3,501,327** | **1,583,812** | **287,879** | **-** | **5,373,018** | **8,426,677** | **2,263,045** | **680,323** | **2,137** | **11,372,182** |
| Transfer to stage 1 (from 2 or 3) | 193,529 | (192,003) | (1,526) | - | - | 293,313 | (293,313) | - | - | - | 486,842 | (485,316) | (1,526) | - | - |
| Transfer to stage 2 (from 1 or 3) | (313,622) | 337,461 | (23,839) | - | - | (296,938) | 297,809 | (871) | - | - | (610,560) | 635,270 | (24,710) | - | - |
| Transfer to stage 3 (from 1 or 2) | (12,124) | (32,155) | 44,279 | - | - | (41,311) | (31,452) | 72,763 | - | - | (53,435) | (63,607) | 117,042 | - | - |
| New financial assets originated or purchased | 937,180 | - | - | 641 | **937,821** | 1,322,194 | - | - | 3,381 | **1,325,575** | 2,259,374 | - | - | 4,022 | **2,263,396** |
| Derecognition of financial assets | (7,294) | (668) | (3,678) | - | **(11,640)** | (48,202) | (23,362) | - | - | **(71,564)** | (55,496) | (24,030) | (3,678) | - | **(83,204)** |
| Interest on gross carrying amount | 259,008 | 48,385 | 11,100 | 37 | **318,530** | 167,404 | 43,465 | 16,574 | 695 | **228,138** | 426,412 | 91,850 | 27,674 | 732 | **546,668** |
| Changes due to modifications that did not result in derecognition | (207) | (25) | 16 | - | **(216)** | (6,172) | (158) | (210) | - | **(6,540)** | (6,379) | (183) | (194) | - | **(6,756)** |
| Write-offs | - | - | (1,118) | - | **(1,118)** | - | - | (22,594) | - | **(22,594)** | - | - | (23,712) | - | **(23,712)** |
| Repayments, foreign exchange and other changes | (976,428) | 79,252 | (29,893) | 101 | **(926,968)** | (1,302,255) | (157,463) | (33,881) | (695) | **(1,494,294)** | (2,278,683) | (78,211) | (63,774) | (594) | **(2,421,262)** |
| **Gross balance 31.12.2018** | **5,005,392** | **919,480** | **387,785** | **2,916** | **6,315,573** | **3,589,360** | **1,419,338** | **319,660** | **3,381** | **5,331,739** | **8,594,752** | **2,338,818** | **707,445** | **6,297** | **11,647,312** |
| Accumulated allowance for impairment losses | (8,037) | (25,719) | (216,336) | (1,096) | **(251,188)** | (22,070) | (63,978) | (156,638) | - | **(242,686)** | (30,107) | (89,697) | (372,974) | (1,096) | **(493,874)** |
| **Balance 31.12.2018** | **4,997,355** | **893,761** | **171,449** | **1,820** | **6,064,385** | **3,567,290** | **1,355,360** | **163,022** | **3,381** | **5,089,053** | **8,564,645** | **2,249,121** | **334,471** | **5,201** | **11,153,438** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

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

| | Loan Commitments and financial guarantee contracts | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Gross balance 1.1.2018** | **1,349,503** | **323,202** | **16,116** | **1,688,821** |
| Transfer to stage 1 (from 2 or 3) | 204,116 | (204,101) | (15) | **-** |
| Transfer to stage 2 (from 1 or 3) | (49,981) | 50,388 | (407) | **-** |
| Transfer to stage 3 (from 1 or 2) | (40,860) | (1,049) | 41,909 | **-** |
| New financial assets originated or purchased | 628,932 | - | - | **628,932** |
| Derecognition of financial assets | - | - | - | **-** |
| Interest on gross carrying amount | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - |
| Write-offs | - | - | - | - |
| Repayments, foreign exchange and other changes | (389,087) | 17,639 | (23,168) | **(394,616)** |
| **Gross balance 31.12.2018** | **1,702,623** | **186,079** | **34,435** | **1,923,137** |
| Accumulated allowance for impairment losses | (6,127) | (4,295) | (4,105) | **(14,527)** |
| **Balance 31.12.2018** | **1,696,496** | **181,784** | **30,330** | **1,908,610** |

The Bank has recognized expected credit losses for the undrawn credit facilities and letters of credit and letters of guarantee, the movement of which is presented in the following table:

| | 31.12.2018 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Balance 1.1.2018** | **1,945** | **6,451** | **2,963** | **11,359** |
| Transfer to stage 1 (from 2 or 3) | 2,364 | (2,364) | - | - |
| Transfer to stage 2 (from 1 or 3) | (131) | 155 | (24) | - |
| Transfer to stage 3 (from 1 or 2) | (203) | (2) | 205 | - |
| Net remeasurement of expected credit losses | (1,093) | (1,437) | 1,118 | **(1,412)** |
| Impairment losses on new off balance sheet items | 3,579 | - | - | **3,579** |
| Changes in models/risk parameters | (365) | 1,122 | 228 | **985** |
| Foreign exchange differences and other movements | 31 | 370 | (385) | **16** |
| **Balance 31.12.2018** | **6,127** | **4,295** | **4,105** | **14,527** |

## 4. RISK MANAGEMENT (CONTINUED)

### b) Credit Risk (continued)

### *iii) Exposure to credit risk (continued)*

### XII. Credit risk disclosure of financial instruments (continued)

### c. Investment securities designated as at fair value through other comprehensive income

The following table presents the classification of investment securities per stage as at 31.12.2018 and the reconciliation of accumulated impairment per stage:

| | 31.12.2018 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Other Government bonds** | | | | | |
| Expected credit losses | (217) | - | - | - | **(217)** |
| Fair value | 1,204,971 | - | - | - | **1,204,971** |
| **Other securities** | | | | | |
| Expected credit losses | - | - | - | - | **-** |
| Fair value | 13,394 | - | - | - | **13,394** |
| **Total of investment securities designated as at fair value through other comprehensive income** | | | | | |
| Expected credit losses | **(217)** | **-** | **-** | **-** | **(217)** |
| Fair value | **1,218,365** | **-** | **-** | **-** | **1,218,365** |

| | Allowance for impairment losses on securities | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **Changes for the period 1.1. – 31.12.2018** | | | | | |
| **Balance 1.1.2018** | **-** | **-** | **-** | **-** | **-** |
| Net remeasurement of loss allowance (a) | - | - | - | - | **-** |
| New securities originated or purchased (b) | 62 | - | - | - | **62** |
| Changes in models/risk parameters (c) | 155 | - | - | - | **155** |
| **Impairment losses on investment securities designated as at fair value through other comprehensive income (a+b+c)** | **217** | - | - | - | **217** |
| Derecognition of financial assets | - | - | - | - | **-** |
| Foreign exchange differences and other movements | - | - | - | - | **-** |
| **Balance 31.12.2018** | **217** | - | - | - | **217** |

## 4. RISK MANAGEMENT (CONTINUED)

### c) Market risk

Market risk is the risk of reduction in economic value arising from unfavorable 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 Bank identifies, measures, monitors and controls Market risk through established risk management framework- policies, procedures and working directions. The Market Risk Management Policy provides the framework and principles for the effective management of market risks.

Within the scope of policy-making for financial risk management exposure limits and maximum loss limits (stop loss) have been set. In particular, the following limits have been set for the following risks:

- Foreign currency risk;
- Interest rate risk on bond positions;
- Credit risk regarding interbank transactions.

Positions held are monitored on a daily basis and are examined for the corresponding limit percentage cover and for any limit excess.

### d) Currency risk

The Bank is exposed to currency risk (Foreign exchange risk) through transactions in foreign currencies against RON. The Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix. The main foreign currencies held by the Bank are EUR and USD. On the Romanian market, exchange rates have certain degree of volatility; therefore open foreign exchange positions represent a source of currency risk. In order to limit losses arising from adverse movements in exchange rates, the Bank is currently pursuing the policy of maintaining an overall balanced foreign exchange position.

Foreign currency risk is the risk of reduction in economic value arising from adverse changes in the value or volatility of foreign exchange rates to record losses for ON or OFF balance sheet positions or not to achieve the estimated profits due to the fluctuations on the market of the foreign exchange rate. The object of the identification, assessment, monitoring and management of the foreign currency risk is represented, according to the Bank's policies and procedures, by the elements denominated in foreign currency.

## 4. RISK MANAGEMENT (CONTINUED)

### d) Currency risk (continued)

**Concentration of assets and liabilities:**

| 2018 | Local Currency | EUR | Other Currencies | Total |
|---|---|---|---|---|
| | RON'000 | RON'000 | RON'000 | RON'000 |
| **ASSETS** | | | | |
| Cash and balances with National Bank of Romania | 600,125 | 2,045,713 | 48,610 | **2,694,448** |
| Due from other banks | 320,033 | 834,417 | 551,579 | **1,706,029** |
| Securities designated as at FVOCI | 921,697 | 284,373 | 12,295 | **1,218,365** |
| Investments in associates | 409 | - | - | **409** |
| Loans and advances to customers | 4,644,713 | 6,467,298 | 41,427 | **11,153,438** |
| Derivative financial assets | - | - | - | - |
| Property and equipment | 99,082 | - | - | **99,082** |
| Intangible fixed assets | 27,701 | - | - | **27,701** |
| Other assets | 46,623 | 7,048 | 1,531 | **55,202** |
| **TOTAL ASSETS** | **6,660,383** | **9,638,849** | **655,442** | **16,954,674** |
| **LIABILITIES** | | | | |
| Due to banks | 30,745 | 2,229,102 | 570 | **2,260,417** |
| Due to customers | 4,975,647 | 5,959,500 | 637,479 | **11,572,626** |
| Other borrowed funds | 303,200 | 185,351 | - | **488,551** |
| Derivative financial liabilities | 1,420 | - | - | **1,420** |
| Subordinated debt | - | 724,574 | - | **724,574** |
| Other liabilities and provisions | 140,656 | 11,621 | 528 | **152,805** |
| Deferred tax liabilities | 406 | - | - | **406** |
| **Total liabilities** | **5,452,074** | **9,110,148** | **638,577** | **15,200,799** |
| **Net balance sheet position** | **1,208,309** | **528,701** | **16,865** | **1,753,875** |
| Derivative forward foreign exchange position | 454,667 | (450,936) | (3,729) | 2 |
| **Total foreign exchange position** | **1,662,976** | **77,765** | **13,136** | **1,753,877** |

## 4. RISK MANAGEMENT (CONTINUED)

### d) Currency risk (continued)

| 2017 | Local Currency | EUR | Other Currencies | Total |
|---|---|---|---|---|
| | RON'000 | RON'000 | RON'000 | RON'000 |
| **ASSETS** | | | | |
| Cash and balances with National Bank of Romania | 719,365 | 1,296,224 | 28,725 | 2,044,314 |
| Due from other banks | 120,024 | 713,761 | 80,886 | 914,671 |
| Available-for-sale securities and Investments in associates | 1,313,326 | 83 | 10,737 | 1,324,146 |
| Loans and advances to customers | 4,207,548 | 6,691,620 | 39,167 | 10,938,335 |
| Derivative financial assets | 1,566 | - | - | 1,566 |
| Property and equipment | 91,803 | - | - | 91,803 |
| Intangible fixed assets | 17,800 | - | - | 17,800 |
| Other assets | 93,643 | 205,401 | 4,239 | 303,283 |
| **TOTAL ASSETS** | **6,565,075** | **8,907,089** | **163,754** | **15,635,918** |
| **LIABILITIES** | | | | |
| Due to banks | 3,072 | 3,363,847 | 2,379 | 3,369,298 |
| Due to customers | 4,618,713 | 4,247,504 | 574,079 | 9,440,296 |
| Other borrowed funds | 234,546 | (1,755) | - | 232,791 |
| Derivative financial liabilities | 1,714 | - | - | 1,714 |
| Subordinated debt | - | 723,978 | - | 723,978 |
| Other liabilities and provisions | 90,332 | 10,194 | 1,759 | 102,285 |
| Deferred tax liability | 1,346 | - | - | 1,346 |
| **Total liabilities** | **4,949,723** | **8,343,768** | **578,217** | **13,871,708** |
| **Net balance sheet position** | **1,615,352** | **563,321** | **(414,463)** | **1,764,210** |
| Derivative forward foreign exchange position | 109,081 | (528,395) | 420,561 | 1,247 |
| **Total foreign exchange position** | **1,724,433** | **34,926** | **6,098** | **1,765,457** |

## 4. RISK MANAGEMENT (CONTINUED)

### d) Currency risk (continued)

**Sensitivity analysis – Foreign Exchange risk**

| | | Volumes as at 31/12/18 | Changes in ER | | Impact on net income before tax | |
|---|---|---|---|---|---|---|
| | | | + | - | + | - |
| | Assets | 9,638,850 | 5.00% | -5.00% | 481,943 | (481,943) |
| EUR | Liabilities | (9,561,085) | 5.00% | -5.00% | (478,054) | 478,054 |
| | Assets | 517,386 | 5.00% | -5.00% | 25,869 | (25,869) |
| USD | Liabilities | (513,143) | 5.00% | -5.00% | (25,657) | 25,657 |
| | Assets | 7,115,048 | 5.00% | -5.00% | - | - |
| RON | Liabilities | (5,452,075) | 5.00% | -5.00% | - | - |
| | | | | | **4,101** | **(4,101)** |

| | | Volumes as at 31/12/17 | Changes in ER | | Impact on net income before tax | |
|---|---|---|---|---|---|---|
| | | | + | - | + | - |
| | Assets | 8,907,089 | 5.00% | -5.00% | 445,354 | (445,354) |
| EUR | Liabilities | (8,872,163) | 5.00% | -5.00% | (443,608) | 443,608 |
| | Assets | 460,403 | 5.00% | -5.00% | 23,020 | (23,020) |
| USD | Liabilities | (460,783) | 5.00% | -5.00% | (23,039) | 23,039 |
| | Assets | 6,674,176 | 5.00% | -5.00% | - | - |
| RON | Liabilities | (4,949,811) | 5.00% | -5.00% | - | - |
| | | | | | **1,727** | **(1,727)** |

The Foreign Exchange risk is measured by applying Value at Risk (VaR) methodology, scenario analysis and stress testing. The method applied for calculating Value at Risk (VaR) is historical simulation. The Bank uses a holding period of one and ten days, depending on the time which is required to liquidate the portfolio.

**Total Forex VaR, 99% confidence interval (1 year historical data)**

| Year | 2018 | | 2017 | |
|---|---|---|---|---|
| | Daily | 10 day | Daily | 10 day |
| | EUR ths. | EUR ths. | EUR ths. | EUR ths. |
| 31 December | 107.66 | 136.93 | 16.08 | 40.86 |
| average daily value | 28.8 | | 32.17 | |
| maximum daily value | 107.66 | | 80.97 | |
| minimum daily value | 8.17 | | 9.95 | |

The VaR methodology is complemented with scenario analysis and stress testing, in order to estimate the potential size of losses that could arise from the trading portfolio for hypothetical as well as historical extreme movements of market parameters.

## 4. RISK MANAGEMENT (CONTINUED)

### e) Financial risks of the banking portfolio

The financial risks of the banking portfolio derive from the structure of assets and liabilities and primarily from the portfolio of loans and deposits. The financial risks of the banking portfolio concern the interest rate risk and the liquidity risk.

The Bank incurs interest rate risk from its financial intermediation activity, principally in the form of exposure to adverse changes in the market interest rates. In the context of analysis of the banking portfolio, Interest Rate Gap Analysis is performed. Assets and liabilities are allocated on time buckets according to their re-pricing date for variable interest rate instruments, or according to their maturity date for fixed rate instruments. Exceptions are made for assets and liabilities without predefined maturities or other balance sheet items which exhibit strong behavioural characteristics. For these products allocation on residual maturity buckets, conventions are applied according to their transactional behavior (based on statistical models).

The main sources of interest rate risk arises when mismatches correlation exist between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of the yield curve (the unparalleled evolution of the interest rate yields of the interest-earning assets and interest-earning liabilities), mismatches correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics and the options embedded in the Bank's products.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The Bank generally grants loans with floating interest rates, according to the Bank's policy and also with indexed interest rates (which re-price based on reference interest rates like ROBOR, EURIBOR, LIBOR). On the deposit side, the Bank offers mainly products with fixed interest rates.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Within the Risk Appetite Framework the management sets out level of risk for interest rate risk that the Bank is willing to take in pursuit of its business objectives, which is monitored quarterly (emergency review mechanism).

## 4. RISK MANAGEMENT (CONTINUED)

### e) Financial risks of the banking portfolio (continued)

The tables below analyze assets and liabilities of the Bank into relevant re-pricing groupings as at 31 December 2018:

| | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 1 Year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with National Bank of Romania | 2,395,201 | - | - | - | 299,247 | **2,694,448** |
| Due from other banks | 1,355,963 | 163,798 | 186,268 | - | - | **1,706,029** |
| Securities designated as at FVOCI | 216,988 | 619,919 | 285,702 | 82,362 | 13,394 | **1,218,365** |
| Investments in associates | - | - | - | - | 409 | **409** |
| Loans and advances to customers | 9,265,689 | 13,886 | 118,327 | 1,755,536 | - | **11,153,438** |
| Property and equipment | - | - | - | - | 99,082 | **99,082** |
| Intangible fixed assets | - | - | - | - | 27,701 | **27,701** |
| Derivative financial assets | - | - | - | - | - | - |
| Other assets | - | - | - | - | 55,202 | **55,202** |
| **Total assets** | **13,233,841** | **797,603** | **590,297** | **1,837,898** | **495,035** | **16,954,674** |
| **Liabilities** | | | | | | |
| Due to banks | 228,123 | 2,032,294 | - | - | - | **2,260,417** |
| Due to customers | 3,770,236 | 2,532,674 | 3,457,461 | 1,812,255 | - | **11,572,626** |
| Other borrowed funds | 3,467 | 299,474 | 187,073 | (1,463) | - | **488,551** |
| Subordinated loans | 233,195 | 491,379 | - | - | - | **724,574** |
| Other liabilities | - | - | - | - | 152,805 | **152,805** |
| Derivative financial liabilities | - | - | - | - | 1,420 | **1,420** |
| Deferred tax liabilities | - | - | - | - | 406 | **406** |
| **Total liabilities** | **4,235,021** | **5,355,821** | **3,644,534** | **1,810,792** | **154,631** | **15,200,799** |
| **Equity** | **-** | **-** | **-** | **-** | **1,753,875** | **1,753,875** |
| **Total liabilities and equity** | **4,235,021** | **5,355,821** | **3,644,534** | **1,810,792** | **1,908,506** | **16,954,674** |
| **Marginal Gap** | **8,998,820** | **(4,558,218)** | **(3,054,237)** | **27,106** | **(1,413,471)** | |
| **Cumulative Gap** | **8,998,820** | **4,440,602** | **1,386,365** | **1,413,471** | | |

## 4. RISK MANAGEMENT (CONTINUED)

### e) Financial risks of the banking portfolio (continued)

The tables below analyze assets and liabilities of the Bank into relevant re-pricing groupings as at 31 December 2017:

| | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 1 Year | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with National Bank of Romania | 1,791,280 | - | - | - | 253,034 | 2,044,314 |
| Due from other banks | 680,806 | 233,865 | - | - | - | 914,671 |
| Available-for-sale securities | 314,026 | 109,623 | 762,522 | 125,373 | 11,798 | 1,323,342 |
| Investments in associates | - | - | - | - | 804 | 804 |
| Loans and advances to customers | 8,996,988 | 46,784 | 350,774 | 1,543,789 | - | 10,938,335 |
| Property and equipment | - | - | - | - | 91,803 | 91,803 |
| Intangible fixed assets | - | - | - | - | 17,800 | 17,800 |
| Derivative financial assets | - | - | - | - | 1,566 | 1,566 |
| Other assets | - | - | - | - | 303,283 | 303,283 |
| **Total assets** | **11,783,100** | **390,272** | **1,113,296** | **1,669,162** | **680,088** | **15,635,918** |
| **Liabilities** | | | | | | |
| Due to banks | 480,284 | 2,889,014 | - | - | - | 3,369,298 |
| Due to customers | 2,814,655 | 2,225,086 | 2,750,736 | 1,649,819 | - | 9,440,296 |
| Other borrowed funds | 2,558 | 230,233 | - | - | - | 232,791 |
| Subordinated loans | 233,026 | 490,952 | - | - | - | 723,978 |
| Other liabilities | - | - | - | - | 102,285 | 102,285 |
| Derivative financial liabilities | - | - | - | - | 1,714 | 1,714 |
| Deferred tax liabilities | - | - | - | - | 1,346 | 1,346 |
| **Total liabilities** | **3,530,523** | **5,835,285** | **2,750,736** | **1,649,819** | **105,345** | **13,871,708** |
| **Equity** | **-** | **-** | **-** | **-** | **1,764,210** | **1,764,210** |
| **Total liabilities and equity** | **3,530,523** | **5,835,285** | **2,750,736** | **1,649,819** | **1,869,555** | **15,635,918** |
| **Marginal Gap** | **8,252,577** | **(5,445,013)** | **(1,637,440)** | **19,343** | **(1,189,467)** | |
| **Cumulative Gap** | **8,252,577** | **2,807,564** | **1,170,124** | **1,189,467** | | |

## 4. RISK MANAGEMENT (CONTINUED)

### e) Financial risks of the banking portfolio (continued)

| | Average interest bearing assets | |
|---|---|---|
| | **Average 2018** | **Average 2017** |
| Cash and balances with National Bank of Romania | 0.13% | 0.05% |
| Due from other banks | 1.11% | 1.65% |
| Financial assets | 2.58% | 2.32% |
| Loans and advances to customers: | 4.64% | 4.02% |
| - Alpha Housing | 4.54% | 3.79% |
| - Investment Loans | 3.60% | 3.49% |
| - Alpha Personal | 7.81% | 6.67% |
| - Auto Loans | 7.04% | 5.74% |
| - Financial Institutions | 2.71% | 2.15% |
| - Treasury Loans | 5.30% | 4.54% |
| - Loans for equipment and stocks finance | 4.17% | 3.25% |
| - Other Loans | 4.01% | 3.56% |

**Sensitivity analysis – Interest rate risk**

The sensitivity of the income statement is the effect of the reasonably possible changes in interest rates on the net interest income (NII) for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2018.

In assessing the interest rate sensitivity analysis the assets without predefined maturities which exhibit strong behavioral characteristics are allocated on residual maturity buckets considering conventions according to their transactional behavior (based on statistical models).

| | | | Balances as at | Changes in I/Y | | NII Sensitivity | |
|---|---|---|---|---|---|---|---|
| | | | **31/12/18** | **+** | **-** | **+** | **-** |
| | | Fixed | 2,682,732 | 2.00 | (2.00) | 150,295 | (27,540) |
| | Assets | Floating | 6,852,018 | 2.00 | (2.00) | | |
| | | Fixed | (6,452,403) | 2.00 | (2.00) | 133,251 | (30,060) |
| EUR | Liabilities | Floating | (3,105,455) | 2.00 | (2.00) | | |
| | | Fixed | 456,967 | 2.00 | (2.00) | 9,788 | (598) |
| | Assets | Floating | 33,002 | 2.00 | (2.00) | | |
| | | Fixed | (513,088) | 2.00 | (2.00) | 8,417 | (2,225) |
| USD | Liabilities | Floating | - | 2.00 | (2.00) | | |
| | | Fixed | 2,244,540 | 2.00 | (2.00) | 122,626 | (117,079) |
| | Assets | Floating | 4,554,395 | 2.00 | (2.00) | | |
| | | Fixed | (5,009,647) | 2.00 | (2.00) | 66,262 | (51,226) |
| RON | Liabilities | Floating | (303,938) | 2.00 | (2.00) | | |
| | | Fixed | 102,506 | 2.00 | (2.00) | 2,049 | (928) |
| | Assets | Floating | 531 | 2.00 | (2.00) | | |
| Other | | Fixed | (128,689) | 2.00 | (2.00) | 2,054 | (903) |
| ccy. | Liabilities | Floating | - | 2.00 | (2.00) | | |
| **TOTAL NII** | | | | | | **74,774** | **(61,731)** |

## 4. RISK MANAGEMENT (CONTINUED)

### e) Financial risks of the banking portfolio (continued)

| | | | Balances as at 31/12/17 | Changes in I/Y + | Changes in I/Y - | NII Sensitivity + | NII Sensitivity - |
|---|---|---|---|---|---|---|---|
| | | Fixed | 2,337,374 | 2.00 | (2.00) | | |
| | Assets | Floating | 6,273,074 | 2.00 | (2.00) | 129,695 | (35,493) |
| | | Fixed | (4,829,152) | 2.00 | (2.00) | | |
| EUR | Liabilities | Floating | (4,036,229) | 2.00 | (2.00) | 129,362 | (18,698) |
| | | Fixed | 398,533 | 2.00 | (2.00) | | |
| | Assets | Floating | 36,982 | 2.00 | (2.00) | 8,511 | (8,375) |
| | | Fixed | (459,538) | 2.00 | (2.00) | | |
| USD | Liabilities | Floating | - | 2.00 | (2.00) | 7,617 | (1,805) |
| | | Fixed | 2,034,981 | 2.00 | (2.00) | | |
| | Assets | Floating | 4,288,718 | 2.00 | (2.00) | 101,621 | (96,755) |
| | | Fixed | (4,607,812) | 2.00 | (2.00) | | |
| RON | Liabilities | Floating | (234,545) | 2.00 | (2.00) | 60,648 | (42,470) |
| | | Fixed | 105,620 | 2.00 | (2.00) | | |
| | Assets | Floating | 2,894 | 2.00 | (2.00) | 2,133 | (105) |
| Other | | Fixed | (120,333) | 2.00 | (2.00) | | |
| ccy. | Liabilities | Floating | - | 2.00 | (2.00) | 1,979 | (948) |
| **TOTAL NII** | | | | | | **42,354** | **(76,807)** |

### f) Liquidity risk

#### *i) Management of liquidity risk*

Liquidity risk is the risk that the Bank will encounter from the potential inability to meet all payments obligations associated with its financial liabilities that are settled by delivering cash or another financial asset when they come due.

Liquidity risk arises in the general funding of the Bank's activities and in the management of the asset positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on one source of funds and generally lowers the cost of funds. The Bank concentrates its efforts to maintain an adequate liquidity such as ensuring the necessary funds to cover at all times its financial commitments on all time bands. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding on short and long term, and diversifying the funding base.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCo or Executive Committee.

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk *(continued)*

In the context of the Contingency Funding Plan, the Bank monitors on a daily basis Early Warning Indicators/Triggers while any liquidity risk trigger event or limit breach of any liquidity indicator is reported to the competent Committee, including proposed contingency measures in order to be implemented.

Since April 2009, the Bank signed a stand-by agreement with Alpha Bank AE of EUR 130,000,000, which was extended successively in following years. In 2018 the agreement was extended, also to cover the possible temporary liquidity requirements of the Bank.

### *ii) Exposure to liquidity risk*

Liquidity indicators are calculated on a regular basis while ALCo and Risk Management Committee are informed accordingly.

Another indicator used by the Bank to monitor the short term liquidity is the Liquidity Coverage Ratio (LCR). For this purpose there are considered the followings:

- the net inflow of liquidity for the next 30 days, determined on the basis of predefined scenarios related to a liquidity crisis, named as short-term financial needs;
- the necessary liquidity buffer to cover the short-term financing needs.

The Liquidity Coverage Ratio calculated regularly, according to the Basel III Directives and local regulatory requirements, was as follows:

| 31 December 2018 | 31 December 2017 |
|---|---|
| 494% | 779% |

The difference between the levels recorded in 2018 and 2017 results from the revision of the calculation of the LCR and does not indicate a deterioration of the liquidity position of the Bank. Starting September 2018 the bank included in the outflows the non-operational deposits from non-financial corporations and public sector with residual maturity of more than 30 days. The ratio as of December 2017 recalculated based on the approach used for December 2018 return a LCR of 349%.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it could access to meet liquidity needs.

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk (continued)

### ii) Exposure to liquidity risk (continued)

The Bank's financial liabilities are measured based on undiscounted contractual cash flows, grouping up the principal amounts with the future interest payments.

| 2018 | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 1 Year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to banks | 64,891 | 163,237 | 674,167 | 1,358,128 | **2,260,423** |
| Due to customers | 5,749,950 | 2,491,230 | 3,274,977 | 92,715 | **11,608,872** |
| Other borrowed funds | 380 | 3,666 | 239,782 | 300,067 | **543,895** |
| Derivative financial liabilities | 1,420 | - | - | - | **1,420** |
| Subordinated debt | - | 23,392 | 479,416 | 258,930 | **761,738** |
| Finance lease payable | 3 | 5 | 22 | 25 | **55** |
| **Total undiscounted liabilities** | **5,816,644** | **2,681,530** | **4,668,364** | **2,009,865** | **15,176,403** |

| 2017 | Up to 1 month | 1 to 3 months | 3 to 12 months | Over 1 Year | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to banks | 55,293 | 232,985 | 948,742 | 2,132,279 | **3,369,299** |
| Due to customers | 4,592,594 | 2,097,727 | 2,552,396 | 222,577 | **9,465,294** |
| Other borrowed funds | 384 | 2,695 | 9,237 | 268,599 | **280,915** |
| Derivative financial liabilities | 1,714 | - | - | - | **1,714** |
| Subordinated debt | - | 3,423 | 10,270 | 757,628 | **771,321** |
| Finance lease payable | 15 | 16 | 21 | 58 | **110** |
| **Total undiscounted liabilities** | **4,650,000** | **2,336,846** | **3,520,666** | **3,381,141** | **13,888,653** |

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

| | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Contingent liabilities | 3,908 | 164,971 | 204,655 | 107,696 | 12,055 | **493,285** |
| Commitments | 1,948 | 255,033 | 735,885 | 103,607 | 333,379 | **1,429,852** |
| **Total** | **5,856** | **420,004** | **940,540** | **211,303** | **345,434** | **1,923,137** |
| **2017** | | | | | | |
| Contingent liabilities | 4,263 | 127,065 | 127,449 | 165,068 | 5,528 | **429,373** |
| Commitments | 1,504 | 276,598 | 691,912 | 149,954 | 142,595 | **1,262,563** |
| **Total** | **5,767** | **403,663** | **819,361** | **315,022** | **148,123** | **1,691,936** |

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk (continued)

### ii) Exposure to liquidity risk (continued)

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The table below analyses the liquidity gap of the Bank into relevant maturity bands mainly based on the remaining period at balance sheet date to the contractual maturity as at 31 December 2018. Exceptions are made for assets and liabilities without predefined maturities or other balance sheet items which exhibit strong behavioral characteristics. For these products allocation on residual maturity buckets, conventions are applied according to their transactional behavior (based on statistical models).

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk (continued)

### ii) Exposure to liquidity risk (continued)

The table below analyses the liquidity gap of the Bank as at 31 December 2018:

| | *Up to 1 month* | *1 to 3 months* | *3 to 12 months* | *Over 1 year* | *Without contractual maturity* | *Total* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with National Bank of Romania | 2,694,448 | - | - | - | - | **2,694,448** |
| Due from other banks | 1,355,963 | 163,798 | 186,268 | - | - | **1,706,029** |
| Securities designated as at FVOCI | 216,987 | 619,919 | 285,702 | 95,757 | - | **1,218,365** |
| Investments in associates | - | - | - | *409* | - | **409** |
| Loans and advances to customers | 174,404 | 584,976 | 1,172,788 | 9,221,270 | - | **11,153,438** |
| Derivative financial assets | - | - | - | - | **-** | **-** |
| Property and equipment | - | - | - | - | 99,082 | **99,082** |
| Intangible assets | - | - | - | - | 27,701 | **27,701** |
| Other assets | - | - | - | - | 46,139 | **46,139** |
| Assets held for sale | - | - | - | - | 9,063 | **9,063** |
| **TOTAL ASSETS** | **4,441,802** | **1,368,693** | **1,644,758** | **9,317,436** | **181,985** | **16,954,674** |
| *Com. Lines from Group* | *746,224* | - | - | - | - | *746,224* |
| **LIABILITIES** | | | | | | |
| Due to banks | 64,887 | 163,237 | 674,167 | 1,358,126 | - | 2,260,417 |
| Other borrowed funds | - | - | 225,449 | 263,102 | - | 488,551 |
| Due to customers | 3,538,075 | 2,542,262 | 3,503,245 | 1,989,044 | - | 11,572,626 |
| Derivative financial liabilities | 1,420 | - | - | - | - | 1,420 |
| Subordinated debt | - | 20,066 | 471,313 | 233,195 | - | 724,574 |
| Other Liabilities | 3 | 5 | 22 | 25 | 152,750 | 152,805 |
| Deferred tax liabilities | - | - | - | - | 406 | 406 |
| **Equity** | - | - | - | - | **1,753,875** | **1,753,875** |
| **TOTAL LIABILITIES&EQUITY** | **3,604,385** | **2,725,570** | **4,874,196** | **3,843,492** | **1,907,031** | **16,954,674** |
| *Com. Lines to Group* | *14,403* | - | - | *14,403* | - | *28,806* |
| **LIQUIDITY GAP** | | | | | | |
| **GAP** | **1,569,238** | **(1,356,877)** | **(3,229,438)** | **5,459,541** | **(1,725,046)** | **717,418** |
| **Cumulated GAP** | **1,569,238** | **212,361** | **(3,017,077)** | **2,442,464** | **717,418** | |

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk (continued)

### ii) Exposure to liquidity risk (continued)

The table below analyses the liquidity gap of the Bank as at 31 December 2017:

| | *Up to 1 month* | *1 to 3 months* | *3 to 12 months* | *Over 1 year* | *Without contractual maturity* | *Total* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with National Bank of Romania | 2,044,314 | - | - | - | - | 2,044,314 |
| Due from other banks | 660,304 | 233,864 | 20,503 | - | - | 914,671 |
| Available-for-sale securities | 314,026 | 109,623 | 762,522 | 137,171 | - | 1,323,342 |
| Investments in associates | - | - | - | 804 | - | 804 |
| Loans and advances to customers | 237,904 | 400,587 | 1,889,287 | 8,410,557 | - | 10,938,335 |
| Derivative financial assets | 1,566 | - | - | - | - | 1,566 |
| Property and equipment | - | - | - | - | 91,803 | 91,803 |
| Intangible assets | - | - | - | - | 17,800 | 17,800 |
| Other assets | - | - | - | - | 36,992 | 36,992 |
| Assets held for sale | - | - | - | - | 266,291 | 266,291 |
| **TOTAL ASSETS** | **3,258,114** | **744,074** | **2,672,312** | **8,548,532** | **412,886** | **15,635,918** |
| *Com. Lines from Group* | *745,552* | - | - | - | - | *745,552* |
| | | | | | | |
| **LIABILITIES** | | | | | | |
| Due to banks | 55,293 | 232,985 | 932,899 | 2,148,121 | - | 3,369,298 |
| Other borrowed funds | - | - | - | 232,791 | - | 232,791 |
| Due to customers | 2,608,191 | 2,233,462 | 2,786,955 | 1,811,688 | - | 9,440,296 |
| Derivative financial liabilities | 1,714 | - | - | - | - | 1,714 |
| Subordinated debt | - | - | - | 723,978 | - | 723,978 |
| Other Liabilities | 15 | 16 | 21 | 58 | 102,175 | 102,285 |
| Deferred tax liabilities | - | - | - | - | 1,346 | 1,346 |
| **Equity** | - | - | - | - | 1,764,210 | 1,764,210 |
| **TOTAL LIABILITIES&EQUITY** | **2,665,213** | **2,466,463** | **3,719,875** | **4,916,636** | **1,867,731** | **15,635,918** |
| *Com. Lines to Group* | *37,480* | - | - | *37,480* | - | *74,960* |
| | | | | | | |
| **LIQUIDITY GAP** | | | | | | |
| **GAP** | **1,300,973** | **(1,722,389)** | **(1,047,563)** | **3,594,416** | **(1,454,845)** | **670,592** |
| **Cumulated GAP** | **1,300,973** | **(421,416)** | **(1,468,979)** | **2,125,437** | **670,592** | |

## 4. RISK MANAGEMENT (CONTINUED)

### f) Liquidity risk (continued)

### ii) Exposure to liquidity risk (continued)

Management believes that in spite of a substantial portion of deposits having contractual maturity dates within three months, diversification of these deposits by number and type of deposits, and the past experience of the Bank would indicate that these deposits provide a long - term and stable source of funding.

To manage liquidity risk, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active liquid market. These assets can be readily sold to meet liquidity requirements.

### g) Operating environment

In order to make projections for future economic conditions of the environment in which it operates, the Bank takes into consideration current economic developments in Romanian financial and banking market. The activities of the Bank are also affected by the economic developments in Greece where the shareholder operates.

*I. Greece macroeconomic trend and banking market*

The prolonged recession that the Greek economy has experienced in recent years led to the significant deterioration in the creditworthiness of corporate and individuals and, consequently, to the rapid increase in nonperforming loans, resulting in the recognition of significant impairment losses by Alpha Bank A.E. and by the Greek banking system in general.

As a result of the Greek sovereign debt crisis and the measures taken to deal with it, combined with the uncertainties created during the negotiations of the Hellenic Republic with the European Commission, the European Central Bank and the International Monetary Fund for the financing of the Hellenic Republic during the first half of 2015, there was a significant outflow of deposits and the imposition of capital controls and of a bank holiday which was announced on 28.6.2015 and lasted until 19.7.2015. Capital controls have been removed to a significant extent while the detailed provisions for their application are amended where appropriate by the adoption of a legislative act.

As at the date of the financial statements, the liquidity needs of Greek credit institutions continue to be partially met by the Eurosystem's mechanisms, and the total amount of borrowing is gradually being reduced. Within the year, in particularly in August 2018, the third financial support program of the Hellenic Republic was successfully completed, while providing the possibility of forming a cash buffer of EUR 24.1 billion, which is estimated to be able to cover the needs of the Hellenic Republic for a period of around 22 months, beginning from August 2018, a fact which significantly reduces potential financial risks after the completion of the program.

It is also noted that the Hellenic Republic is taking steps to gradually recover its access to the financial markets to meet its financing needs. In addition, the Bank successfully completed the European stress testing exercise by the ECB in accordance with the methodology of the European Banking Authority. Based on the exercise, under the adverse scenario, 2020 CET 1 ratio stood at 9.7% while under the baseline scenario 2020 CET1 ratio reached 20.4%. Based on feedback received from the Single Supervisory Mechanism (SSM) no capital plan is required.

## 4. RISK MANAGEMENT (CONTINUED)

### g) Operating environment (continued)

Based on the above and taking into account:

- the Group's high capital adequacy, with which the impact from the application of IFRS 9 is also covered;
- the fact that there is an increase in deposits and financing from non-Eurosystem sources;
- the amount of available eligible collaterals through which liquidity is ensured, to the extent required, through the mechanisms of the Eurosystem.

The Group estimates that, at least for the next 12 months, the conditions for the application of the going concern principle for the preparation of its financial statements are met.

As described in the Note 16 "Financial Investments", as of 31.12.2018, Alpha Bank Romania had no exposure to Greek securities. Also the funding cost for the Bank in regards to amounts borrowed from Alpha Bank A.E. remained at the level negotiated before December 2015 (please refer to note 21 and 24).

Given the uncertainties surrounding the progress of the Greek economy management cannot accurately estimate all of the above developments which could have an impact on the Romanian banking sector and consequently what effect, if any, they could have on these financial statements.

*II. Romania macroeconomic trends and banking market*

Currently in Romania there are a number of legislative initiatives that may impact the local banking system. Given the uncertainties surrounding these legislative projects evolution, management cannot accurately estimate their impact on the Romanian banking sector and consequently what effect, if any, they could have on these financial statements.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances by:

- preparing liquidity crisis strategy and establishing specific measures, including ensuring measures for access to local funding, to address potential liquidity crisis;
- daily monitoring its liquidity position and over-dependence on specific funds; forecasting on short-term basis its net liquidity position;
- obtaining commitment from the major shareholder regarding the latter's continuous support of the Bank's operations in Romania;
- monitoring incoming and outgoing cash flows on daily basis and assessing the effects on its borrowers of the limited access to funding and the sustainability of growing businesses in Romania;
- examining terms and conditions of financing agreements and considering the implications of obligations imposed and risks identified such as approaching maturity dates, or the implications of any terms or covenants that may have been breached, or which may be breached in the foreseeable future.

### h) Taxation risk

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Moreover local taxpayers carrying out transactions with related parties must prepare and make available to Romanian Tax Authorities, at their written request, the transfer pricing documentation file, within the period granted by the authorities. Failure to submit transfer pricing documentation file or presentation of an incomplete file may give rise to application of penalties for non-compliance.

## 4. RISK MANAGEMENT (CONTINUED)

### h) Taxation risk (continued)

Although the Bank is taking all measures to fully comply with tax laws, interpretation of the text and practical implementation procedures of tax legislation could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Bank's treatment. Furthermore, the conversion to IFRS of the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate potential tax risks.

The Romanian Government has a number of agencies that are authorized to conduct audits of companies operating in Romania. These audits are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Bank will continue to be subject to regular controls as new laws and regulations are issued.

Bank management believes that it will not suffer material losses in case of a tax audit. However, the impact of different interpretations of the tax authorities cannot be estimated reliably.

### i) Operational risk

#### Definition of operational risk

Operational risk is the risk of the occurrence of an event, with or without financial impact, resulting from inadequate or failed internal processes, IT systems, people (intentionally or unintentionally) and from external events.

Operational risk also includes legal risk which is associated with legally flawed actions, uncertainty regarding the definition of the law that may lead to inadequate interpretation and potential inefficiencies in the legal framework.

#### Operational Risk Framework

Operational Risk framework is aligned with the operational risk strategy of the Group and regulatory framework and is applied to all levels.

Identification and management of operational risk are performed so as to maintain a constant flow of information and enhance the decision-making process.

The Bank primary defences against operational risk are its policies, procedures and internal controls.

#### Management and mitigation of operational risk

The Bank has developed an appropriate organizational structure, with clearly defined roles and responsibilities for its Personnel and Units, in order to manage operational risk issues.

The main bodies are:

- *Risk Management Committee* mandated by the Board of Directors to have the oversight of the risk management framework,

- *Operational Risk Committee* is delegated by the Risk Management Committee to supervise operational risk management activities.

## 4. RISK MANAGEMENT (CONTINUED)

### i) Operational risk (continued)

The Risk Management Unit develops the appropriate tools, processes, procedures and techniques relevant to operational risk management, monitors the implementation of appropriate action plans for its mitigation.

All Units have appointed an Operational Risk Coordinator and Operational Risk Initiator.

Operational Risk Management is performed through risk identification, assessment, monitoring, reporting and mitigation.

Authority limits are established for managing operational risk events.

## 5. USE OF ESTIMATES AND JUDGMENTS

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

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

***Impairment losses on loans and advances to customers***

In accordance with the internal impairment assessment methodology (refer to Note 3.p), the Bank reviews its loan portfolios to assess impairment and determines whether an impairment loss should be recorded in the income statement. The Bank makes judgments as to whether there is any observable data indicating an objective evidence of impairment that has an impact on the estimated future cash flows from an individual loan or a portfolio of loans. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics. The individual assessment is based on management's best estimate on the present value of the cash flows that are expected to be received. In estimating these cash-flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***Impairment losses of non – financial assets***

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

## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

### *Provisions and contingent liabilities*

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

### *Fair value of financial instruments*

The Bank measures fair values using the fair value hierarchy that reflects the significance of the inputs used in making the measurements (refer to note 3.l).

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

In determining fair values, the Bank uses averages of reasonably possible alternative inputs. When alternative assumptions are available within a wide range, judgments exercised in selecting the most appropriate point in the range include evaluation of the sources quality (for example, the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.

Assets and liabilities which are measured at fair value or for which fair value is disclosed are categorized 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

## 6. FAIR VALUE DISCLOSURES

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation where the model inputs are observable in the market and those where the valuation techniques involves the use of market unobservable inputs.

Financial assets and liabilities measured at fair value:

| | 31-Dec-18 | | | | 31-Dec-17 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1) Derivative Financial Assets | 2.1) Securities designated as at FVOCI: Shares | 2.2) Securities designated as at FVOCI: Bonds and treasury bills | 3) Derivative Financial Liabilities | 1) Derivative Financial Assets | 2.1) Available for Sale Equity | 2.2) Available for Sale Securities | 3) Derivative Financial Liabilities |
| Level 1 | - | - | 1,204,971 | - | - | - | 1,311,544 | - |
| Level 2 | - | 12,295 | - | 1,420 | 1,566 | 10,737 | - | 1,714 |
| Level 3 | - | 1,099 | - | - | - | 1,061 | - | - |
| **Total** | **-** | **13,394** | **1,204,971** | **1,420** | **1,566** | **11,798** | **1,311,544** | **1,714** |

*Fair value through other comprehensive income:* The Bank measures fair value using a model based on bid quotations extracted from market.

*Available for sale:* The Bank measures fair value for available for sale financial instruments using a model based on bid quotations extracted from market.

At the year ended 31 December 2018, the Bank disclosed the following assets and liabilities into fair value levels:

- Level 1 - The government bonds amounting to RON 1,205 million (31 December 2017: RON 1,312 million)
- Level 2 - Derivatives assets (only at 31 December 2017: RON 1.6 million) and derivatives liabilities amounting to RON 1.4 million (31 December 2017: RON 1.7 million) and equity instruments amounting to RON 12.3 million (31 December 2017: RON 10.7 million).
- Level 3 - Equities classified as measured at fair value through other comprehensive income (applicable to the current year), Available for Sale equity (applicable to 2017).

The reconciliation for the movement of financial instruments measured at fair value in Level 3 is depicted below:

| | Securities designated as at FVOCI: Shares |
|---|---|
| **Opening balance 1.1.2018** | **1,061** |
| Impact from the implementation of IFRS 9 | 38 |
| **Restated balance as at 01.01.2018** | **1,099** |
| Total gain or loss recognized in Income Statement | - |
| Total gain or loss recognized in Equity | - |
| Purchase/Issue | - |
| Sales/Repayments/Settlements | - |
| Transfers in Level 3 from Level 2 | - |
| **Balance at 31.12.2018** | **1,099** |

## 6. FAIR VALUE DISCLOSURES (CONTINUED)

*Derivative financial instruments:* The Bank measures fair value for derivative financial instruments using observable prices or model inputs available in the market.

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities not measured at fair value:

| | | 31-Dec-2018 | | | |
|---|---|---|---|---|---|
| | | **Loans and Advances to customers** | **Other Amortized cost** | **Total carrying amount** | **Fair value** |
| **Financial Assets** | | | | | |
| Loans and advances to customers | Level 3 | 11,153,438 | - | 11,153,438 | 12,313,533 |
| Other non-current Assets Held for Sale | Level 2 | - | - | - | - |
| **Total financial assets** | | **11,153,438** | **-** | **11,153,438** | **12,313,533** |
| **Financial Liabilities** | | | | | |
| Due to banks | Level 3 | - | 2,260,417 | 2,260,417 | 2,251,791 |
| Due to customers | Level 3 | - | 11,572,626 | 11,572,626 | 11,107,517 |
| Other borrowed funds | Level 3 | - | 488,551 | 488,551 | 481,088 |
| Subordinated loan | Level 3 | - | 724,574 | 724,574 | 725,017 |
| **Total financial liabilities** | | **-** | **15,046,168** | **15,046,168** | **14,565,413** |

| | | 31-Dec-2017 | | | |
|---|---|---|---|---|---|
| | | **Loans and Advances to customers** | **Other Amortized cost** | **Total carrying amount** | **Fair value** |
| **Financial Assets** | | | | | |
| Loans and advances to customers | Level 3 | 10,938,335 | - | 10,938,335 | 12,413,574 |
| Other non-current Assets Held for Sale | Level 2 | - | 256,953 | 256,953 | 256,953 |
| **Total financial assets** | | **10,938,335** | **256,953** | **11,195,288** | **12,670,527** |
| **Financial Liabilities** | | | | | |
| Due to banks | Level 3 | - | 3,369,298 | 3,369,298 | 3,355,421 |
| Due to customers | Level 3 | - | 9,440,296 | 9,440,296 | 9,096,610 |
| Other borrowed funds | Level 3 | - | 232,791 | 232,791 | 226,073 |
| Subordinated loan | Level 3 | - | 723,978 | 723,978 | 723,215 |
| **Total financial liabilities** | | **-** | **13,766,363** | **13,766,363** | **13,401,319** |

## 6. FAIR VALUE DISCLOSURES (CONTINUED)

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above that are not carried at fair value and which belong to level 2 and level 3 within fair value hierarchy.

*Loans and advances to customers*: These are net of provisions for impairment losses. The estimated fair value of loans and advances, with fixed and variable interest rate and with changes in credit status since inception, is based on discounted cash flows method.

*Other non-current Assets Held for Sale*: The estimated fair value of loans and advances presented as Assets Held for Sale in accordance with IFRS 5 is based on estimated cash flow to be received from their sale.

*Deposits from banks and customers*: The estimated fair value is based on discounted cash flows method for term deposits. The fair value of saving and demand deposits was considered the same as the accounting value.

*Customer loans and deposits* are categorized as financial instruments level 3 since there are instruments that are not based on observable market data and the Discounted Cash Flows (DCF) method is used in order to determine their fair value.

The discounted cash flow (DCF) analysis is a method of valuing an asset or a liability using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values (PVs) - the sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value or price of the cash flows.

The components of the present value measurement include the following:

- An estimate of future cash flows up to the maturity for the customer loans and deposits, using the respective implied forward yield curve;
- Estimations of the amount and timing of the cash flows of the products without contractual maturity and reprising profile (i.e. revolving loans, sight deposits, current accounts) based on conventions;
- The time value of money, represented by the market rate that coincides with maturity dates of the cash flows;
- The price for bearing the uncertainty inherent in the cash flows (liquidity risk premium);
- The credit risk (Expected loss) associated to the creditworthiness of the loans customer, taking into consideration the Probability of Default (PD) and the Loss Given Default (LGD).

For Customer loans, the discount rate components are analyzed: Market Rate + Liquidity Premium + Expected loss.

For Customer Deposits, the discount rate components are analyzed: Market Rate + Liquidity Premium.

In 2018, the bank adjusted the Fair Value Methodology for loans and deposits, including in the future cash-flows the amounts resulting from capital and interest. The Bank adjusted the 2017 data using the 2018 methodology for consistency purposes.

*Loans from banks and financial institutions*: The fair value of loans from banks is based on the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Bank for new debt with similar remaining maturity as no quoted market price is available.

The fair value of other financial assets and liabilities which are valued at amortised cost does not differ materially from the respective carrying amount.

## 7. NET INTEREST INCOME

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Interest income** | | |
| Current account and sight deposits with the National Bank of Romania | 3,181 | 858 |
| Loans and placements to banks | 18,174 | 14,520 |
| Loans and advances to customers measured at amortised cost | 546,670 | 458,976 |
| Investment securities designated as at fair value through other comprehensive income | 20,307 | - |
| Available for sale securities | - | 10,154 |
| Other interest receivable | 81 | 80 |
| ***Total interest income*** | **588,413** | **484,588** |

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Interest expense** | | |
| Deposits and loans from banks | (19,330) | (8,760) |
| Deposits from customers | (98,505) | (69,680) |
| Subordinated debt | (13,349) | (13,090) |
| ***Total interest expense*** | **(131,184)** | **(91,530)** |
| Interest income from derivative transactions | 6,892 | 9,148 |
| Interest expense from derivative transactions | 1,290 | 3,854 |
| ***Total interest from derivative transactions*** | **8,182** | **13,002** |
| ***Total interest income*** | ***595,305*** | ***493,736*** |
| ***Total interest expense*** | ***(129,894)*** | ***(87,676)*** |
| **Net Interest Income** | **465,411** | **406,060** |

## 8. NET FEE AND COMMISSION INCOME

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Lending commissions | 2,211 | 1,710 |
| Letters of guarantee commissions | 5,167 | 5,104 |
| Trade finance fees | 542 | 358 |
| Commissions from transactions with cash | 24,752 | 21,540 |
| Transfers of funds fees | 44,600 | 38,370 |
| Other fees and commissions | 31,310 | 27,693 |
| **Fee and commission income** | **108,582** | **94,775** |
| Inter-bank transactions fees and commissions | (23,715) | (17,744) |
| Other | (38) | (47) |
| **Fee and commission expense** | **(23,753)** | **(17,791)** |
| **Net fee and commission income** | **84,829** | **76,984** |

Position "other fees and commissions" from the table above includes fees and commissions from bancassurance activity.

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

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Wholesale** | **Retail** | **Treasury** | **Others** | **Total** |
| Fee and commission income | 17,924 | 90,039 | 619 | - | **108,582** |

## 9. GAINS LESS LOSSES ON FINANCIAL TRANSACTIONS

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Gain from dealing in foreign exchange, net | 35,281 | 2,981 |
| Loss from foreign exchange derivatives, net | (8,043) | (29,854) |
| Gain from the revaluation of foreign currency assets and liabilities, net | 8,120 | 58,282 |
| Gain on transactions with financial assets available for sale | - | 6,266 |
| Other Gain/ (loss) on financial assets | 3,670 | (72) |
| **Net gain on transactions** | **39,028** | **37,603** |

## 10. GAINS LESS LOSSES FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Gains/(losses) from sales of loans at amortised cost (i) | (13,291) | 67,266 |
| Gains/(losses) from significant modifications of loans at amortised cost | 1,288 | - |
| **Total** | **(12,003)** | **67,266** |

(i) The results relate to a sale of non-performing loan portfolio started in 2017 and finalized during 2018 (please also see note 20).

## 11. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

| **Impairment losses on financial assets** | **Year ended 31 December 2018** | **Year ended 31 December 2017** |
|---|---|---|
| Net impairment gains/(losses) from loans to customers *(please see note 17 b.)* | (35,796) | 32,116 |
| Losses on modifications of contractual terms of loans and advances to customers | (6,756) | - |
| Recoveries from written-off loans | 2,107 | 9,274 |
| **Impairment losses on loans and advances to customers** | **(40,445)** | **41,390** |
| Provisions to cover credit risk relating to off balance sheet items *(please see note 25) (i)* | (3,152) | - |
| **Total impairment losses and provisions to cover credit risk on loans and advances to customers** | **(43,597)** | **41,390** |
| Impairment losses on debt securities designated as at fair value through other comprehensive income *(please see note 4.b.iii.XII)* | (217) | - |
| Impairment losses on due from banks | (790) | - |
| **Total impairment losses on other financial instruments** | **(1,007)** | **-** |
| **Total impairment losses and provisions to cover credit risk** | **(44,604)** | **41,390** |

(i) In the year ended 31 December 2017, Provisions relating to off balance sheet items was presented as "Other operating expenses" (*see note 13*) in accordance with IAS 37.

## 12. STAFF COSTS

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Salaries | (159,524) | (124,213) |
| Social security contributions | (4,957) | (29,166) |
| Other staff costs | (9,540) | (7,155) |
| **Total** | **(174,021)** | **(160,534)** |

Up to 31.12.2017, the social security contributions represent contributions paid by the employer to the Romanian State defined pension scheme. Starting 1.1.2018, most of the contributions to state defined pension scheme were relocated from employer to employee, except employment insurance contribution.

The Bank does not have any further obligations to its employees regarding post-employment benefits or termination benefits.

## 13. OTHER OPERATING EXPENSES

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Rent | (41,473) | (40,614) |
| Insurance expenses | (2,418) | (4,109) |
| Various taxes | (28,505) | (23,828) |
| Stationery | (3,877) | (3,419) |
| Advertising | (24,752) | (21,886) |
| Telecommunications | (8,699) | (7,930) |
| Information Technology | (12,953) | (10,551) |
| Electricity supplies costs | (5,589) | (5,359) |
| Professional fees | (31,439) | (25,069) |
| Contributions to deposit guarantee and national resolution schemes | (7,505) | (12,353) |
| Impairment losses and write offs of fixed assets (*please see note 18)* | (368) | (953) |
| Reversal of provisions for litigations, commitments, contingencies (*please see note 25*) | 1,875 | 5,073 |
| Other expenses | (63,351) | (53,323) |
| **Total** | **(229,054)** | **(204,321)** |

## 14. CASH AND BALANCES WITH NATIONAL BANK OF ROMANIA

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash in hand | 242,580 | 190,853 |
| Cash in ATMs | 56,667 | 62,181 |
| Current account at National Bank of Romania (NBR) | 2,395,632 | 1,791,280 |
| Allowance for impairment losses | (431) | - |
| **Total** | **2,694,448** | **2,044,314** |

The balances per currency of the current accounts held with the NBR as at 31 December 2018 were: RON 457,164 thousand (31 December 2017: RON 591,777 thousand) and EUR 415,632 thousand (31 December 2017: EUR 257,421 thousands).

The Bank is required to maintain a current account in EUR with NBR in order to facilitate interbank transactions with the Central Bank and other financial institutions through the Trans European – Automated Real Time Gross Settlement Express Transfer System (TARGET).

NBR also requires that all financial institutions established in Romania to maintain a minimum required reserve with Central Bank. The mandatory reserve can be used by the Bank for day to day activities providing the average balance for the month is maintained within required formula. At 31 December 2018 the minimum mandatory reserves rates established by the National Bank of Romania for raised funds with maturity lower than 2 years and for raised funds with residual maturity greater than 2 years which foresee contractual clauses regarding reimbursements, withdrawals and anticipated transfers, are 8% for both funds denominated in RON and funds denominated in foreign currency (31 December 2017: 8% for raised funds denominated in RON and 8% for raised funds denominated in foreign currency).

The mandatory reserve is denominated in EUR for the foreign currency deposits and loans and in RON for domestic currency deposits. The interest rate paid by the National Bank of Romania in year ended 31 December 2018 for reserves held in RON increased from 0.09% to 0.20%, while for reserves held in EUR it was maintained at 0.02%.

## 15. DUE FROM OTHER BANKS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current accounts with other banks | 587,142 | 101,367 |
| Term deposits with other banks | 1,090,577 | 787,314 |
| Collateral deposits with banks | 28,698 | 25,990 |
| Allowance for impairment losses (*please see note 4.b.iii.XII)* | (388) | - |
| **Total due from banks** | **1,706,029** | **914,671** |

Current accounts, sight and term deposits with banks are unencumbered and at the immediate disposal of the Bank as at 31 December 2018 and 31 December 2017.

## 16. FINANCIAL INVESTMENTS

### Investment securities and Investments in associates

### I. Investment securities

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Securities designated as at FVOCI** | | |
| Government bonds and treasury bills *(i)* | 1,204,971 | - |
| Investment in equity securities (*ii*) | 13,394 | - |
| **Available-for-sale securities** | | |
| Government bonds and treasury bills *(i)* | - | 1,311,544 |
| Investment in equity securities (*ii*) | - | 11,798 |
| **Total** | **1,218,365** | **1,323,342** |

*i.* As at 31 December 2018, the Bank held government bonds with coupon and treasury bills with discount, in RON and EUR, issued by the Romanian Ministry of Public Finance. Government portfolio in RON carries coupon rates ranging from 1.35% to 4.75% and in EUR, from 1.25% to 3.40% as at 31 December 2018 (31 December 2017: only in RON 0.65% to 5.60%).

The weighted average yield for government bonds at the end of 31 December 2018 was 2.39% (31 December 2017: 1.87%).

As at 31 December 2018 and 31 December 2017 all the financial assets of the Bank are unencumbered and at the immediate disposal of the Bank.

*ii.* Also included in financial assets investment securities are equity investments in shares of Alpha Bank Group companies and other companies.

The movement and the breakdown of the investment equity securities were as follows:

| **Investment in equity securities** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| **Balance as at 31 December** | **11,798** | **9,354** |
| Impact from the implementation of IFRS 9 | 38 | - |
| As at 1 January | 11,836 | 9,354 |
| Other adjustments | 1,558 | 2,444 |
| **Balance as at 31 December** | **13,394** | **11,798** |

| | | **31-Dec-18** | | **31-Dec-17** | |
|---|---|---|---|---|---|
| **Investment** | **Country of incorporation** | **Ownership interest %** | **Value of owner ship** | **Ownership interest %** | **Value of ownership** |
| Biroul de Credite S.A. | Romania | 3.85% | 206 | 3.85% | 206 |
| Societatea de Transfer de Fonduri si Decontari TransFonD S.A. | Romania | 2.98% | 700 | 2.98% | 700 |
| Alpha Leasing Romania IFN S.A. | Romania | 1.00% | 77 | 1.00% | 77 |
| Casa de Compensare Bucuresti S.A. | Romania | 1.71% | 5 | 1.71% | 5 |
| VISA Inc | USA | less than 1% | 12,295 | less than 1% | 10,737 |
| SWIFT SCRL | Belgium | less than 1% | 111 | less than 1% | 73 |

## 16. FINANCIAL INVESTMENTS (CONTINUED)

### II. Investments in associates

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Investments in associates | 409 | 804 |
| **Total** | **409** | **804** |

The movement and the breakdown of the investment in associates were as follows:

| | | 31-Dec-18 | | 31-Dec-17 | |
|---|---|---|---|---|---|
| **Investment** | **Country of incorporation** | **Ownership interest %** | **Value of owner ship** | **Ownership interest %** | **Value of ownership** |
| SSIF Alpha Finance Romania S.A. | Romania | 26.68% | 409 | 26.68% | 804 |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **As at 1 January** | **804** | **966** |
| Additions | - | - |
| Changes related to application of the equity method | (395) | (162) |
| **At the end of year** | **409** | **804** |

## 17. LOANS AND ADVANCES TO CUSTOMERS

As of 31 December 2018, all loans and advances to customers are measured at amortised cost**.**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Corporate | 4,769,991 | 4,863,285 |
| Small and medium enterprises (SMEs) | 561,748 | 509,745 |
| Small business loans (SBL) | 4,565 | 3,084 |
| Individuals | 6,311,008 | 5,996,068 |
| - Consumer loans | 1,059,980 | 1,016,179 |
| - Housing loans | 5,157,418 | 4,893,245 |
| - Credit Cards | 93,610 | 86,644 |
| **Total loans, gross** | **11,647,312** | **11,372,182** |
| Allowance for impairment losses | (493,874) | (433,847) |
| **Total loans, net** | **11,153,438** | **10,938,335** |

Loans can be repaid before their scheduled maturity.

## 17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (a) Analysis by type of customer

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Individuals | | |
| - in RON | 3,215,515 | 2,649,079 |
| - in foreign currencies | 3,095,493 | 3,346,989 |
| Legal entities | | |
| - in RON | 1,639,356 | 1,721,877 |
| - in foreign currencies | 3,696,948 | 3,654,237 |
| **Total loans, gross** | **11,647,312** | **11,372,182** |
| Allowance for impairment losses | (493,874) | (433,847) |
| **Total loans, net** | **11,153,438** | **10,938,335** |

In the context of the reassessment of the hold to collect business model of loans and advances to customers, past sales are taken into account.

Considering that:

- the majority of the Bank's sales are in accordance with the Bank's business model as they concern sales of non-performing loans due to the credit rating deterioration of the debtor and
- sales are insignificant in value both individually and in aggregate,

sales are considered consistent with the Bank's business model for loans and advances to customers.

## 17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (b) Allowances for impairment losses – loans and advances to customers

During the year ended 31 December 2018 the Bank has written off loans and advances to customers with gross exposure RON 24 million (31 December 2017: RON 30 million), with related decrease in allowance for impairment losses.

The movement in allowance for impairment losses is analyzed as follows:

| | Mortgages | Consumer | Credit cards | Corporate loans | Total loans |
|---|---|---|---|---|---|
| **Balance at 1.1.2017** | **160,178** | **165,228** | **16,486** | **724,446** | **1,066,338** |
| Net impairment (gain)/loss for the period (*note 11)* | (17,565) | 3,327 | 1,652 | (19,530) | **(32,116)** |
| Effect of correction of interest revenue on impaired loans | 825 | 1,734 | - | 15,239 | **17,798** |
| Translation differences | 3,450 | 2,367 | (829) | 13,393 | **18,381** |
| Disposal/transfer of impaired loans | (9,453) | (45,146) | (10,918) | (7,155) | **(72,672)** |
| Reclassification to assets held for sale | - | (1,879) | (98) | (531,730) | **(533,707)** |
| Bad debts written-off | (3,960) | (9,067) | (2,552) | (14,596) | **(30,175)** |
| **Balance at 31.12.2017** | **133,475** | **116,564** | **3,741** | **180,067** | **433,847** |
| Impact from implementation of IFRS 9 | (3,604) | (14,142) | (1,229) | 47,187 | **28,212** |
| **Balance at 1.1.2018** | **129,871** | **102,422** | **2,512** | **227,254** | **462,059** |
| Net impairment (gain)/loss for the period (*note 11*) | (11,292) | 24,926 | 3,135 | 19,027 | **35,796** |
| Effect of correction of interest revenue on impaired loans | 56 | 651 | - | 6,577 | **7,284** |
| Translation differences | 436 | 1,255 | (411) | 12,523 | **13,803** |
| Derecognition of financial assets | (537) | (797) | - | (21) | **(1,355)** |
| Bad debts written-off | (384) | (734) | - | (22,595) | **(23,713)** |
| **Balance at 31.12.2018** | **118,150** | **127,723** | **5,236** | **242,765** | **493,874** |

## 18. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

| | Land and Buildings | Furniture and EDP Equipment | Other | Tangible fixed assets | Intangible fixed assets |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **1 January 2018** | **122,105** | **92,101** | **40,830** | **255,036** | **59,997** |
| Additions | 1,968 | 15,596 | 4,787 | 22,351 | 15,592 |
| Disposals | - | (8) | - | (8) | - |
| Write-off | (94) | (15,096) | (13,085) | (28,275) | (207) |
| Reclassification | - | 1,379 | (1,379) | - | - |
| **31 December 2018** | **123,979** | **93,972** | **31,153** | **249,104** | **75,382** |
| **DEPRECIATION** | | | | | |
| **1 January 2018** | **64,924** | **63,225** | **35,084** | **163,233** | **42,197** |
| Depreciation charge | 5,066 | 7,967 | 1,877 | 14,910 | 5,485 |
| Impairment charge | - | - | - | - | - |
| Disposals | - | (8) | - | (8) | - |
| Write-off | (58) | (15,013) | (13,042) | (28,113) | (1) |
| Reclassification | - | - | - | - | - |
| **31 December 2018** | **69,932** | **56,171** | **23,919** | **150,022** | **47,681** |
| **NET BOOK VALUE** | | | | | |
| **31 December 2018** | **54,047** | **37,801** | **7,234** | **99,082** | **27,701** |
| **1 January 2018** | **57,181** | **28,876** | **5,746** | **91,803** | **17,800** |
| **COST** | | | | | |
| **1 January 2017** | **122,226** | **88,359** | **39,979** | **250,564** | **46,506** |
| Additions | 1,533 | 5,988 | 2,745 | 10,266 | 13,491 |
| Disposals | - | - | - | - | - |
| Write-off | (1,654) | (3,132) | (1,008) | (5,794) | - |
| Reclassification | - | 886 | (886) | - | - |
| **31 December 2017** | **122,105** | **92,101** | **40,830** | **255,036** | **59,997** |
| **DEPRECIATION** | | | | | |
| **1 January 2017** | **60,288** | **59,429** | **34,295** | **154,012** | **39,170** |
| Depreciation charge | 5,441 | 6,851 | 1,771 | 14,063 | 3,027 |
| Impairment charge | - | - | - | - | - |
| Disposals | - | - | - | - | - |
| Write-off | (805) | (3,056) | (981) | (4,842) | - |
| Reclassification | - | 1 | (1) | - | - |
| **31 December 2017** | **64,924** | **63,225** | **35,084** | **163,233** | **42,197** |
| **NET BOOK VALUE** | | | | | |
| **31 December 2017** | **57,181** | **28,876** | **5,746** | **91,803** | **17,800** |
| **1 January 2017** | **61,938** | **28,930** | **5,684** | **96,552** | **7,336** |

Fixed assets written-off during the year ended 31 December 2018 were related mainly to replacement of IT equipment and as a result of year end stock count, compared with 31 December 2017 when fixed assets written-off amounting to RON 1 million were mainly related to relocation or reorganization of some units and as a result of year end stock count.

## 18. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Intangible assets consist mainly of packaged software. Included within other fixed assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment, etc.

As at 31 December 2018, the carrying value of the fixed assets purchased under finance lease agreements is RON 831 thousand (31 December 2017: RON 1,575 thousand).

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

For derivative assets and liabilities held, no hedge accounting is applied, however they are held for risk management purposes.

As at 31 December 2018 and 31 December 2017, the Bank has in balance FX swaps; all transactions are concluded with Alpha Bank AE (amounts in RON):

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Contractual nominal amount | | Fair value | |
| | Amount sold | Amount bought | Assets | Liabilities |
| Foreign exchange swaps | 454,667,468 | 454,000,000 | - | 1,419,963 |
| **Total** | **454,667,468** | **454,000,000** | **-** | **1,419,963** |

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | Contractual nominal amount | | Fair value | |
| | Amount sold | Amount bought | Assets | Liabilities |
| Foreign exchange swaps | 330,098,477 | 331,346,000 | 1,566,380 | 1,713,833 |
| **Total** | **330,098,477** | **331,346,000** | **1,566,380** | **1,713,833** |

## 20. OTHER ASSETS AND ASSETS HELD FOR SALE

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Sundry debtors | 9,075 | 8,791 |
| Other cash receivable | 2,232 | 2,149 |
| **Total financial assets** | **11,307** | **10,940** |
| Prepaid Expenses | 3,454 | 3,133 |
| Assets recovered by the Bank from customers in case of terminated agreements | 377 | 4,634 |
| Other assets | 31,001 | 18,285 |
| **Total non-financial assets** | **34,832** | **26,052** |
| **Total Other Assets** | **46,139** | **36,992** |
| Fixed assets held for sale | 9,063 | 9,338 |
| Other non-current assets held for sale *(i)* | - | 256,953 |
| **Total Assets Held for Sale** | **9,063** | **266,291** |
| **Total Other Assets and Assets Held for Sale** | **55,202** | **303,283** |

## 20. OTHER ASSETS AND ASSETS HELD FOR SALE (CONTINUED)

*(i)* During 2017, the Bank started the process for the sale of a non-performing portfolio that includes both individuals and corporate exposures. At the end of the year, the portion of that portfolio that was not derecognized was presented as Assets Held for Sale in accordance with IFRS 5 (31.12.2017: RON 257 million). During 2018, the sale of the entire portfolio was finalised.

## 21. DUE TO BANKS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current account and sight deposits | 34,879 | 55,293 |
| Term deposits | 594,756 | 1,776,720 |
| Collateral deposits | 1,630,782 | 1,537,285 |
| **Total due to banks** | **2,260,417** | **3,369,298** |

Funds attracted from other banks represent mainly deposits from Alpha Bank AE (Greece).

| **Deposits from Alpha Bank AE** | | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|---|
| | | **Shortest period/ Lowest rate** | **Longest period/ Highest rate** | **Shortest period/ Lowest rate** | **Longest period/ Highest rate** |
| | Contractual maturity | 166 Days | 4,018 Days | 111 Days | 4,018 Days |
| **EUR** | Interest rate | 0.00% | 0.00% | 0.00% | 0.00% |

## 22. DUE TO CUSTOMERS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current accounts and sight deposits | 2,984,312 | 2,525,034 |
| Term deposits | 8,354,829 | 6,742,893 |
| Collateral deposits | 233,485 | 172,203 |
| Certificates of deposit | - | 166 |
| **Due to customers** | **11,572,626** | **9,440,296** |

## 22. DUE TO CUSTOMERS (CONTINUED)

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Individuals | | |
| - in RON | 2,483,703 | 2,437,086 |
| - in foreign currencies | 3,763,217 | 2,989,107 |
| Legal entities | | |
| - in RON | 2,473,062 | 2,169,952 |
| - in foreign currencies | 2,816,928 | 1,822,974 |
| **Total deposits** | **11,536,910** | **9,419,119** |
| Accrued interest | 35,716 | 21,177 |
| **Total** | **11,572,626** | **9,440,296** |

Deposits can be withdrawn before their maturity, in which case the interest income is computed based on current account interest rate prevailing at the date of withdrawal.

**Interest Term Deposits**

| Customers | CCY. | 1 Month | 3 Months | 6 Months | 9 Months | 12 Months | 24 Months |
|---|---|---|---|---|---|---|---|
| | **EUR** | 0.21% | 0.38% | 0.77% | 0.98% | 1.02% | 0.88% |
| **Individuals** | **RON** | 0.92% | 1.58% | 2.04% | 2.01% | 2.21% | 1.61% |
| | **USD** | 0.65% | 0.92% | 1.30% | 1.33% | 1.29% | 0.60% |
| | **EUR** | 0.29% | 0.81% | 0.74% | 0.86% | 1.19% | 1.41% |
| **Legal entities** | **RON** | 1.06% | 1.82% | 3.19% | 3.40% | 3.16% | - |
| | **USD** | 0.56% | 0.75% | 0.93% | 0.99% | 1.30% | - |

The above table presents the weighted average interest rate for term deposits offered by the Bank at the end of 2018.

## 23. OTHER BORROWED FUNDS

Other borrowed funds represent credit facilities from the European Bank for Reconstruction and Development ("EBRD"), International Finance Corporation ("IFC"), Black Sea Trade and Development Bank ("BSTDB") and European Fund for Southeast Europe ("EFSE").

On 24 November 2005 the Bank signed a loan agreement with EBRD for financing small and medium-size municipalities and/or municipally owned or controlled companies, in total amount of EUR 20 million, maturing in April 2021. The Bank has only drawn EUR 0.3 million and RON 13.75 million from the initial contractual amount of EUR 20 million in 2009. The remaining available amount has been cancelled under the Agreement's provisions during 2010. As at 31 December 2018, the Bank has a remaining balance of EUR 0.07 million and RON 3.06 million from the above drawn amounts.

On 18 May 2017, the Bank signed a loan agreement with IFC, in amount of EUR 50 million, maturing in March 2022, which has been fully drawn by the end of 2017.

The Bank signed a loan agreement with BSTDB on 29 August 2018, in amount of EUR 40 million, maturing in 2019, which has been fully drawn by the end of 2018.

## 23. OTHER BORROWED FUNDS (CONTINUED)

The loan agreement with EFSE was signed on 19 December 2018 for financing private micro and small enterprises, in amount of RON 139.5 million and maturity in November 2023, of which the Bank has drawn only half until the end of the year.

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| EBRD loans | 3,400 | 4,749 |
| IFC loans | 228,590 | 228,042 |
| BSTDB loans | 186,710 | - |
| EFSE loans | 69,851 | - |
| **Other borrowed funds** | **488,551** | **232,791** |

The changes in liabilities arised from financing activities, including the cash flow and non-cash flow changes are presented in the tables below:

| | | | Non cash flows | | | | Non cash flows | | |
|---|---|---|---|---|---|---|---|---|---|
| **Cash flow from financing activities** | **1 January 2017** | **Cash flows** | **Accrued interest** | **Foreign exchange differences** | **31 December 2017** | **Cash flows** | **Accrued interest** | **Foreign exchange differences** | **31 December 2018** |
| Other borrowed funds - EBRD | 6,076 | (1,346) | 5 | 14 | **4,749** | (1,347) | (2) | - | **3,400** |
| Other borrowed funds - IFC | - | 229,724 | (1,682) | - | **228,042** | - | 548 | - | **228,590** |
| Other borrowed funds - BSTDB | - | - | - | - | - | 186,555 | 155 | - | **186,710** |
| Other borrowed funds - EFSE | - | - | - | - | - | 69,750 | 101 | - | **69,851** |

## 24. SUBORDINATED DEBT

In November 2004, the Bank signed a loan agreement with Alpha Bank AE for a subordinated loan of EUR 16,000,000 with a seven-year maturity. The subordinated loan was extended and is to be fully repaid in one installment in November 2019. The interest rate is equal to EURIBOR 3 months plus 2.0%.

In September 2005, the Bank signed a second loan agreement with Alpha Bank AE for a subordinated loan of EUR 60,000,000 with a seven-year maturity. The subordinated loan was extended and is to be fully repaid in one installment in September 2019. The interest rate is equal to EURIBOR 3 months plus 2.0%.

In February 2006, the Bank signed a third loan agreement with Alpha Bank AE for a subordinated loan of EUR 4,300,000 with a seven-year maturity. The subordinated loan was extended and is to be fully repaid in one installment in February 2019. The interest rate is equal to EURIBOR 3 months plus 2.0%.

In November 2006, the Bank signed a fourth loan agreement with Alpha Bank AE for a subordinated loan of EUR 13,000,000 with a seven-year maturity. The subordinated loan was extended and is to be fully repaid in one installment in October 2019. The interest rate is equal to EURIBOR 3 months plus 2.0%.

## 24. SUBORDINATED DEBT (CONTINUED)

In September 2009, the Bank signed a fifth loan agreement with Alpha Bank AE for a subordinated loan of EUR 12,000,000 with a seven-year maturity. The subordinated loan was extended and is to be fully repaid in one installment in September 2019. The interest rate is equal to EURIBOR 3 months plus 2.0%.

In May 2011, the Bank signed a sixth subordinated loan agreement with Alpha Bank AE of EUR 80,000,000. The Bank has drawn only EUR 50,000,000 by 31 December 2018, under the contractual provisions. The maturity schedule is based on monthly payments of interest and does not comprise a final maturity date for the principal. The interest rate set for each monthly payments of interest is based on EURIBOR 1 month plus 2.5%.

As at 31 December 2018 and 31 December 2017, subordinated debt balance was:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Subordinated debt | 724,574 | 723,978 |
| **Total** | **724,574** | **723,978** |

The changes in liabilities arised from financing activities, including the cash flow and non-cash flow changes are presented in the table below:

| Cash flow from financing activities | 1 January 2017 | Non cash flows | | 31 December 2017 | Non cash flows | | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| | | Accrued interest | Foreign exchange differences | | Accrued interest | Foreign exchange differences | |
| Subordinated debt | 705,540 | 20 | 18,418 | **723,978** | (56) | 652 | **724,574** |

## 25. PROVISIONS

Provisions includes: provisions for litigations, fraud cases and other contingencies amounting to RON 8.6 million (31 December 2017: RON 10.5 million) and provisions for guarantees, letter of credit and credit related commitments amounting to RON 14.5 million (31 December 2017: RON 3.1 million) *(please see note 30)*.

The movement in the provisions was as follows:

| | |
|---|---|
| **Balance 1.1.2017** | **18,638** |
| **Changes for the period 1.1. – 31.12.2017** | |
| Provisions to cover credit risk relating to off-balance sheet items | (8,022) |
| Provisions for other contingent liabilities | 2,836 |
| Provisions for pending legal cases or issues in progress | 113 |
| Foreign exchange differences | 62 |
| **Balance 31.12.2017** | **13,627** |

## 25. PROVISIONS (CONTINUED)

| | |
|---|---|
| IFRS 9 impact on provisions to cover credit risk relating to off-balance sheet items | 8,242 |
| **Balance 1.1.2018** | **21,869** |
| **Changes for the period 1.1. – 31.12.2018** | |
| Provisions to cover credit risk relating to off-balance sheet items (*see note 11*) | 3,152 |
| Provisions for other contingent liabilities | (1,846) |
| Provisions for pending legal cases or issues in progress | (29) |
| Foreign exchange differences | 16 |
| **Balance 31.12.2018** | **23,162** |

## 26. LIABILITIES FOR CURRENT INCOME TAX AND OTHER LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Finance lease payable (i) | 55 | 110 |
| Other various creditors | 9,626 | 9,485 |
| **Total financial liabilities** | **9,681** | **9,595** |
| Social security liabilities | 6,168 | 5,586 |
| Accrual employee incentive scheme | 6,330 | 7,783 |
| Amounts in transit | 8,869 | 8,187 |
| Income taxes to be paid to state authorities | 50,034 | 24,184 |
| Other liabilities | 48,561 | 33,323 |
| **Total non-financial liabilities** | **119,962** | **79,063** |
| **Liabilities for current income tax and other liabilities** | **129,643** | **88,658** |

(i) Finance lease payable is detailed as following:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total minimum finance lease payments | | |
| Not later than 1 year | 35 | 59 |
| later than 1 year and not later than 5 years | 23 | 58 |
| | **58** | **117** |
| less: Finance charge | (3) | (7) |
| **Present value of finance lease payments** | **55** | **110** |
| Not later than 1 year | 33 | 55 |
| Later than 1 year and not later than 5 years | 22 | 55 |

## 27. TAXATION

### Tax charge

The movements in net tax charge for the period were as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Current tax charge | 92,062 | 40,764 |
| Deferred tax charge/(release) | (726) | 911 |
| **Total tax charge for the period** | **91,336** | **41,675** |

### Deferred tax, net

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Balance as at 31 December (asset)/liability | 1,346 | 708 |
| Impact from implementation of IFRS 9 | (1,319) | - |
| Balance as at 1 January (asset)/liability | **27** | **708** |
| Net charge for the period in income statement | (726) | 911 |
| Charged directly in equity (*i*) | 1,105 | (273) |
| Balance as at 31 December (asset)/liability**,** out of which: | **406** | **1,346** |
| Deferred tax liability | 4,514 | 4,500 |
| Deferred tax asset | 4,108 | 3,154 |

(i) The amount charged in equity is mainly the movement in the outstanding balance of deferred tax related to unrealized gain/loss from investment securities (31 December 2018: RON 1.1 million and 31 December 2017: RON 0.3 million).

The reconciliation of the tax on the Bank's profit/(loss) before tax and the theoretical amount that would arise using the basic tax rate of Romania is as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| Profit before tax | 112,379 | 256,409 |
| Tax calculated at a tax rate of 16% | 17,981 | 41,025 |
| Increase/(decrease) due to: | | |
| - income not subject to tax | (10,399) | (4,214) |
| - expenses not deductible for tax purposes | 14,137 | 9,828 |
| - other differences *(i)* | 69,617 | (4,964) |
| **Total income tax charge** | **91,336** | **41,675** |

(i) This amount is mainly related to current tax calculated according to Law 72/2018 in relation with a corporate non-performing loan portfolio for which the sale was finalized during first half of 2018 (please also see note 20).

## 27. TAXATION (CONTINUED)

| Movements in Deferred tax | 1 January 2018 | Recognized in profit or loss | Recognized in Equity | 31 December 2018 |
|---|---|---|---|---|
| **Deferred tax (assets)/liabilities** | | | | |
| Loans and advances to customers | (1,818) | (506) | - | **(2,324)** |
| Property, plant and equipment | 3,887 | (167) | - | **3,720** |
| Unrealised gain/(loss) from bonds | (995) | - | 858 | **(137)** |
| Unrealised gain/(loss) from other securities | 547 | - | 247 | **794** |
| Other temporary differences | (1,594) | (53) | - | **(1,647)** |
| | **27** | **(726)** | **1,105** | **406** |

| Movements in Deferred tax | 1 January 2017 | Recognized in profit or loss | Recognized in Equity | 31 December 2017 |
|---|---|---|---|---|
| **Deferred tax (assets)/liabilities** | | | | |
| Loans and advances to customers | (1,774) | 1,275 | - | (499) |
| Property, plant and equipment | 3,772 | 115 | - | 3,887 |
| Unrealised gain/(loss) from bonds | (311) | - | (684) | (995) |
| Unrealised gain/(loss) from other securities | 134 | - | 413 | 547 |
| Other temporary differences | (1,113) | (479) | (2) | (1,594) |
| | **708** | **911** | **(273)** | **1,346** |

The Bank has not recognized deferred tax on the statutory reserves of RON 160,183 thousand (31 December 2017: RON 154,564 thousand), which were set-up under the Romanian Laws and Banking Regulations and are non-distributable.

These reserves under the Romanian Fiscal legislation will remain untaxed until they are used (e.g. transferred to distributable profits, covering losses, etc.). The Bank has no intention in the direction of decrease or dissolving its activities and based on its current business plan it is unlikely that the reserves will decrease.

As at 31 December 2018 the Bank recorded a deferred tax asset amounting to RON 4.1 million (31 December 2017: RON 3.2 million) out of which RON 4 million relates to loans and other temporary differences (31 December 2017: RON 2.1 million) and RON 0.1 million relates to unrealised loss from bonds and other securities (31 December 2017: RON 1.1 million).

The deferred tax liability recorded as at 31 December 2018 was RON 4.5 million (31 December 2017: RON 4.5 million) out of which RON 3.7 million relates to depreciation of fixed assets (31 December 2017: RON 3.9 million) and RON 0.8 million relates to unrealised gain from other securities (31 December 2017: RON 0.6 million).

The Bank envisages using the above amounts versus future taxable profit.

## 28. SHARE CAPITAL

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Statutory value as per Constitutive Acts | 958,811 | 958,811 |
| Restatement of share capital in accordance with IAS 29 | 24,334 | 24,334 |
| **Total** | **983,145** | **983,145** |

The authorized, issued and fully paid share capital (as per Constitutive Acts) of the Bank as at 31 December 2018 is 8,323,016 shares with a par value of RON 115.2 (31 December 2017: 8,323,016 shares with a par value of RON 115.2).
All issued shares are fully paid.

The Bank's ownership structure as per statutory accounts as of 31 December 2018 and 31 December 2017 is as follows:

| | 31 December 2018 | | |
|---|---|---|---|
| **Shareholder** | **Number of shares** | **%** | **Nominal Amount** |
| Alpha Bank A.E | 8,316,223 | 99.91838% | 958,029 |
| ***Alpha Bank (Greece)*** | ***8,316,223*** | ***99.91838%*** | ***958,029*** |
| Other shareholders (Greek citizens) | 6,793 | 0.08162% | 782 |
| **Total** | **8,323,016** | **100%** | **958,811** |

| | 31 December 2017 | | |
|---|---|---|---|
| **Shareholder** | **Number of shares** | **%** | **Nominal Amount** |
| Alpha Bank A.E | 8,316,223 | 99.91838% | 958,029 |
| ***Alpha Bank (Greece)*** | ***8,316,223*** | ***99.91838%*** | ***958,029*** |
| Other shareholders (Greek citizens) | 6,793 | 0.08162% | 782 |
| **Total** | **8,323,016** | **100%** | **958,811** |

Alpha Bank has been listed on the Athens Exchange since 1925. In addition to the Greek stock exchange, the share is traded over-the-counter on the New York exchange in the form of American Depository Receipts (ADRs). The share is also included in international indexes such as the MSCI Emerging Markets, MSCI Greece, FTSE All World and FTSE4Good Emerging Index.

## 29. RESERVES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Statutory reserves | 160,183 | 154,564 |
| Revaluation reserve on investment securities | (509) | (2,356) |
| **Total** | **159,674** | **152,208** |

## 30. COMMITMENTS AND CONTINGENCIES

### Off balance sheet liabilities

The Bank pursuant to its normal operations is bound by contractual commitments that in the future may result to changes in its asset structure. These commitments are monitored in off balance sheet accounts and relate to letters of credit, letters of guarantee, undrawn credit facilities and credit limits.

In addition, contingent liabilities for the Bank arise from undrawn loan commitments and credit limits that may not be fulfilled immediately or may be partly fulfilled as long as the agreed upon requirements are fulfilled by counterparties.

Letters of credit are used to facilitate trading activities and relate to the financing of contractual agreements for the transfer of goods domestically or abroad, by undertaking the direct payment on behalf of the third party bound by the agreement on behalf of the Bank's client. Letters of credit, as well as letters of guarantee, are commitments under specific terms and are issued by the Bank for the purpose of ensuring that its clients will fulfil the terms of their contractual obligations.

From 1.1.2018, following the implementation of IFRS 9, the Bank measures the expected credit losses for undrawn loan commitments and letters of credit / letters of guarantee, which are included in the caption "Provisions".

The balance of the above mentioned expected credit loss amounts to RON 14.5 million as of 31.12.2018 (*please see note 25*).

The aggregate amount of outstanding guarantees, letters of credit and commitments to extend credit at the end of the period were:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Letters of guarantee issued in RON | 233,512 | 184,899 |
| Letters of guarantee issued in foreign currency | 207,182 | 207,704 |
| **Total letters of guarantee issued** | **440,694** | **392,603** |
| **Letters of credit issued** | **52,591** | **36,770** |
| Un-drawn credit facilities in RON | 625,332 | 606,530 |
| Un-drawn credit facilities in foreign currency | 804,520 | 656,034 |
| **Total un-drawn credit facilities** | **1,429,852** | **1,262,564** |
| Of which: | | |
| - committed | 560,812 | 470,201 |
| - uncommitted | 869,040 | 792,363 |

## 30. COMMITMENTS AND CONTINGENCIES (*CONTINUED*)

### Rent commitments

As at 31 December 2018 the Bank has rent commitments of RON 211,471 thousand (31 December 2017: RON 204,631 thousand) and to companies within the Group, the rent commitments amounts to RON 4.9 million (31 December 2017: RON 7.2 million).

Future lease payments from operating lease contracts are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Less than one year | 46,160 | 39,118 |
| Between one and five years | 123,854 | 102,891 |
| More than five years | 41,457 | 62,622 |
| **TOTAL** | **211,471** | **204,631** |

The main differences between the minimum future lease payments and the estimated impact of the new IFRS 16 "Leases" are attributed to the following reasons:

- Future rentals are discounted
- The following assumptions are used:
  - exclusion of leased properties for which the lease contract expires in 2019 and will not be renewed (short-term exemption),
  - assumption relating to the extension of the duration of leases for which although the lease contract expires within 2019, the Bank will renew the contract,
  - where there is a clause in the lease contract regarding increases in lease, future leases are adjusted on the date the respective increase becomes effective.

### Litigations

The litigations in which the Bank is defendant as at 31 December 2018 and 31 December 2017 should not involve material claims on the Bank. The litigations provisions booked in this respect amounts to RON 3,084 thousands (31 December 2017: RON 3,112 thousands).

### Other contingencies

The Romanian Government has a number of agencies authorized to audit (control) companies that operate in Romania. These controls are similar to tax audits in other countries, and can cover only the tax issues and other legal and regulatory issues of interest to these agencies. It is possible that the Bank continue to be subject to fiscal controls due to issuance of new tax rules. Last tax audit covered the period up to 31 December 2006.

## 31. CAPITAL

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the European Banking Authority ("EBA") and adopted by the National Bank of Romania ("NBR") in supervising the Bank.

The regulations require for capital adequacy ratios to be calculated on financial information prepared in accordance with EU and NBR prudential requirements. To be "sufficiently capitalized" under NBR regulations a banking institution must have a Common Equity Tier I ratio of at least 4.5% and 6% for Total Tier I, while the total capital adequacy limit was maintained at 8%.

As at 31 December 2018, capital adequacy ratio based upon the NBR's regulation is 24.45% (31 December 2017: 25.43%).

During the past period, the Bank had complied in full with all its externally imposed capital requirements.

### Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirement and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

### Regulatory capital

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Actual** | **Required** | **Actual** | **Required** |
| Common Equity Tier 1 | 1,666,032 | 363,537 | 1,636,621 | 359,061 |
| Tier 1 capital | 1,666,032 | 484,716 | 1,636,621 | 478,748 |
| Tier 2 capital | 309,307 | N/A | 392,617 | N/A |
| **Total capital** | **1,975,339** | **646,288** | **2,029,238** | **638,331** |
| **Risk weighted assets** | **8,078,602** | **8,078,602** | **7,979,136** | **7,979,136** |
| Common Equity Tier 1 | 20.62% | 4.50% | 20.51% | 4.50% |
| Tier 1 capital | 20.62% | 6.00% | 20.51% | 6.00% |
| Total capital ratio | 24.45% | 8.00% | 25.43% | 8.00% |

Regulatory capital consists of Tier 1 capital, share capital, retained earnings including current profit for the period, reserves and accumulated other comprehensive income. The other component of regulatory capital is Tier 2 capital, which includes subordinated debt and preferences shares.

## 32. RELATED PARTY TRANSACTIONS

According to IAS 24, a related party is a person or entity that is related to the entity that is preparing its financial statements.

For the Bank, in particular, related parties are considered:

1. Parent company Alpha Bank and the entities that constitute for the Bank or the parent company:
   - a subsidiary,
   - a joint venture,
   - an associate
   - a Post-Employment Benefit Plan
2. A person and his close family members, if that person is a member of the key management personnel.

The Bank considers as key management personnel all the members of the Bank's and the Parent Company's Board of Directors and Executive Committee, including close family members of the above mentioned persons.

During the year ended 31 December 2018 the Bank entered into a number of banking transactions with Alpha Bank A.E. that controls 99.92% of the Bank's ordinary shares, and group companies (Alpha Bank London Ltd, Alpha Finance A.E.P.E.Y., Alpha Asset Management A.E.D.A.K, Alpha Astika Akinita A.E., SSIF Alpha Finance Romania S.A., Alpha Supporting Services A.E, Alpha Bank Cyprus Ltd , Alpha Insurance Brokers S.R.L.(Romania), Alpha Leasing Romania IFN S.A., AGI-RRE Participations 1 L.T.D., Alpha Real Estate Services S.R.L., AGI - RRE Participations 1 S.R.L., AGI - RRE Poseidon Ltd, S.C. Romfelt Real Estate S.A., AGI - RRE Zeus SRL, AGI - RRE Poseidon SRL, AGI - RRE Hera S.R.L., AGI - RRE Artemis Ltd, S.C. Cordia Residence S.R.L., S.C. Carmel Residential S.R.L., AGI-RRE Cleopatra S.R.L., AGI-RRE Hermes S.R.L., Asmita Gardens S.R.L., Ashtrom Residents S.R.L., Cubic Center Development S.A., TH Top Hotels S.R.L.) in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate.

## 32. RELATED PARTY TRANSACTIONS (CONTINUED)

These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the period/year-end, and relating expense and income for the period are as follows:

| | Key management personnel | | Parent | | Associates | | Other | |
|---|---|---|---|---|---|---|---|---|
| | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 |
| **Assets** | | | | | | | | |
| Due from other banks | - | - | 810,611 | 688,996 | - | - | 65 | 66 |
| Loans and advances to customers, net | 871 | 935 | - | - | - | - | 197,463 | 269,163 |
| Derivative held for trading | - | - | - | 1,566 | - | - | - | - |
| Investment securities designated as at fair value through other comprehensive income | - | - | - | - | - | - | 77 | - |
| Available-for-sale securities | - | - | - | - | - | - | - | 77 |
| Investments in associates | - | - | - | - | 409 | 804 | - | - |
| Other assets | - | - | 29 | 265 | 15 | 7 | 20 | 20 |
| **Total assets** | **871** | **935** | **810,640** | **690,827** | **424** | **811** | **197,625** | **269,326** |
| **Liabilities** | | | | | | | | |
| Due to banks | - | - | 2,229,927 | 3,366,947 | - | - | 69 | 147 |
| Due to customers | 8,051 | 7,123 | - | - | 8,586 | 8,595 | 144,625 | 101,116 |
| Subordinated loans | - | - | 724,574 | 723,978 | - | - | - | - |
| Derivative held for trading | - | - | 1,420 | 1,714 | - | - | - | - |
| Other liabilities | - | - | - | - | - | - | 10,184 | 9,238 |
| **Total liabilities** | **8,051** | **7,123** | **2,955,921** | **4,092,639** | **8,586** | **8,595** | **154,878** | **110,501** |
| **Guarantees in favor of third parties** | **-** | **-** | **43,264** | **46,023** | - | - | - | **384** |
| **Guarantees received** | **-** | **-** | **68,988** | **72,584** | - | - | - | **-** |
| **Undrawn credit facilities** | **264** | **240** | **746,224** | **745,552** | **933** | **932** | **90,316** | **130,971** |

The "due to banks" position above includes collateral deposits received from Alpha Bank A.E. in amount of RON 1,630,783 thousand (31 December 2017: RON 1,537,286 thousand).

## 32. RELATED PARTY TRANSACTIONS (CONTINUED)

| | Key management personnel | | Parent | | Associates | | Other | |
|---|---|---|---|---|---|---|---|---|
| | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 | 31-Dec 2018 | 31-Dec 2017 |
| Interest income | 22 | 23 | 17,904 | 22,475 | - | - | 5,652 | 6,292 |
| Interest expense | 68 | 58 | 12,079 | 9,292 | 14 | 22 | 498 | 54 |
| Net commission income | 12 | 14 | 455 | 583 | 10 | 11 | 155 | 244 |
| Other operating income | 3 | - | - | 6 | 37 | 40 | 557 | 1,016 |
| Other operating expenses | 9 | - | - | - | - | 571 | 19,393 | 16,997 |

### Transactions with key management personnel

The remunerations for the year ended 31 December 2018 amounted to RON 7,226 thousand (31 December 2017: RON 6,954 thousand).

### Transferred loans receivables

During the year ended 31 December 2018 the Bank received a portfolio of non-performing loans from Alpha Bank A.E., recognised as POCI, with a fair value of RON 4.4 million.

In 2017 there have been no transfer transactions with related parties, involving loans receivables.

## 33. AUDITORS' FEES

The total fees of legal auditors of the Bank are analyzed below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Statutory accounts audit services | 364 | 395 |
| Audit related services | - | 80 |
| Non-audit services | 349 | 118 |
| **Total** | **713** | **593** |

## 34. CASH AND CASH EQUIVALENTS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Due from banks | 1,356,155 | 660,200 |
| Cash and balances with the National Bank of Romania | 2,694,879 | 2,044,314 |
| **Total** | **4,051,034** | **2,704,514** |

## 35. OPERATING SEGMENTS

Operating segments are components of the Bank that are profit centers, that has discrete financial information available, and whose results are reviewed regularly by the Bank's chief operating decision maker for purposes of performance assessment and resource allocation.

As presented in note 3.b), the following operating segments have been determined:

- Retail Banking
- Wholesale Banking
- Treasury
- Other

The segments are detailed below:

**Retail**

This segment includes individuals, professionals, small and very small companies operating in Romania and abroad. The Bank, offers all types of deposit products (term/sight deposits, savings accounts, current accounts), loan facilities (mortgages, consumer) and debit and credit cards to the above customers.

**Wholesale**

This segment includes all medium-sized and large companies, corporations with international business activities. The Bank offers working capital facilities, corporate loans, and letters of guarantee for the above mentioned corporations. This sector also includes factoring services.

**Treasury**

It includes the activities of the Dealing Room in the interbank market (FX Swaps, Bonds, Interbank placements – Loans etc.). It includes also stock exchange, advisory and brokerage services relating to capital markets offered by the Bank.

**Others**

This segment consists of administration departments of the Bank and income and expenses that are not related to its operating activities or are non-recurring and are due to external factors.

| | **31 December 2018** | | | | |
|---|---|---|---|---|---|
| | **Wholesale** | **Retail** | **Treasury** | **Others** | **Total** |
| Net Interest Income | 171,278 | 276,988 | 17,145 | - | **465,411** |
| Net fee and commission income | 15,377 | 72,959 | (3,507) | - | **84,829** |
| Other income | 4,087 | 20,964 | 5,008 | 154 | **30,213** |
| **TOTAL INCOME** | **190,742** | **370,911** | **18,646** | **154** | **580,453** |
| Depreciation and amortization | (5,081) | (15,264) | (50) | - | **(20,395)** |
| Other Expenses | (71,124) | (322,432) | (4,703) | (4,816) | **(403,075)** |
| Impairment losses and provisions to cover credit risk | (17,917) | (19,362) | (7,325) | - | **(44,604)** |
| **TOTAL EXPENSES** | **(94,122)** | **(357,058)** | **(12,078)** | **(4,816)** | **(468,074)** |
| **Profit/(loss) before tax** | **96,620** | **13,853** | **6,568** | **(4,662)** | **112,379** |
| Income tax expense | (67,386) | (6,525) | - | (17,425) | **(91,336)** |
| **NET PROFIT/(LOSS)** | **29,234** | **7,328** | **6,568** | **(22,087)** | **21,043** |

## 35. OPERATING SEGMENTS (continued)

| | Wholesale | Retail | Treasury | Others | Total |
|---|---|---|---|---|---|
| **Total Assets** | **4,577,855** | **6,704,152** | **5,619,697** | **52,970** | **16,954,674** |
| **Total Liabilities** | **2,609,421** | **8,963,204** | **3,473,543** | **154,631** | **15,200,799** |
| **Capital expenditure** | **9,406** | **28,279** | **258** | **-** | **37,943** |

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | **Wholesale** | **Retail** | **Treasury** | **Others** | **Total** |
| Net Interest Income | 165,019 | 224,277 | 16,764 | - | 406,060 |
| Net fee and commission income | 14,573 | 65,038 | (2,627) | - | 76,984 |
| Other income | 20,034 | 82,734 | 11,101 | 51 | 113,920 |
| **TOTAL INCOME** | **199,626** | **372,049** | **25,238** | **51** | **596,964** |
| Depreciation and amortization | (4,253) | (12,822) | (15) | - | (17,090) |
| Other Expenses | (69,380) | (284,095) | (9,136) | (2,244) | (364,855) |
| Net impairment gain/(loss) on financial assets | 27,859 | 9,791 | 3,740 | - | 41,390 |
| **TOTAL EXPENSES** | **(45,774)** | **(287,126)** | **(5,411)** | **(2,244)** | **(340,555)** |
| **Profit/(loss) before tax** | **153,852** | **84,923** | **19,827** | **(2,193)** | **256,409** |
| Income tax expense | - | - | - | (41,675) | (41,675) |
| **NET PROFIT/(LOSS)** | **153,852** | **84,923** | **19,827** | **(43,868)** | **214,734** |
| **Total Assets** | **4,724,773** | **6,325,118** | **4,283,326** | **302,701** | **15,635,918** |
| **Total Liabilities** | **1,775,893** | **7,664,403** | **4,326,006** | **105,406** | **13,871,708** |
| **Capital expenditure** | **5,896** | **17,826** | **35** | **-** | **23,757** |

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9

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

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

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

| **ASSETS** | **31.12.2017 IAS 39** | **Reclassi-fication** | **Remea-surement** | **1.1.2018 IFRS 9** |
|---|---|---|---|---|
| Cash and balances with National Bank of Romania | 2,044,314 | | | 2,044,314 |
| Derivative financial assets | 1,566 | | | 1,566 |
| Due from other banks | 914,671 | | (24) | 914,647 |
| **Investment securities** | | | | |
| - Available for sale | 1,323,342 | (1,323,342) | | - |
| - Measured at fair value through other comprehensive income | | 1,323,342 | 38 | 1,323,380 |
| Investments in associates | 804 | | | 804 |
| Loans and advances to customers | 10,938,335 | | (28,212) | 10,910,123 |
| Property and equipment | 91,803 | | | 91,803 |
| Intangible assets | 17,800 | | | 17,800 |
| Other assets | 36,992 | | | 36,992 |
| Assets held for sale | 266,291 | | (2,275) | 264,016 |
| **Total assets** | **15,635,918** | **-** | **(30,473)** | **15,605,445** |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| Due to banks | 3,369,298 | | | 3,369,298 |
| Derivatives financial liabilities | 1,714 | | | 1,714 |
| Due to customers | 9,440,296 | | | 9,440,296 |
| Other borrowed funds | 232,791 | | | 232,791 |
| Subordinated debt | 723,978 | | | 723,978 |
| Provisions | 13,627 | | 8,242 | 21,869 |
| Liabilities for current income tax and other liabilities | 88,658 | | | 88,658 |
| Deferred tax liabilities | 1,346 | | (1,319) | 27 |
| **Total liabilities** | **13,871,708** | **-** | **6,923** | **13,878,631** |
| | | | | |
| Share capital | 983,145 | | | 983,145 |
| Reserves | 152,208 | (2,875) | | 149,333 |
| Retained earnings | 628,857 | 2,875 | (37,396) | 594,336 |
| **Shareholders' equity** | **1,764,210** | **-** | **(37,396)** | **1,726,814** |
| | | | | |
| **Total liabilities and equity** | **15,635,918** | **-** | **(30,473)** | **15,605,445** |

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

The existing portfolio on 1 January 2018 has been classified as follows:

- *Loans and advances to customers and due from banks* were included in business models that permit the classification of instruments at amortized cost (hold to collect), to the extent that from the assessment of their contractual terms it is concluded that their contractual cash flows meet the definition of principal and interest as defined by the new Standard (SPPI test). Upon transition, no loans to customers failed the SPPI test.

- *For securities and in general for fixed income investments,* the following business models were *applied:*
  - business model that aims to hold the financial instruments in order to collect their contractual cash flows (hold to collect),
  - business model, that aims to both collect the contractual cash flows and sell the financial asset (hold to collect and sell)
  - trading portfolio

  During the transition to the new standard, all of the securities 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. Upon transition, no securities and fixed income investments failed the SPPI test.

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

  Based on the classification options described above, available for sale securities amounting RON 1,323,342 as at 31.12.2017, were reclassified to securities designated as at fair value through other comprehensive income. Following these reclassifications, total equity has been positively affected by RON 38.

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

- The Bank has not opted to designate at initial recognition debt securities as measured at fair value through profit or loss.

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

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

The following tables present the impact on retained earnings and reserves, as a result of the transition to IFRS 9:

| | |
|---|---|
| **Retained earnings** | |
| **Balance at 31.12.2017 in accordance with IAS 39** | **628,857** |
| Reclassification and remeasurement of shares to fair value through other comprehensive income | 2,913 |
| Expected credit loss and remeasurement of financial assets in accordance with IFRS 9 | (38,753) |
| Impact tax | 1,319 |
| **Balance at 1.1.2018 in accordance with IFRS 9** | **594,336** |

| | |
|---|---|
| **Reserves** | |
| **Balance at 31.12.2017 in accordance with IAS 39** | **152,208** |
| Reclassification of shares to fair value through other comprehensive income | (2,875) |
| **Balance as at 1.1.2018 in accordance with IFRS 9** | **149,333** |

The following table presents a reconciliation of impairment losses of financial assets between IAS 39 and IFRS 9 as at 31.12.2017 and as at 1.1.2018, respectively:

| | **31 December 2017 (IAS 39/IAS 37)** | **Remeasure-ment** | **1 January 2018 (IFRS 9)** |
|---|---|---|---|
| Due from Banks | - | 24 | 24 |
| Loans and advances to customers | 433,847 | 28,212 | 462,059 |
| Other assets | 533,707 | 2,275 | 535,982 |
| **Total allowance for amortised cost measurement** | **967,554** | **30,511** | **998,065** |
| **Provisions for off balance sheet accounts** | **3,117** | **8,242** | **11,359** |

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

The following table presents loans and advances to customers measured at amortised cost by IFRS 9 stage as at 1.1.2018:

| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|
| **Mortgage** | | | | | |
| Carrying amount (before impairment allowance) | 4,163,976 | 501,306 | 226,811 | 1,152 | **4,893,245** |
| Expected credit losses | (1,342) | (10,414) | (117,638) | (478) | **(129,872)** |
| **Net carrying amount** | **4,162,634** | **490,892** | **109,173** | **674** | **4,763,373** |
| **Consumer** | | | | | |
| Carrying amount (before impairment allowance) | 689,540 | 163,354 | 162,300 | 985 | **1,016,179** |
| Expected credit losses | (2,458) | (7,718) | (91,818) | (427) | **(102,421)** |
| **Net carrying amount** | **687,082** | **155,636** | **70,482** | **558** | **913,758** |
| **Credit cards** | | | | | |
| Carrying amount (before impairment allowance) | 69,686 | 13,710 | 3,248 | - | **86,644** |
| Expected credit losses | (1,160) | (625) | (726) | - | **(2,511)** |
| **Net carrying amount** | **68,526** | **13,085** | **2,522** | **-** | **84,133** |
| **Small Business** | | | | | |
| Carrying amount (before impairment allowance) | 2,148 | 863 | 85 | - | **3,096** |
| Expected credit losses | (25) | (3) | (25) | - | **(53)** |
| **Net carrying amount** | **2,123** | **860** | **60** | **-** | **3,043** |
| **Total retail loans** | | | | | |
| Carrying amount (before impairment allowance) | 4,925,350 | 679,233 | 392,444 | 2,137 | **5,999,164** |
| Expected credit losses | (4,985) | (18,760) | (210,207) | (905) | **(234,857)** |
| **Net carrying amount** | **4,920,365** | **660,473** | **182,237** | **1,232** | **5,764,307** |
| **Corporate lending and Public sector** | | | | | |
| Carrying amount (before impairment allowance) | 3,501,327 | 1,583,812 | 287,879 | - | **5,373,018** |
| Expected credit losses | (14,774) | (66,726) | (145,702) | - | **(227,202)** |
| **Net carrying amount** | **3,486,553** | **1,517,086** | **142,177** | **-** | **5,145,816** |
| **Total loans and advances to customers** | | | | | |
| Carrying amount (before impairment allowance) | 8,426,677 | 2,263,045 | 680,323 | 2,137 | **11,372,182** |
| Expected credit losses | (19,759) | (85,486) | (355,909) | (905) | **(462,059)** |
| **Net carrying amount** | **8,406,918** | **2,177,559** | **324,414** | **1,232** | **10,910,123** |

"Purchased or originated credit impaired loans" include loans amounting to RON 0.56 million which are not impaired/non performing as at 1.1.2018.

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

The following table presents Financial Assets (other than loans and advances to customers) by IFRS 9 stage as at 1.1.2018:

| | 1.1.2018 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| Balances with Central Banks | 1,791,280 | - | - | - | **1,791,280** |
| Due from banks | 730,701 | 183,970 | - | - | **914,671** |
| Securities designated as at fair value through other comprehensive income | 1,311,544 | - | - | - | **1,311,544** |
| Expected Credit Losses | (16) | (8) | - | | **(24**) |

**Supervisory impact of the implementation of IFRS 9**

On 25 October 2017 the European Parliament, the Council and the Commission agreed on the proposed amendment of the Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. The agreed Regulation (2395/2017) was approved by the European Parliament and the Council and published in the Official Journal of the European Union on 12 December 2017.

According to the transitional arrangements, institutions are allowed, beginning from the date of initial application of IFRS 9 and for a duration of 5 years, to add back to their CET1 capital the after tax amount of the difference between the loss allowances as of the date of transition to IFRS 9 and the loss allowances as of 31.12.2017 in accordance with IAS 39 ("static" amount).

The amount of the difference that would be added to the ratio should decrease on an annual basis based on scaling factors, in order for the amount of loss allowances to decrease over time down to zero to deliver full implementation of the IFRS 9 impact after the end of the 5-year period (phase-in). The factors to be applied per year are the following:

- 0.95 the 1st year,
- 0.85 the 2nd,
- 0.7 the 3rd,
- 0.5 the 4th and
- 0.25 the last year.

In addition, the institutions are allowed, for a duration of 5 years beginning from the date of initial application of IFRS 9, to add back to the CET1 capital the amount, weighted by the aforementioned scaling factors, of the after tax loss allowances of impairment stages 1 and 2 as of the reporting date to the extent that this amount exceeds the amount of the respective allowances as of the initial application of IFRS 9 (1.1.2018). Stages 1 and 2 are defined respectively as the 12 month expected credit losses and lifetime expected credit losses excluding credit impaired financial assets.

## 36. IMPACT FROM THE IMPLEMENTATION OF IFRS 9 (CONTINUED)

Alpha Bank Romania makes use of Article 473a of the above Regulation and applies the transitional arrangements foreseen for the calculation of Capital Adequacy on an individual basis. The Bank is adequately capitalized to meet the needs arising from the application of the new standard as the Common Equity Tier 1 (CET 1) ratio stood at 20.62% as at 31.12.2018 (please refer to note 31).

## 37. SUBSEQUENT EVENTS

In February 2019 Alpha Bank Romania has become the first bank in Romania that has received NBR approval for a Covered Bond Programme. Alpha Bank Romania has finalized the establishment of its Euro 1 billion Global Covered Bond (the "Programme"). It is the first covered bond Programme established in Romania since the introduction of the Romanian covered bond law in 2015. The Programme will be listed both on the Luxembourg and Bucharest Stock Exchanges. The first issuance in amount of 200,000,000 Euro will be issued in the near future and has been rated by Moody's with a Baa2 rating (investment grade).

Alpha Bank Romania will use the attracted funding in order to continue its policy of financing the Romanian market – individuals and companies. Following the first issuance the Bank will evaluate the macroeconomic evolution and the market conditions and will decide upon the next steps of the Covered Bond Programme.