Financial Results of Alpha Bank Cyprus Ltd for the year 2017 [23.3.2018]

Main Highlights
- **Pre provision income of Euro 23.0 mil. compared to Euro 26.0 mil. in 2016.**
- **Losses after tax of Euro 86.7 mil. as a result of increased impairments to cover credit risk.**
- **Increase of Non Performing Exposures coverage ratio to 52%.**
- **Common Equity Tier I ratio (CET I) of 13.8%.**
- **Strong liquidity with net loans to deposits ratio of 78.7% from 100.3% on 31.12.2016.**
- **Increase of customer deposits by 13.6%**

Capital Adequacy

On 31 December 2017, Common Equity Tier I ratio (CET I) stood at 13.8%, Tier I ratio at 17.3% and Total Capital Adequacy ratio at 18.1%. The capital adequacy ratios are in accordance with transitional provisions for the year.

Financial Performance

The financial results of Alpha Bank Cyprus Ltd for the year 2017, present losses after tax of Euro 86.7 million compared to losses after tax of Euro 30.8 million in 2016, mainly due to increased impairments to cover credit risk**.**

Key financial data		**From 1 January to**	
	Change	**31.12.2017**	**31.12.2016**
In Euro mil.			
Net interest income	-27.7%	64.0	88.5
Total income	-28.7%	77.1	108.2
Total expenses	-33.7%	(54.5)	(82.2)
Pre provision income	-13.1%	22.6	26.0
Impairment loss and provisions to cover credit risk	83.1%	(107.3)	(58.6)
Profit / (loss) after tax	181.5%	(86.7)	(30.8)
Profit / (loss) per share		(49.7 cent)	(17.6 cent)
In Euro mil.		**31.12.2017**	**31.12.2016**
Loans and advances to Customers	-10.9%	1,734.8	1,946.4
Due to Customers	13.6%	2,204.9	1,940.6
Transitional Common Equity Tier I ratio (CET I)	-270 basis points	13.8%	16.5%

The results were mainly impacted by:

- the change of loans and deposits spreads,
- the increase of impairments to cover credit risk, which further improved the Non Performing Exposures coverage ratio to 52%,
- the increase of the deposit base.

Net Interest income in 2017 amounted to Euro 64.0 million, presenting a decrease of 27.7% compared to Euro 88.5 million in 2016. The decrease is mainly attributed to the decrease of the loan portfolio, the increase of the deposit base and the decrease of the loans spreads.

Total income of the Bank amounted to Euro 77.1 million in 2017, compared to Euro 108.2 million in 2016. It is noted that 2016 income includes a non recurring profit of Euro 6.6 million from the sale of Visa Europe shares. The total decrease of income during 2017 (excluding non-recurring income) amounted to 24.1%, which is mainly attributed to the decrease of the loan portfolio, the increase of the deposit base and the decrease of the loans spreads.

Total expenses of the Bank for 2017, amounted to Euro 54.5 million, compared to Euro 82.2 million for the previous year. Expenses include the cost of a voluntary retirement programme, offered in 2016 amounting to Euro 31.6 million. During 2017 the bank recognized a non recurring expense of Euro 1.5 million imposed by the Cyprus Commission for the Protection of Competition relating to charges on local banking commissions. The bank has appealed to the Administrative Court for the cancellation of the fine. Although the case is still pending, the Bank has recognized a provision in the 2017 financial statements. Excluding non-recurring costs, total expenses in 2017 experience an increase of 4.7%. Cost to income ratio, is 70.7% in 2017 compared to 76.0% in 2016.

Impairment loss and provisions to cover credit risk amounted to Euro 107.3 million in 2017 compared to Euro 58.6 million in 2016, representing an increase of 83.1%, thus allowing a more active management of the portfolio in arrears.

Balance Sheet

Net loans and advances to customers on 31 December 2017 amounted to Euro 1,734.8 million, a decrease of 10.9% compared to Euro 1,946.4 million on 31 December 2016.

Amounts due to customers on 31 December 2017 amounted to Euro 2,204.9 million, compared to Euro 1,940.6 million on 31 December 2016, presenting an increase of 13.6%. The net loans to deposits ratio was improved to 78.7% on 31 December 2017, from 100.3% on 31 December 2016.

Accumulated impairments to cover credit risk amounted to Euro 893.8 million on 31 December 2017, covering 34.0% of gross loans, increased by 4.4% compared to 31 December 2016. Accumulated impairments include the fair value adjustment of the loan portfolio, acquired at fair value.

Loans over 90 days past due stood on 31 December 2017 at Euro 1,446.7 million representing 55.0% of gross loans. On 31 December 2016, they stood at Euro 1,468.0 million.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood on 31 December 2017 at Euro 1,724.8 million representing 65.6% of gross loans, compared to 64.3% a year ago. On 31 December 2017, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 51.8% compared to 47.5% on 31 December 2016.

International Financial Reporting Standard 9 (IFRS9)

The new accounting standard IFRS 9 will replace IAS 39, for annual periods on or after 1 January 2018, which impose fundamental changes in the way financial instruments are classified and measured. For the application of the new standard, the Bank has launched an Implementation Program, which was organised around two main work streams, the classification and measurement work stream and the impairment work stream. On the completion of the Implementation Program, new policies have been developed for the classification, measurement and impairment of financial instruments which were approved by the Board of Directors. New methodologies and procedures have also been implemented to support the new policies.

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

For capital adequacy purposes, the Bank intends to make use of the transitional arrangements foreseen for the calculation of capital adequacy, under which the impact from the application of the new standard will be absorbed within a period of five years. As a result, common equity tier I ratio is estimated to be affected approximately by 10bps for the first year, while the impact from the full implementation is estimated at approximately 270bps based on 31.12.2017 results.

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

Challenges of the economy and the banking system

The main challenge of the economy concerns the high level of non-performing loans of the banking sector and private debt. Public debt remains an additional challenge, even though it has decreased below 100% of GDP.

Economic reforms need to continue, irrespective of the completion of the Cyprus Economy Adjustment Program. Any prevailing conditions of complacency would have a negative impact on the assessments of rating agencies and the efforts of the Republic of Cyprus for further recovery of investment and economic activity.

The United Kingdom’s exit from the European Union, is expected to affect the Cypriot economy, as it is the largest trading partner for Cyprus. However, the effect cannot be predicted yet, since the agreement between Britain and the European Union is not Known at this stage.

Prospects

According to the forecasts of the European Commission and international rating agencies Cyprus economy is expected to continue to grow in the coming years. The Bank, under the current circumstances and prospects, has prepared and follows its business plan with the aim to manage its loan portfolio and enhance profitability. The bank recognizes the risks and challenges of the Cyprus economy as well as the specificities relating to the geopolitical stability of the region and the interconnection with the economic stability of Greece and the Eurozone.

Bank priorities

The primary objective of the bank is to maintain sufficient capital adequacy and liquidity ratios to effectively address any future challenges. For this reason, the bank is in constant contact with the supervisory authorities and takes all precautionary measures.

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

- effective management of non performing exposures,
- monitor further the cost of funding from deposits,
- contain operating expenses, increase productivity and introduce new technologies to improve the quality of services offered to customers,
- provide targeted new lending and services to improve interest and commission income.

Alternative Performance Measures

As per the guidelines of European Securities and Markets Authority (ESMA) on Alternative Performance Measures (APMs) published in October 2015, applicable since 3 July 2016 and adopted by the Cyprus Stock Exchange Commission with the circular E148 dated 15.7.2016, the Bank publishes additional information. The Bank believes that certain Alternative Performance Measures (APMs) provide additional information that is useful both for assessing performance and for making strategic decisions. Relevant analysis and a table with APMs are included in the management report of the Financial Statements as of 31.12.2017.

Financial Statements publication

The audited Financial Statements of the Bank for the year 2017 have been approved during the meeting of the Board of Directors held on 23 March, 2018.

The final audited financial results for the year 2017 are available on the website of Alpha Bank Cyprus Ltd (www.alphabank.com.cy) and Cyprus Stock Exchange (website www.cse.com.cy).