ALPHA BANK

# Press Release

**First Half 2016 Profit before Tax at Euro 3.9 million**

### Main Highlights

- Core Pre-Provision Income[1] resilient q-o-q at Euro 297.4 million. Net Interest Margin improves to 2.9% in Q2 2016.
- Recurring OPEX at Euro 281.1 million in Q2 2016 in line with target set of Euro 1.15 billion for FY 2016. Cost to income ratio at 48.2% for H1 2016 compared to 50.8% for FY 2015, confirming its improving trajectory.
- Reduced Eurosystem funding in Q2 2016 to Euro 22.7 billion, driven by increase in deposits of Euro 0.7 billion and EFSF bonds disposal of Euro 0.6 billion respectively. In August 2016, our reliance on ELA stood at Euro 15.4 billion, down by Euro 7.6 billion since the imposition of Capital Controls at the end of June 2015.
- NPLs at 37.8% at the end of June 2016. High cash coverage of 69%, allows for more active management of our Non Performing portfolio.
- Loan Loss Provisions at Euro 350 million in Q2 2016, implying Cost of Risk (CoR) at 196bps for H1 2016. Provisions for Q2 2016 were materially affected from the recognition of additional provisions to account for a restructuring in process of a large corporate group of companies.
- Our performance in the 1st half of 2016 has been supportive of capital preservation. Common Equity Tier I ratio (CET 1) at 16.6% as of the end of June 2016, up from 16.3% in Q1 2016 and stable year-to-date compared to December 2015. Tangible Book Value, the highest among Greek Banks, at Euro 8.5 billion, implying Tangible Book Value per Share of Euro 5.5. Fully loaded Basel III CET1 at 16.2%.

## Financial Performance

- **Net Interest Income at Euro 483.4 million stable q-o-q. Net Interest Margin improves to 2.9% in Q2 2016 as assets decreased by Euro 0.8 billion in the quarter.**
- **In Q2 2016, Fees and commission income rose to Euro 80.2 million, up by 2.1% q-o-q, supported by increased credit card usage for retail transactions and a pick-up of transaction related fees.**
- **Trading gains positively affected by a one-off VISA transaction of Euro 71.9 million.**
- **Operating Expenses, excluding integration and extraordinary costs, at Euro 281.1 million Cost to Income ratio at 48.6%, in Q2 2016.**
- **Pre-Provision income at Euro 340.8 million in Q2 2016, up by 27.2%.**
- **Loan loss provisions for H1 2016 at Euro 605 million vs. Euro 892.8 million for H1 2015 (excluding AQR).**
- **Cost of Risk (CoR) at 196bps for H1 2016 vs. 286 bps for the respective half of 2015.**
- **Profit / (Loss) After Tax at Euro – 18.9 million for H1 2016.**

[1] Core Pre-Provision Income is defined as the Core Revenues minus Operating Expenses adjusted for integration and extraordinary costs.

## Key Balance Sheet Trends

- **Assets down by Euro 0.8 billion q-o-q at Euro 67.4 billion, mainly driven by the reduction of the EFSF securities portfolio by Euro 0.6 billion, due to our participation in ECB's PSPP programme.**
- **Deposits balances increased by Euro 0.7 billion q-o-q to Euro 31.7 billion. In Greece, deposits increased by 1.7% q-o-q, mainly due to inflows from businesses, resulting in gain in the respective market share.**
- **Eurosystem funding decreased by Euro 1.4 billion in Q2 2016 to Euro 22.7 billion on the back of deposit inflows and disposal of EFSF bonds. In August 2016, funding by Central Banks further down by Euro 1.4 billion to Euro 21.1 billion.**
- **Net Loans down by Euro 0.3 billion q-o-q to Euro 45.5 billion.**
- **NPL formation stood at Euro 110 million in Q2 2016, compared to Euro 275 million in the previous quarter. NPL ratio stood at 37.8% at the end of June 2016 vs. 37.4% in Q1 2016. Respectively, NPEs stood at 52.6%.vs 52.1% in the previous quarter.**
- **Accumulated on-balance sheet provisions at Euro 15.9 billion post write-offs, corresponding to 26% of gross loans.**

**Alpha Bank's CEO, Demetrios P. Mantzounis** stated**:**

"Our first half performance has supported capital preservation, underpinned by the expansion of our Net Interest Margin to 2.9% and further efficiency improvements. For the second half of 2016 we are witnessing signs of a gradually improving operating environment. H1 2016 recession proved milder than expected and we anticipate the Greek economy to resume to growth in the second half of the year. The completion of the First Review in June along with the reinstatement of the waiver of Greek Government Bonds in ECB's financing lines and the gradual relaxation of Capital Controls will contribute to restoring household and businesses confidence. System liquidity is already improving demonstrated by decrease in wholesale funding and gradual deposit inflows".

## KEY FINANCIAL DATA

| (in Euro million) | Quarter ending (YoY) | | | Quarter ending (QoQ) | | |
|---|---|---|---|---|---|---|
| | **30.6.2016** | **30.6.2015** | ***YoY (%)*** | **30.6.2016** | **31.3.2016** | ***QoQ (%)*** |
| Net Interest Income | 966.3 | 956.9 | *1.0%* | 483.4 | 482.9 | *0.1%* |
| Net fee & commission income | 158.8 | 161.2 | *-1.5%* | 80.2 | 78.6 | *2.1%* |
| Income from fin. operations | 60.0 | 36.0 | … | 57.0 | 3.0 | … |
| Other income | 26.4 | 27.1 | *-2.6%* | 14.9 | 11.5 | *30.1%* |
| Operating Income | 1,211.5 | 1,181.2 | *2.6%* | 635.5 | 576.0 | *10.3%* |
| **Core Revenues**[1] | **1,151.5** | **1,145.2** | ***0.6%*** | **578.5** | **573.0** | ***1.0%*** |
| Staff Costs | (258.5) | (265.0) | *-2.5%* | (129.0) | (129.5) | *-0.3%* |
| General Expenses | (247.2) | (246.0) | *0.5%* | (128.4) | (118.8) | *8.1%* |
| Depreciation & Amortisation expenses | (49.5) | (51.5) | *-4.0%* | (23.6) | (25.9) | *-8.6%* |
| **Operating Expenses Before Integration & Extraordinary Costs** | **(555.1)** | **(562.5)** | ***-1.3%*** | **(281.1)** | **(274.1)** | ***2.5%*** |
| Integration costs | (1.7) | (3.1) | … | (1.2) | (0.5) | … |
| Extraordinary costs[2] | (45.9) | 11.1 | … | (12.4) | (33.6) | … |
| **Operating Expenses** | **(602.8)** | **(554.5)** | ***8.7%*** | **(294.7)** | **(308.1)** | ***-4.4%*** |
| **Core PPI** | **596.4** | **582.7** | ***2.3%*** | **297.4** | **298.9** | ***-0.5%*** |
| Impairment Losses | (604.8) | (2,098.8) | *-71.2%* | (349.7) | (255.1) | *37.1%* |
| **Profit Before Tax** | **3.9** | **(1,472.2)** | **…** | **(8.9)** | **12.8** | **…** |
| Income Tax | (24.4) | 309.4 | … | (9.5) | (14.9) | … |
| **Profit After Tax** | **(18.9)** | **(1,252.1)** | **…** | **(16.8)** | **(2.2)** | **…** |
| | **30.6.2016** | **30.6.2015** | | **30.6.2016** | **31.3.2016** | |
| **Net Interest Margin** | 2.8% | 2.7% | | 2.9% | 2.8% | |
| **Cost to Income Ratio** (excl. trading, integration and extraordinary costs) | 48.2% | 49.1% | | 48.6% | 47.8% | |
| **CET1** | 16.6% | 11.2% | | 16.6% | 16.3% | |
| **L/D ratio** | 144% | 153% | | 144% | 148% | |
| | **30.6.2016** | **31.3.2016** | **31.12.2015** | **30.9.2015** | **30.6.2015** | ***YoY (%)*** |
| **Total Assets** | 67,372 | 68,209 | 69,298 | 69,784 | 70,557 | *-4.5%* |
| **Loans (net)** | 45,496 | 45,826 | 46,186 | 46,961 | 47,723 | *-4.7%* |
| **Securities** | 9,372 | 9,983 | 10,164 | 10,140 | 10,020 | *-6.5%* |
| **Deposits** | 31,667 | 30,963 | 31,434 | 30,470 | 31,091 | *1.9%* |
| **Shareholders' Equity** | 8,883 | 8,869 | 9,014 | 6,901 | 6,199 | *43.3%* |
| **Tangible Book Value** | 8,516 | 8,503 | 8,669 | 6,567 | 5,867 | *45.2%* |

[1] Defined as total income excluding income from financial operations.
[2] Extraordinary costs for H1 2016 primarily include Euro 31.5 million provision for the VSS in Alpha Bank Cyprus Ltd.

## Key Developments and Performance Overview

**H1 2016 recession proved milder than expected though restoration of confidence remains a catalyst for investment recovery and growth in the long run**

GDP contraction in H1 2016 was milder than initially expected, as GDP contracted by -0.9% y-o-y in Q2 2016, from -1.0% in Q1 2016. Moreover, on a quarterly basis GDP increased by 0.2% in Q2, from a decrease by 0.2% in Q1 2016. The economy is expected to pull out of recession in H2 2016, with improvement in business sentiment indicators, resurging manufacturing production and good prospects in tourism industry, all reflecting stronger activity.

On the other hand, the positive contribution from net exports might fall short of what was initially expected at the beginning of the year, as exports declined at a faster pace than imports in the last few months. Slumping consumer confidence indicator suggests that household spending will continue to be depressed. Finally, the prolonged bout of deflation may threaten debt sustainability. Externally originated downside risks may undermine the endeavor for growth restoration; (i) renewed international markets turmoil and increased uncertainty occurred in the aftermaths of the UK referendum and (ii) an escalation of the refugee crisis as a result of the political turmoil in Turkey.

The restoration of confidence predicates the sustainable growth in the long run; therefore the milestones already achieved bode well with this assumption. In particular, (i) the release of the first disbursement of the second tranche amounting to Euro 7.5 billion set the stage for meeting financing requirements in the short run and easing liquidity conditions, (ii) recent positive developments occurred in the banking sector such as the further relaxation of capital controls in tandem with the reinstatement of waiver for the Greek government bonds.

Growth is expected to pick up from 2017 and register a positive figure of 2.5% on the back of structural reforms and privatisation drives, though this forecast is based on the critical assumption that there won't be delays or insufficient policy actions. A rapid implementation of structural reforms is pivotal in order to quell tensions emanating from further delays in the completion of the second review.

**CET 1 ratio increased in Q2 2016 to 16.6% positively affected by the reduction in credit and market risk; Fully loaded Basel III at 16.2%**

At the end of June 2016, Alpha Bank's **Common Equity Tier 1 (CET1)** stood at Euro 8.5 billion resulting in a CET1 ratio of 16.6%, positively affected by the reduction in credit and market risk in the second quarter. The Bank's fully loaded Basel III CET1 ratio stands at 16.2%. Deferred Tax Assets at the end of June 2016 stood at Euro 4.4 billion with the eligible amount to be converted to tax credit claims at Euro 3.4 billion. Tangible Book Value at the end of June 2016 was the highest among Greek Banks at Euro 8.5 billion, implying Tangible Book Value per Share of Euro 5.5. Our **RWAs**, amounted to Euro 51.3 billion at the end of June 2016, down by 1.3% q-o-q or Euro 0.7 billion q-o-q, on the back of lower market risk and lower loan contribution.

**Decreased ELA reliance and partial repayment of Pillar II bonds**

In Q2 2016, our **Central Banks reliance** reduced further by Euro 1.4 billion q-o-q to Euro 22.7 billion, supported primarily by deposit inflows of Euro 0.7 billion and benefiting from the Bank's participation in ECB's PSPP programme with the disposal of Euro 0.6 billion of EFSF bonds. The Bank's reliance on ELA stood at Euro 16.9 billion at the end of June, reduced by Euro 2.8 billion in Q2, following the reinstatement of the waiver of Greek Government Bonds and T-bills on June 29 which allowed the Bank to transfer in ECB's financing operations Euro 1.8 billion funding.

At the end of August, our reliance on ELA stood at Euro 15.4 billion further reduced by Euro 1.5 billion since the end of June, driven mainly by further deposit inflows, a decrease of the securities portfolio and an increase in interbank transactions. In addition, following ECB's reinstatement of waiver and the application of its revised haircuts at the end of June, the Bank did not renew in Q2 2016 total nominal amount of Euro 1.2 billion government guaranteed bank bonds (Pillar II) placed as collateral for ELA funding and a further Euro 1 billion in July, reducing the current nominal amount to Euro 4.2 billion.

**Stable core revenue performance**

Net Interest Income in Q2 2016 stood at Euro 483.4 million, stable q-o-q (+0.1%), as the decrease in wholesale funding costs was counterbalanced by the lower contribution from the loan portfolio. Lower average loan balances and spread reduction had a negative contribution of Euro 9 million, whereas the reduction of Pillar II bonds and the lower reliance on ELA contributed positively Euro 6 million to our NII. Time deposits repricing continued, although at a slower pace, whereas the lower underlying quarterly evolution of the Euribor rate, currently at historically negative low levels, has negatively affected the sight and savings deposits spreads.

**Net fee and commission income** stood at Euro 80.2 million, up by 2.1% q-o-q positively affected by higher credit card usage supported by the strong tourist season as well as a slight pick-up of transaction related fees. **Income from financial operations** amounted to Euro 57 million in Q2 2016 mainly affected by a one-off gain from the disposal by the Bank of its participation in Visa Europe to Visa Inc. **Other income** stood at Euro 14.9 million.

**OPEX performance in line with target of Euro 1.15 billion cost base for FY 2016**

**Operating expenses** (excluding extraordinary items and integration costs) decreased by 1.3% y-o-y to Euro 555.1 million with Cost to Income ratio standing at 48.2% for H1 2016. In Q2 2016, **personnel expenses** amounted to Euro 129 million, at same levels with previous quarter. Group headcount, at the end of Q2 2016, was reduced from 13,686 to 13,560 Employees, mainly as a result of the successful Voluntary Separation Scheme (VSS) in Cyprus in Q1 2016. **General expenses** increased by 8.1% q-o-q to Euro 128.4 million, negatively affected by collections services related to NPL management and on the back of increased marketing and third-party fees. Group Network at the end of June 2016, reached a total number of 856 Branches as a result of 20 Branches reduction q-o-q mainly in Greece.

At the end of June 2016, the **NPL ratio** stood at 37.8% with new formation at Euro 110 million vs. Euro 275 million in the previous quarter, In Greece, the NPL ratio stood at 37.8%, same level as in our SEE operations.

**Impairments rise q-o-q to account for the ongoing restructuring of a large group of companies; NPE ratio at 52.6%**

From a segmental perspective, at the end of June 2016 business, mortgages and consumer NPL ratio for the Group stood at 38.4%, 34.6% and 44.2%, while their provisions cash coverage stood at 79%, 45% and 81%, respectively.

In Q2 2016, the **NPE ratio** for the Group stood at 52.6% at the end of June 2016 versus 52.1% in the previous quarter.

In H1 2016, impairments amounted to Euro 604.8 million in H1 2016, materially affected by additional provisions recognised in Q2 to account for the restructuring in process of a large corporate group of companies, implying a CoR of 196 bps over gross loans for H1 2016 vs. an average cost of risk of 286 bps (excluding AQR impact) for H1 2015. At the end of June 2016, the NPL coverage ratio stood at 69%, while total coverage including collateral stood at 124%.

At the end of June 2016, our **accumulated balance sheet provisions** for the Group amounted to Euro 15.9 billion, while the ratio of loan loss reserves over loans stood at 26%.

**Gross loans** of the Group amounted to Euro 61.4 billion as of June 30, 2016. Loan balances in Greece stood at Euro 52 billion, while in SEE, loans amounted to Euro 9.1 billion.

**Deposit inflows in Q2 2016 mainly from Greece with market share gain on business deposits**

In Q2 2016, **Group deposits** recorded inflows of Euro 0.7 billion. In Greece, deposits increased by Euro 455 million or 1.7% q-o-q, mainly from businesses, resulting in gain in the respective market share. At the end of August 2016, deposits in Greece stood at Euro 27.1 billion, recording further inflows of Euro 0.4 billion. Deposits in SEE stood at Euro 4.2 billion at the end of June 2016, with inflows of Euro 0.2 billion or 5.2% q-o-q, as a result of inflows mainly of time deposits in Cyprus and Romanian operations.

The **Loan to Deposit Ratio,** at the end of June 2016 for the Group, declined to 144% from 148% in Q1 2016 and respectively for Greece it declined to 144% from 147%.

**SEE reduced presence leads to increasing profitability for a second consecutive quarter**

In **SEE**, operating income for H1 2016 totalled Euro 187.7 million, up by 16.6% y-o-y supported by trading gains, while operating costs decreased by circa 1% to Euro 95.2 million, without accounting for the one-off VSS of Cyprus booked in Q1 2016. Following the recent disposals in SEE operations, profitability continued to increase for a second consecutive quarter, with Profit Before Tax at Euro 10.6 million in H1 2016, positively affected by a decrease in provisions, down by 38.9% y-o-y to Euro 82 million. Total Branches in SEE stood at 263 at the end of June 2016 vs. 295 a year ago, as we continue to right-size the Network.

In **Cyprus**, the loan portfolio in Q2 2016 amounted to Euro 5.3 billion (down 1.9% y-o-y), while deposit balances stood at Euro 1.8 billion (up 2.2% y-o-y). In **Romania**, loans balances amounted to Euro 2.8 billion (-4.2% y-o-y), while deposits rose to Euro 1.6 billion (+23.6% y-o-y). In **Albania**, loans amounted to Euro 349 million (-6.3% y-o-y) and deposits decreased by 4.7% y-o-y to Euro 409 million. In **Serbia**, loan balances stood at Euro 693 million (-8.8% y-o-y), while deposits decreased to Euro 385 million (-9.6% y-o-y).

Athens, August 30, 2016

ALPHA BANK

**The Bank**

The Alpha Bank Group is one of the leading Groups of the financial sector in Greece, with a strong presence in the Greek and international banking market. The Group offers a wide range of high-quality financial products and services, including retail banking, SMEs and corporate banking, asset management and private banking, the distribution of insurance products, investment banking, brokerage and real estate management. The Parent Company and main Bank of the Group is Alpha Bank, which was founded in 1879 by J.F. Costopoulos. Alpha Bank, the Bank that inspires confidence and constitutes a consistent point of reference in the Greek banking system, is one of the largest banks of the private sector, with a wide Network of over 1,000 service points in Greece and one of the highest capital adequacy ratios in Europe.

Significant recent milestones in the long and successful course of the Group are:

- The successful recapitalisation of the Bank by Euro 2,563 million on 24.11.2015, with significant oversubscription of the required private sector participation and with the result that the vast majority of Alpha Bank's shareholder base is composed now of private shareholders.
- The completion of Citibank's Greek Retail Banking Operations Acquisition, on 30.9.2014.
- The redemption of the total amount of the Hellenic Republic's Preference Shares by the Bank, on 17.4.2014.
- The successful completion of Euro 1.2 Billion Capital Increase of the Bank, on 31.3.2014.
- The completion of the legal merger by absorption of Emporiki Bank, on 28.6.2013.

## ENQUIRIES


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