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Other Announcements
HELLENIC BANK PUBLIC COMPANY LTD
HB

Disclosure of Information under Pillar III of Basel III for the year ended 31st December 2018

Attached announcement dated 25 April 2019.

Attachments:

1. **Announcement**
2. **Disclosure of Information under Pillar III of Basel III for the year ended 31st December 2018**

Non Regulated

Publication Date: 25/04/2019

HELLENIC BANK

25th April 2019

ANNOUNCEMENT

Subject: Disclosure of Information under Pillar III of Basel III for the year ended 31st December 2018

Within the framework of compliance with the requirements of Part 8 "Disclosures by Institutions" of the Regulation (EU) No 575/2013 (CRR), Hellenic Bank Public Company Limited publishes today the Disclosures in accordance with Pillar III of Basel III. These disclosures, which are submitted to the Central Bank of Cyprus, are posted on Hellenic Bank's website www.hellenicbank.com (Investor Relations).

Enclosed please find the abovementioned Disclosures for the year 2018.

HELLENIC BANK PUBLIC COMPANY LTD

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Green Key Green Offices

HELLENIC BANK

Hellenic Bank Group

DISCLOSURES
IN ACCORDANCE WITH PILLAR III OF BASEL III

for the year ended 31 December 2018

April 2019

ACCORDING TO PART EIGHT OF THE EUROPEAN UNION AND COMMISSION REGULATION No 575/2013 (CRR) AND DIRECTIVE 2013/36/EU (CRD IV) ON CAPITAL REQUIREMENTS, JUNE 2013.

Table of Contents

1. INTRODUCTION

The Pillar III disclosures of the Hellenic Bank Group (the "Group") that are presented in this document are prepared in accordance with the Basel III Legal Framework (CRR). These may differ from the disclosures presented in the Consolidated Financial Statements of Hellenic Bank Public Company Ltd (the “Bank”) and its Subsidiaries which are prepared based on International Financial Reporting Standards (IFRS) due to differences between the prudential consolidation basis and the accounting consolidation basis used by the Group and differences in definitions used.

Hellenic Bank Group announced its Audited Consolidated Financial Statements and the Bank’s separate Financial Statements for the year ended 31 December 2018 (hereafter collectively refer to “Financial Statements”) on 25 April 2019 and can be found on the Bank’s official website: www.hellenicbank.com.

1.1 Incorporation and Principal Activity

The Bank was incorporated in Cyprus in 1976 and is a public company in accordance with the provisions of the Companies Law (Cap. 113), the Cyprus Stock Exchange Laws and Regulations and the Income Tax Laws. The Bank is the holding company of the Group.

The principal activity of the Group during 2018 continued to be the provision of a wide range of banking and financial services, which include financial, investment and insurance services, custodian and factoring services as well as management and disposal of properties.

The Bank provides banking and financial services through its branch network. As at 31 December 2018 the branch network included 129 branches, 22 cash offices and a mobile branch in Cyprus as well as representative offices in South Africa, Ukraine and Russia.

The present report relates to the Pillar III disclosures of the Banking Group of the Hellenic Bank Group, which are prepared in accordance with the Basel III Legal Framework (CRR).

1.2 Basel III Legal Framework (CRR)

Effective from 1 January 2014, the European Parliament’s and Council’s Directive 2013/36/EU (CRD IV) and the Regulation (EU) No 575/2013 (CRR) of 26 June 2013 form the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III (CRR) into the European Union’s legal framework.

The CRR establishes the prudential requirements for capital, liquidity and leverage that credit institutions need to abide by and is immediately binding in its entirety on all Member States. The Directive 2013/36/EU (CRD IV) governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency, while it also sets out additional capital buffer requirements. Unlike the CRR, the CRD IV has been transposed into national law. The CRR introduces significant changes in the prudential and regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and to the calculation of risk-weighted assets (RWAs) and the introduction of new measures relating to leverage, liquidity coverage requirements and net stable funding requirements.

The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 1 January 2018, and some other transitional provisions with phase-in until 2024 (the latest).

Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017, was issued amending Regulation (EU) No 575/2013, regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public-sector exposures denominated in the domestic currency of any Member State. According to the Regulation, institutions are allowed to exclude from their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period. The transitional period has a maximum duration of five years and starts in 2018. The portion of expected credit loss provisions that can be excluded from CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

For more information on the implementation and impact of IFRS 9, refer to Note 4 of the Financial Statements for the year ended 31 December 2018 and Part 4 of the Pillar III disclosures for the year ended 31 December 2018.

In December 2017, the Basel Committee published the revisions to the Basel III framework (CRR). Basel III reforms complement the initial phase of Basel III reforms published in 2010, and seek to restore credibility in the calculation of RWAs and improve the comparability of banks' capital ratios.

The Basel III reforms include changes to the risk weights under the standardised approach for credit risk and market risk, introduction of a new approach for counterparty credit risk, replacement of the operational risk approach with a single standardised approach, amended set of rules for the calculation of credit valuation adjustment (CVA), revised definition of the exposure measure for the leverage ratio, introduction of leverage ratio buffer for global systemically important banks (G-SIBs) and aggregate output floor to ensure that banks' total RWAs are no lower than 72,5% of the total risk-weighted assets calculated using the standardized approaches.

In January 2019, the Basel Committee published the final changes to the market risk framework and conducted a "fundamental review of the trading book" (FRTB). The revised framework includes changes to the boundary of the banking book and the trading book, changes to the internal model approach to address the impact of non-modellable risk factors and changes to the standardised approach to align the treatment of foreign currency positions, options and index instruments with the associated risks.

The Basel III reforms will be implemented on 1 January 2022. For the output floor a five-year transitional provisions period will be applied from that date, commencing at the rate of 50%.

The Bank is in the process of examining the revised framework in order to be prepared for the effects of these amendments.

The wide-ranging nature of these revisions means that they will be applied in the EU through substantial revisions to the CRR (CRR II) and through a new round of EBA technical standards and guidance. They have to be transposed into local law before coming into effect.

Basel III (CRR) comprises of three Pillars:

- **Pillar I**–Enhanced minimum capital and liquidity requirements.
- **Pillar II**–Enhanced supervisory review process for firm-wide risk management and capital planning.
- **Pillar III**–Enhanced risk disclosure and market discipline.

1.2.1 Pillar I

Pillar I sets forth the guidelines for calculating:

- the minimum capital requirements to cover credit risk, market risk and operational risk.
- the leverage ratio as an institution's capital measure divided by the institution's total exposure measure expressed as a percentage.
- other liquidity measures such as the Liquidity Coverage Requirement ratio (LCR) and the Net Stable Funding Ratio (NSFR).

1.2.2 Pillar II

Pillar II aims at enhancing the link between an institution's risk profile, risk management, risk mitigation systems and its capital planning. Pillar II is divided into two major components, the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).

The ICAAP is reviewed and evaluated by the Single Supervisory Mechanism (SSM) as part of its SREP, which occurs periodically and contributes to SSM's assessment of capital adequacy and additional own funds requirements.

ICAAP is an integral part within the holistic risk management approach of the Bank. It is integrated with the Bank's strategic processes, including the Risk Appetite Framework and Business as well as Capital Planning.

During 2018, the Bank conducted the ICAAP to arrive at a forward-looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilising internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework.

Supervisory Review and Evaluation Process 2018 (SREP 2018)

Following ECB's draft[1] decision in establishing prudential requirements, the Bank is required to maintain for 2019, effective from 1 May 2019, on a consolidated basis, a phase-in Capital Adequacy Ratio of 14,075%, which includes:

- the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital),
- an own funds Pillar II requirement of 3,2% required to be held in excess of the minimum own funds requirement (to be made up entirely of CET 1 Capital) (SREP 2017: 3,2%),
- a phased-in combined buffer requirement which for 2019 includes the fully-loaded capital conservation buffer of 2,5% (SREP 2017: 1,875% phased-in), which has to be made up with CET 1 capital and the O-SII buffer of 0,375% (as per revised CBC circular dated 25 October 2018 the fully-loaded O-SII buffer increases from 1% to 1,5%) (SREP 2017: 0%), with application starting from 1 January 2019 which is phased-in over a period of four years.

Additionally, applicable for the Bank, the combined buffer requirement includes:

- a Counter-Cyclical Capital Buffer (CCyB) for which the CBC has set the level at 0% for exposures located in Cyprus for 2017, 2018 and for the first half of 2019 (the Institution specific CCyB for 2017 and 2018 was 0%),
- a Systemic Risk Buffer (currently applicable only for exposures located in Estonia of credit institutions authorised in Cyprus, for which the CBC reciprocated the Estonian macroprudential measure. For Hellenic Bank these exposures are immaterial).

The draft[1] 2018 SREP decision will apply from 1 May 2019.

Based on the draft[1] SREP letter the Pillar II requirement which is applicable as from 1 May 2019 has remained the same as in 2018 at 3,2%. Furthermore, the Bank shall refrain from making distributions to its shareholders.

Taking into account the above, the Group's minimum CET 1 and Tier 1 ratios effective as from 1 May 2019 are set at 10,575% and 12,075% respectively.

In addition to the above, the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has remained the same as in 2018.

1.2.3 Pillar III

The Pillar III disclosures of the Group set out both quantitative and qualitative disclosures required in accordance with Part Eight 'Disclosures by Institutions' of the CRR and the EBA's guidelines published in December 2016 (EBA/GL/2016/11, version 2) and LCR disclosures that are applicable from 31 December 2017 (EBA/GL/2017/01).

The report provides additional information to allow market participants to have a full picture of the risk profile of the Group, to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Group.

For more information in relation to risk management, refer to Note 51 of the Financial Statements for the year ended 31 December 2018.

[1] Based on the notification, received on 3 April 2019, of ECB's intention to adopt a decision establishing prudential requirements pursuant to Article 16 of Council Regulation (EU) No 1024/2013.

1.2.3.1 Basis and frequency of disclosures

The Pillar III disclosures are based on Articles 431 to 455 and 492 of the CRR for the calculation of the capital requirements which is in effect since the 1st of January 2014, as well as any transitional provisions adopted by the CBC.

According to Article 433 of Part Eight of the CRR, institutions shall publish their Pillar III disclosures at least on an annual basis. Annual disclosures shall be published in conjunction with the date of publication of the Financial Statements. As per CBC requirement the disclosures shall be made as soon as possible after the end of the financial period to which it relates and not later than four months, except where it has been requested by the CBC or the ECB to be disclosed on a different time schedule. The Pillar III disclosures are published annually on the Group's website www.hellenicbank.com and in conjunction with the Annual Financial Report of the Group.

The Pillar III disclosures should be read in conjunction with the Financial Statements for the year ended 31 December 2018. Disclosures that are prepared in accordance with specific references to EBA guidelines are presented in Appendix 2.

1.2.3.2 Approval

The Pillar III disclosures are approved by the Board of Directors (BoD) through the Board Risk Management Committee (BRMC) and the Audit Committee (AC), prior to their public disclosure.

1.3 Scope of Application

As at 31 December 2018, the prudential consolidation was based on International Financial Reporting Standards (IFRS) and the requirements of the Legal Framework in relation to the capital requirements as adopted by the European Union. The relevant reconciliation between the Statement of Financial Position as presented in the Group Financial Statements for the year ended 31 December 2018 with the Statement of Financial Position prepared for regulatory purposes is presented in Section 4.4:

Subsidiary company	Ownership %	IFRS	Basis of consolidation for regulatory purposes	Activities
Hellenic Bank (Investments) Ltd	100	Full	Full consolidation, Note 1	Investment banking, asset management and brokerage
Hellenic Bank Trust and Finance Corporation Ltd	100	Full	Full consolidation	Financing Services
Pancyprian Insurance Ltd	99,96	Full	Neither consolidated nor deducted, Note 2, Note 3	General Insurance
Hellenic Alico Life Insurance Company Ltd	72,50	Full	Neither consolidated nor deducted, Note 2	Life Insurance
Hellenic Insurance Agency Ltd	100	Full	Neither consolidated nor deducted, Note 2	Insurance Intermediation
D4A2 Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Idith Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Ezmero Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Alira Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Krolo Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Litt Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Dallastia Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Anolia Industrial Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Abverma Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Chrisblo Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Thishpo Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Balmacro Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Bulmo Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings
Drypto Holdings Ltd	100	Full	Full consolidation, Note 4	Investment holdings (not active)
APS Debt Servicing Cyprus Ltd	49	Full	Equity method, Note 5	Management of real estate assets through enforcement proceedings or payment in lieu of credit rights arising under loans from the Bank and management and recovery of non-performing loans and ancillary debts

Notes:

1. On 28 November 2016 the Board of Directors of Hellenic Bank (Investments) Ltd decided to discontinue all business activities in Hellenic Bank (Investments) Ltd, which primarily related to retail brokerage services. The value of the cost of investments represents the company's net assets as at 31 December 2018.

2. With regards to the Bank's significant investments in financial sector entities, including its investments in subsidiary companies which operate in the insurance sector (Pancyprian Insurance Ltd, Hellenic Alico Life Insurance Company Ltd and Hellenic Insurance Agency Ltd), and deferred tax assets that rely on future profitability and arise from temporary differences, the Bank applied the exemptions from deduction from CET1 in accordance with the provisions of Article 470 of the CRR and these items are risk weighted at 250%.

3. On 31 December 2018, the Group assessed whether there is any impairment of goodwill arising on the acquisition of Pancyprian Insurance Ltd, by calculating the estimated fair value of the company, based on the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the investments. As a result of this assessment, no impairment of goodwill arose.

4. The Bank, as part of its non-performing exposures management, is entering into a number of debt-to-asset swap transactions. Assets acquired in satisfaction of debt are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs).

   For liquidation optimisation at 31 December 2017, D4A2 Ltd was the holding company of 34 wholly owned SPVs established or acquired to hold assets acquired in satisfaction of debt. As at 31 December 2017, 3 out of the 34 SPVs were dormant.

   Pursuant to a re-organisation plan dated 1 November 2018 (the "Plan"), as ratified by a court order dated 12 November 2018 and filed with the Registrar of Companies for registration on 10 December 2018, the Bank absorbed the operations of its 100% owned subsidiary D4A2 Ltd. At the same time, through the Plan, the Bank absorbed the operations of 22 such SPVs. Through the Plan, all the assets, rights and obligations of D4A2 Ltd and the 22 SPVs absorbed were taken over by the Bank on a going concern basis. The SPVs absorbed were dissolved without going into liquidation.

5. Within the framework of the Bank's deleveraging strategy and the efforts of tackling assets quality, the Bank signed an agreement with APS Holding a.s (APS Holding) in January 2017 for the management of real estate assets and servicing of the NPEs portfolio. The agreement entailed the disposal of the operations of the Bank's Arrears Management Division (AMD) to a newly established entity APS Debt Servicing Cyprus Ltd (APS Cyprus), while the ownership of the real estate and loan portfolio remains with the Bank. The new entity is owned 51% by APS Holding and 49% by Hellenic Bank. For more information refer to Note 25 of the Financial Statements for the year ended 31 December 2018.

1.3.1 Acquisition of certain assets and liabilities of CCB

On 3 September 2018, the Bank completed the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank Ltd ("CCB") with effect from 1 September 2018 (the "Acquisition"). The Bank signed the business transfer agreement ("BTA") to acquire substantially all the performing business of CCB, including the related business of lending, deposit taking and the provision of other banking services, to the extent comprised of the acquired assets (the "Assets") and the assumed liabilities (the "Assumed Liabilities"), as carried on by CCB (the "Business"). The Assets comprised a portfolio of primarily performing loans, Cyprus Government Bonds, cash and other current assets, while the Assumed Liabilities comprise customer deposits and other current liabilities.

For an analysis of the Acquisition of certain assets and liabilities of CCB refer to Note 49 of the Bank's Annual Financial Report 2018.

2. GOVERNANCE

2.1 Number of directorships held by Members of the Board

The following table shows the number of positions held by Members of the BoD in the various Boards of Directors, including the Bank's, as at 31 December 2018. Positions in the Boards of the same group are regarded as one position. Positions in the Boards of Directors of organisations that are not engaged in profit-making activities (e.g. charitable non-profit organisations) or that are deemed not to pursue predominantly commercial activities are also presented in the table below, as required by paragraph 57 of the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11):

Name	Position with the Bank	Directorships – Executive	Directorships – Non-Executive
Youssef A. Nasr	Non Executive Chairman (elected on 11.07.2018)	--	4
Dr Evripides A. Polykarpou	Non Executive Director – Senior Independent Director (has been fulfilling the duties of the Chairperson until 11.07.2018)	--	3 (of which 2 are in non-profit organizations)
Marinos S. Yannopoulos	Non Executive Vice Chairman	1	2
Irena A. Georgiadou	Non Executive Director	--	4 (of which 2 are in non-profit organizations)
Marianna Pantelidou Neophytou	Non Executive Director	1	1
Ioannis A. Matsis	Executive Director	1	3 (of which 2 are in non-profit organizations)
David Whalen Bonanno	Non Executive Director	--	4
Christodoulos A. Hadjistavris	Non Executive Director	--	1
Andreas Christofides	Non Executive Director	1	1
Andrew Charles Wynn	Non Executive Director	1	1
Stephen John Albutt*	Non Executive Director	--	1
Demetrios Efstathiou	Non Executive Director	1	3 (of which 1 is in a non-profit organization)
Lars Kramer	Executive Director	1	--

* Stephen John Albutt also holds executive directorships in three companies, which do not pursue predominantly commercial activities.

** The information presented in this table is based only on representations made by the Directors of the Bank.

2.2 Recruitment policy in relation to the selection of Members of the Board of Directors

The Bank follows a predetermined procedure for the selection of the Members of the Board of Directors. Specifically, the Members need to have integrity and honesty, good repute, the necessary qualifications, education, skills, knowledge, experience, diversity and independence in order to conduct all their duties. The Nominations / Internal Governance Committee of the Board of Directors identifies, evaluates and recommends for approval by the Board candidates to be appointed as Directors. The Bank has a written policy in relation to the selection, succession and appointment of the Members of the Board.

In relation to the qualifications and education of the Members of the Board, they are university graduates in economics, finance, business administration, banking and quantitative methods, with most of them holding a professional qualification relating to financial matters. The Members of the Board have collective international and/or local expertise and experience in investment / international / corporate / retail banking and arrears management. They also share skills related to risk, compliance, finance / audit, strategy, crisis management, corporate governance, leadership / human resource management and planning, policy development, change management and technology. Most Members had previous Board experience when they joined the Bank's Board of Directors.

Mr Youssef A. Nasr was elected as an Independent Non-Executive Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 11 July 2018 and at the Board meeting that followed, he was elected Chairman of the Board of Directors of the Bank. The Senior Independent Director, Dr Evripides A. Polykarpou, had been fulfilling the duties of the Chairman until that day.

Mr Lambros Papadopoulos withdrew his candidacy for re-election as Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 11 July 2018, for personal reasons and to focus on other executive and non-executive duties.

2.3 Diversity policy in relation to the selection of Members of the Board of Directors

The Board as a whole should reflect a diversity of skills, experience and perspectives, including gender and age diversity. It is the Bank's policy that each Board Member must have the skills, experience, knowledge and overall suitability that will enable him/her to contribute individually, and as part of the Board team.

When appointing new Board Members, the Nominations / Internal Governance Committee will strive to achieve the desired gender diversity of the Board and will ensure that all appointments are assessed on merits and against the defined selection criteria. As a result, the number of members of the under-represented sex, executive or non-executive Directors, will necessarily vary from time to time.

The Bank has set an aspirational target to have members of the under-represented sex make up 40% of the Board's non-executive membership by the end of 2022.

The diversity policy is included in the above mentioned policy for the selection, succession and appointment of the Members of the Board.

3. REMUNERATION POLICY AND PRACTICES

3.1 Basic principles of the Group's Remuneration Policy

The Group's Remuneration Policy describes the procedure which is followed in determining the remuneration of all members of the Group's staff, including the Members of the Board of Directors. It promotes and is consistent with sound and effective risk management, it is in line with the business strategy, objectives, long-term interests and values of the Bank and has measures in place to avoid conflicts of interest.

The Policy covers both fixed (basic) and variable remuneration. Fixed remuneration is determined by individual employment contracts and the legislation of the countries in which staff are employed. Variable remuneration is determined by measurable performance indicators, the Group's overall results, the financial market conditions under which these have been achieved and the risks undertaken.

The present version of the Group's Remuneration Policy is based on the Directive of the Central Bank of Cyprus on Governance and Management Arrangements in Credit Institutions (August 2014), the European Banking Authority's Guidelines on Remuneration Policies and Practices (December 2010), Articles 3 and 4 of Regulation (EU) No 604/2014 and the Code of Corporate Governance published by the Cyprus Stock Exchange (April 2014). The Remuneration Policy was extensively revised in December 2018 based on the revision of the European Banking Authority Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, as at 27.06.2016 effective as at 1 January 2017.

The Group Remuneration Policy is based on the principle of transparency and hence has been uploaded on the Bank's portal, to enable access by all employees. Furthermore, it is reviewed annually by the Board of Directors, following relevant recommendations made by the Remuneration Committee, to ensure compliance with the current strategic goals of the Group and to avoid the payment of rewards that encourage excessive risk-taking. In addition, the Board assesses whether the Remuneration Policy is in line with the prevailing conditions of the market, as well as those of the Group and whether these justify an update of the Policy.

The Board's Remuneration Committee met two times during the year 2018.

The revised Remuneration Policy was approved by the Board of Directors on 14 December 2018.

The revised version of the Policy covers all types of remuneration which are defined as follows:

3.1.1 Fixed Remuneration

Basic Principles

- Fixed remuneration refers to the staff's basic and primary form of remuneration and is determined by relevant legislation and individual employment contracts.
- The fixed remuneration of non-executive Directors is subject to the approval of the Bank's shareholders at Extraordinary or Annual General Meetings and is based on the recommendation of the Management Body, prepared with the assistance of the Board Remuneration Committee.
- The fixed remuneration of Executive Members of the Board, including the Chief Executive Officer, is determined by the Member's individual employment contract and governed by legislation.

Further details on the criteria used to determine fixed remuneration are provided in the Remuneration Policy Report that forms part of the Bank's 2018 Annual Financial Report, which has been published on the Bank's official website.

3.1.2 Variable Remuneration

Basic Principles

Variable remuneration/reward is additional remuneration that is offered by the Bank that is not fixed. Its purpose is to align the incentives of staff with the long-term interests of the Group.

The conditions for the payment of variable remuneration include the following:

- The Bank may provide variable remuneration up to 50% of base salary without shareholders' approval. The ratio can increase to 100%, subject to shareholders' approval, following a detailed recommendation.

- Variable remuneration is in alignment with the business strategy, the corporate and individual objectives and the long-term interests of the Group, without encouraging conflicts of interest or risk-taking that exceeds the Bank's risk tolerance limits.
- In deciding whether to grant variable remuneration in any one year, the Board Remuneration Committee considers (for the approval of the Management Body) whether the key conditions in terms of the Group's profitability and capital position have been met, in order to trigger the awards.
- Any variable remuneration which may be granted via the relevant incentive schemes is subject to:
    - The discretion provided to the Board's Remuneration Committee not to grant variable pay awards in any one year and to reduce the bonus pool available for variable pay award in any one year
    - A Group-wide KPI scorecard, directly linked with the KPIs as per the financial results of the Bank, which provides for variance in the award levels according to the level of achievement against these criteria.
- Once the Strategic Plan is approved, annual as well as longer-term qualitative and quantitative targets will be identified which will then be linked to the granting and vesting of variable pay awards for the applicable award and deferral cycles (where applicable).
- The Board's Remuneration Committee considers (for the approval of the Management Body):
    - Reputational, Regulatory and Conduct Risk arising from the individual's (and their respective unit's) behaviour and performance
    - The Risk Appetite Framework of the Bank.
- The total variable remuneration does not limit the Bank's ability to strengthen its capital base.
- The remuneration of Control Functions is disassociated from the targets and performance of the Business Units they monitor and the evaluation of Control Functions with regards to their own targets and responsibilities is ensured.
- Up to 100% of total variable remuneration is subject to recall (malus and clawback arrangements), based on performance or risk related outcomes.
- Non-executive Members of the Board are not included in the beneficiaries of variable remuneration.
- The conditions of Variable Remuneration to identified staff are governed by applicable regulations and guidance in relation to:
    - the ratio between cash and non-cash components
    - the value of awarded instruments
    - deferral, vesting and retention conditions
    - malus and clawback.

Team Incentive Schemes provide awards for team achievements, as a form of recognition for team effort and contribution to the success of the Group and are used by the Management to convey the Bank's strategy to the business units and to assess the unit's performance. The annual divisional targets for key parameters are based on the approved Strategic Plan. The award should not exceed €1.000 per person, per year, which represents a low % of the average Annual Fixed Salary of the Bank. The financial rewards should relate to group activities (e.g. hotel accommodation, lunch/dinners, overseas travel, etc.).

Further information on variable remuneration is available in the Bank's Remuneration Policy Report which is included in the 2018 Annual Financial Report (published on the Bank's official website).

3.2 Remuneration Policy Report for the year 2018

The Board of Directors, in compliance with the provisions of the Code of Corporate Governance, published by the Cyprus Stock Exchange (fifth edition (revised) – January 2019) and particularly Appendix 1 of the Code, incorporates the Remuneration Policy Report in the Bank's 2018 Annual Financial Report, which includes amongst others, the composition and the Terms of Reference of the Remuneration Committee. The 2018 Annual Financial Report has been published on the Bank's official website www.hellenicbank.com.

3.3 Members of the Board of Directors and Personnel categories

The Members of the Board of Directors and the personnel of the Group are divided into the following categories:

1. Non-executive Members of the Board.
2. Executive Members of the Board.
3. People whose professional activities have a material impact on the risk profile of the Bank as defined by the CBC in its Directive on Governance and Management Arrangements in Credit Institutions (2014) and the European Banking Authority's "Regulatory Technical Standards with respect to Qualitative and Appropriate Quantitative Criteria to Identify Categories of Staff whose Professional Activities have a material impact on an Institution's risk profile" (EU/604/2014) (includes both Executive and Non-executive Members of the Board).

4. Staff Members of the Group not included in the above categories.

3.4 Geographical segments

During 2018 the Group operated mainly in Cyprus, principally providing banking, financial and insurance services.

The Bank maintains Representative Offices in Moscow, Saint Petersburg, Kiev and Johannesburg.

The number of staff employed by the Group on 31 December 2018 was 2.495, compared to 1.535 on 31 December 2017.

The remuneration of the personnel of the Group for 2018 according to the legal framework, which includes salaries and other short-term benefits as well as employer's contributions for social insurance etc., is analysed as follows:

		2018	**2018**
		€000	**Number**
Emoluments/number of people whose professional activities have a material impact on the risk profile of the Bank as defined by the Central Bank of Cyprus (CBC) and the Committee of European Banking Supervisors:			
Non-Executive Members of the Board		1.014	12
Executive Members of the Board		1.061	2
General Managers and Managers of Central Services		3.308	36
Managers of Regulatory Services		2.454	29
Managers of Business Divisions		3.644	36
Other		830	18
		12.311	**133**

Information on the remuneration of the Members of the Board of Directors and the Chief Executive Officer for the year 2018 is disclosed in the notes to the Financial Statements for the year ended 31 December 2018 of the Group (Note 41) as well as in the Remuneration Policy Report.

For the year 2018, the Group paid an amount of €47 thousand on the termination of the employment of one employee whose professional activities had a material impact on the risk profile of the Bank. During the year no variable or deferred remuneration was provided or awarded, neither any sign-on payments were made to any employee.

In addition, during 2018, the Group did not offer to any employee remuneration payment which exceeded the threshold of €1 million.

For an analysis of the remuneration of directors refer to the Remuneration Policy Report for the year 2018 included in the Annual Financial Report 2018.

For an analysis of the staff remuneration per segment refer to Note 44 of the Bank's Annual Financial Report 2018.

4. CAPITAL BASE

The Group's regulatory capital is calculated in accordance with the provisions of the CRR and is analysed as follows:

Common Equity Tier 1 capital

- Common Equity Tier 1 capital includes share capital, share premium, retained earnings including the profit/loss for the year, accumulated other comprehensive income (i.e. revaluation reserve of investments in debt securities, revaluation reserve of investments in equity and other securities and property revaluation reserve) and other reserves such as translation reserve and reduction of share capital reserve.

- The carrying amount of goodwill and other intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from CET1 capital (subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014) up to 31 December 2017).

- As per regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS9, a portion of the impact of expected credit losses provisions is added back to CET 1 capital allowing for a transitional period of five years until full impact on 2023. For 2018 the portion added back is set at 95% and will gradually reduce to 25% in 2022.

- Pursuant to Article 34 of the CRR the prudent valuation requirements of Article 105 of the CRR are applied to all assets measured at fair value and the necessary amount of any additional value adjustments is deducted from CET 1 capital.

- Additionally, the Group's contribution to the Investors Compensation Fund, as per the requirements of Circular 162 issued on 10 October 2016 by the Cyprus Securities and Exchange Commission (CySEC) is deducted from CET 1 capital.

Additional Tier 1 capital

- Additional Tier 1 capital includes hybrid instruments, composed by Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2).

- The carrying amount of intangible assets is deducted from AT1 capital (subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014) up to 31 December 2017).

Tier 2 capital

- Tier 2 capital includes subordinated loan capital. In addition, other transitional adjustments in relation to property revaluation reserve were included in Tier 2 capital up to 31 December 2017.

The Group's Capital policy aims to ensure the viability of the Bank through the maintenance of an appropriate level of capital, so as to meet regulatory requirements and internal buffers set, safeguard the best interests of shareholders and support its business strategy.

4.1 Share capital

As at 31 December 2018, 198.474.712 fully paid shares were in issue, with a nominal value of €0,50 each (2017: 198.474.712 fully paid shares with a nominal value €0,50 each).

The movement of the issued share capital of the Group and the Bank for the years 2018 and 2017 is presented in the table below:

Issued Fully paid shares		**31 December 2018 (€000)**	**No. of shares (thousand)**	**31 December 2017 (€000)**	**No. of shares (thousand)**
Total issued share capital		99.237	198.475	99.237	198.475

For more information in relation to the share capital, refer to Notes 35 and 51 of the Financial Statements for the year ended 31 December 2018.

4.2 Loan capital

4.2.1 Primary loan capital

The primary loan capital of the Bank comprises of Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2) and is included in Tier 1 Capital.

Tier 1 Capital (€000)		**2018**
Convertible Capital Securities 1		1.597
Convertible Capital Securities 2		128.070
Total Tier 1 Capital		**129.667**

4.2.1.1 Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2)

The Convertible Capital Securities 1 and Convertible Capital Securities 2 are perpetual securities with no maturity date.

In accordance with the terms and characteristics of CCS 1 and 2, the appropriate classification and measurement of CCS 1 and 2 are as a financial liability.

4.2.1.1.1 Coupons

Under the terms of their issue, CCS1 bear an annual fixed interest rate of 11% and CCS2 bear an interest of 10%, which is payable on a quarterly basis at the end of each Interest Payment period. Interest payment dates are set to be the 31 March, 30 June, 30 September and 31 December.

The interest payment will be paid by the Available Distributable Items of the Bank.

The CCS1 and CCS2 are subject to interest payment cancellation, in accordance with their issuance terms as they appear in the Prospectus dated 30 September 2013 (the “Prospectus”).

The Bank may, at its sole discretion, partially or fully cancel the interest payment on non-cumulative basis at any time considered necessary or desirable and for any reason, for an unlimited time period and without any restriction to the Bank.

Without this affecting the right of the Bank on cancelling the interest payment at its sole discretion, as mentioned above, the mandatory cancellation of the interest payment will apply in cases where:

(i) the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS1 or/and CCS2, or

(ii) the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank’s or the Group’s capital requirements, or

(iii) there is a requirement by the Central Bank of Cyprus, at its sole discretion, as the competent authority, to cancel all or part of an interest payment.

Interest cancellation will not constitute an event of default, will not impose any restrictions on the Bank and will not grant the right to CCS1 or/and CCS2 holders to apply for the liquidation or resolution of the Bank. The Bank may use any cancelled interest payment without restrictions in order to meet its obligations, as they fall due.

On 9 December 2013, in accordance with the above provisions, and at its sole discretion, the Bank announced the mandatory cancellation of the interest payment as a result of the inexistence of the required Available Distributable Items for such interest payment. The mandatory cancellation of interest payment will be valid unless the Bank informs the holders of the CCS1 and CCS2 otherwise.

4.2.1.1.2 Hierarchy Step up

The CCS1 and CCS2 are unsecured and subordinated obligations of the Bank and are classified as Tier 1 capital securities in accordance with the CRR.

The rights and claims of CCS1 and CCS2 holders:

(i) are subordinated to the claims of the Bank's creditors,

(ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS – already matured) and any other future bond and other securities issues of the Bank that are classified as Tier 1, excluding ordinary shares,

(iii) They have priority only in respect of the Bank’s ordinary shareholders.

The rights and claims of CCS1 and CCS2 holders refer in the main Terms of Issuance in the Prospectus.

4.2.1.1.3 Redemption

Under the provisions of the Prospectus and pursuant to their issuance terms, the Bank may, at its sole discretion, redeem, following a notification of CCS1 and CCS2 holders and the Trustee, at par including accrued interest, excluding any cancelled interest, the total or part of the CCS1 or/and CCS2, on 31 October 2018 or on any interest payment date after that date, provided that the financial position and/or the solvency of the Bank and/or the Group are not adversely affected by such a redemption and after approval by the CBC or other competent supervisory authority. In case of redemption of part of the CCS1 or/and CCS2, the redemption will apply for all holders of CCS1 and CCS2 in proportion to the CCS1 or/and CCS2 they hold respectively.

The CCS1 and CCS2 are also redeemable at the sole discretion of the Bank, at or after their issuance (after approval of the CBC or other competent authority and given that events or conditions referred to in (i) or/and (ii) below, as applicable, could not reasonably be anticipated by the Bank at the time of the issue of CCS1/CCS2 and deemed by the CBC that such changes in (i) below are considered almost certain), in whole and not part of, at par including accrued interest not cancelled:

(i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS1 or/and CCS2 cease to be considered:

(a) Tier 1 Capital and/or

(b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).

(ii) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or if the amount of any deduction for the Bank would be greatly reduced.

All CCS1 or/and CCS2 redeemed by the Bank will be cancelled and will not be reissued or resold. The Bank shall cease to have any obligations in regards to any CCS1 and CCS2 that may be cancelled.

4.2.1.1.4 Mandatory Conversion

Under the provisions of the Prospectus, the CCS1 and CCS2 will mandatorily and irrevocably be converted into ordinary shares, if any of the following occur:

(a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the CBC, after this new date, has decreased, or remains below 9% (as long as the Bank or the Group is required, by the CBC, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).

(b) The Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the CBC, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.

(c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.

(d) If any Non-Viability Event occurs for the Bank or the Group may be subject to state aid measures.

The conversion amount will be, as applicable, (i) the amount required to restore the Common Equity Tier 1 ratio of the Bank and/or the Group to 5,125% and/or to 9% (for the latter, as long as Bank or the Group is required to maintain the Common Equity Tier 1 ratio equal to or greater than 9%) and/or the applicable ratio that is required, at any time, from the CBC with maximum ratio of Common Equity Tier 1 Capital of 9% or (ii) the amount required so that the Bank is considered viable by the CBC, in each case up to the entire nominal amount of CCS1 and CCS2. Any conversion will apply pro rata to the outstanding balance of CCS1 and CCS 2.

4.2.1.1.5 Voluntary Conversion

The CCS1 and/or CCS2 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at predetermined periods each year.

Pursuant to the terms of the Prospectus, CCS1 and CCS2 holders may exercise the right to convert the CCS1/CCS2 into ordinary shares, during the periods between 15-31 January and 15-31 July of each year (the "Conversion Period") with the first Conversion Period commencing on 15 January 2016 and the last Conversion Period commencing on 15 July 2023. If a CCS1 and CCS2 holder exercises his Right to convert, any interest accrued ceases to be calculated and becomes due until the end of the conversion period during which the holder has exercised voluntary conversion, according to the provisions of Paragraph 10.B.(d) of Part IV/B/III and Paragraph 11.B.(d) of Part IV/C/III of the Prospectus respectively.

The first Conversion Period for CCS1/CCS2 commenced on 15 January 2016 and ended on 29 January 2016, the second Conversion Period commenced on 15 July 2016 and ended on 29 July 2016, the third Conversion Period commenced on 16 January 2017 and ended on 31 January 2017 and the fourth Conversion Period commenced on 17 July 2017 and ended on 31 July 2017. During the four conversion periods the Bank did not receive a Voluntary Conversion Application from any CCS1 /CCS2 holder.

4.2.1.1.6 Mandatory Conversion Price

The CCS1 or/and CCS2 will be converted into new fully paid ordinary shares of the Bank at the "Mandatory Conversion Price", pursuant to the provisions of the Prospectus, which will be equal to the higher of:

(i) the Mandatory Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,

(ii) the minimum adjusted conversion price of €4,00 for CCS1 and €2,00 for CCS2 (for adjusted prices based on the provisions of the Prospectus, Part IV/B/III paragraph C1 (i) and Part IV/C/III paragraph C1 (i), which were effective from 27 February 2015, please refer to sub-note 1 below),

(iii) the nominal value of the Bank's ordinary shares.

4.2.1.1.7 Voluntary Conversion Price

The CCS1 or/and CCS2 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at the "Voluntary Conversion Price", pursuant to the provisions of the Prospectus, which will be equal to the higher of:

(i) the Voluntary Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,

(ii) the minimum adjusted conversion price of €6,50 (adjusted prices based on the provisions of the Prospectus, Part IV/B/III paragraph C1 (i) and Part IV/C/III paragraph C1 (i), which were effective from the 27 February 2015, please refer to sub-note 2 below) and,

(iii) the nominal value of the Bank's ordinary shares.

Sub-note 1: the minimum mandatory conversion prices have been adjusted to reflect the issue of shares via rights issue from €0,10 to €0,08 for CCS1 and from €0,05 to €0,04 for CCS2 and to reflect the reverse split of the share capital from €0,08 to €4,00 for CCS1 and from €0,04 to €2,00 for CCS2.

Sub-note 2: the minimum voluntary conversion prices for CCS1 and CCS2 have been adjusted to reflect the issue of shares via right issue from €0,15 to €0,13 and to reflect the reverse split of the share capital from €0,13 to €6,50.

4.2.2 Secondary loan capital

The amount of €1.331 included in supplementary own funds at 31 December 2017, comprised of:

Secondary loan capital (€000)		Carrying amount	Reductions based on the Directive	Amount in supplementary own funds
Non-convertible bonds 2018		10.000	(8.669)	1.331
Total		**10.000**	**(8.669)**	**1.331**

4.2.2.1 Non-Convertible Bonds 2018

On 1 September 2008, the Bank proceeded with the issue of the Bonds 2018 amounting to €10.000.000 that were classified as financial liabilities. Non-convertible bonds were matured on 31 August 2018.

Interest on Bonds 2018 was payable in cash every three months, at the end of each interest period. Bonds 2018 bore interest at a floating rate equal to the 3-month Euribor rate applicable at the beginning of each interest period, plus 1,75%. Under the terms of issuance of the bond, if the bonds were not redeemed by the Bank after 1 September 2013, they would bear an additional interest of 1%. Consequently, the interest rate applicable subsequent to 1 September 2013 was equal to the 3-month Euribor plus 2,75%.

Bonds 2018 were not secured and in the event of the Bank's liquidation their repayment followed in priority the claims of depositors and other creditors. They had, however, priority over shareholders and Capital Securities holders. Bonds 2018 were not listed on the Cyprus Stock Exchange.

4.3 Reconciliation between regulatory capital (on transitional basis) with equity as presented in the Financial Statements

The following table provides reconciliation between the Statement of Financial Position presented in the Financial Statements with the statement of financial position prepared for regulatory purposes.

Reconciliation between regulatory capital with equity (€000)		Ref[2]	31 December 2018[3]	31 December 2017[4]
Total Equity per Financial Statements		a	824.547	562.296
Deconsolidation of insurance entities		b	(13.481)	(12.763)
Intangible assets			(49.450)	(28.858)
Deferred tax assets that rely on future profitability and do not arise from temporary differences			(13.599)	(9.829)
Reserves arising from revaluation of properties and other non CET1 eligible reserves			(18.518)	(18.952)
Additional deductions of CET1 Capital due to Article 3 CRR			(245)	(242)
Value adjustments due to the requirements for prudent Valuation			(6.380)	(8.647)
IFRS 9 transitional arrangements			36.643	--
Total Common Equity Tier 1			**759.517**	**483.005**
Additional Tier 1				
Loan Capital (after deduction of Own Additional Tier 1 instruments)		c	129.667	129.667
Intangible assets			--	(7.213)
Total Additional Tier 1			**129.667**	**122.454**
Total Tier 1			**889.184**	**605.459**
Tier 2				
Loan Capital (after deduction of Own Tier 2 instruments)		c	--	10.000
Tier 2 amortisation			--	(8.669)
Property revaluation reserve and other unrealised gains			--	3.790
Total Tier 2			**--**	**5.121**
Total Own funds			**889.184**	**610.580**

[2] The references (a) – (c) identify balance sheet components on section 4.4 which are used in the calculation of regulatory capital. Numbers may not add up/cross reference due to rounding.
[3] Under IFRS9 transitional basis
[4] Under IAS39 transitional basis

4.4 Reconciliation between the Consolidated Statement of Financial Position as presented in the Financial Statements with the statement of financial position prepared for regulatory purposes

As explained in Section 1.3, the basis of consolidation for financial accounting purposes differs from that used for regulatory purposes.

As at 31 December 2018 (€000)	Ref	Consolidated Statement of Financial Position based on IFRS	Deconsolidation of insurance entities	Statement of financial position per regulatory scope of consolidation
Assets				
Cash and balances with Central Banks		4.391.444	(1)	4.391.443
Placements with other banks		307.888	(13.605)	294.283
Loans and advances to customers		6.283.438	--	6.283.438
Debt securities		4.526.428	(799)	4.525.629
Equity securities & Collective Investment Units		34.638	(23.141)	11.497
Investment in subsidiary companies		--	33.748	33.748
Investment in associate company		8.997	--	8.997
Property, plant and equipment		101.489	(6.426)	95.063
Intangible assets		46.546	(14.835)	31.711
Tax receivable		494	(380)	114
Deferred tax asset		16.326	--	16.326
Other assets		408.498	(35.869)	372.629
Total assets		**16.126.186**	**(61.308)**	**16.064.878**
Liabilities				
Deposits by banks		216.199	--	216.199
Customer deposits and other customer accounts		14.709.168	11.397	14.720.565
Tax payable		5.322	(198)	5.124
Deferred tax liability		44.457	(208)	44.249
Other liabilities		196.826	(58.818)	138.008
Loan capital	c	129.667	--	129.667
Total liabilities		**15.301.639**	**(47.827)**	**15.253.812**
Equity				
Share capital		99.237	--	99.237
Reserves		721.109	(9.280)	711.828
Equity attributable to owners of the parent company		**820.346**	**(9.280)**	**811.066**
Non-controlling interest		4.201	(4.201)	--
Total equity	a/b	**824.547**	**(13.481)**	**811.066**
Total liabilities and equity		**16.126.186**	**(61.308)**	**16.064.878**

4.4 Reconciliation between the Consolidated Statement of Financial Position as presented in the Financial Statements with the statement of financial position prepared for regulatory purposes (continued)

As at 31 December 2017 (€000)		Ref	Consolidated Statement of Financial Position based on IFRS	Deconsolidation of insurance entities	Statement of financial position per regulatory scope of consolidation
Assets					
Cash and balances with Central Banks			2.293.754	(1)	2.293.753
Placements with other banks			348.176	(11.903)	336.273
Loans and advances to customers			2.766.738	--	2.766.738
Debt securities			1.018.902	(812)	1.018.090
Equity securities & Collective Investment Units			30.037	(20.806)	9.231
Investment in subsidiary companies			--	33.748	33.748
Investment in associate company			7.600	--	7.600
Property, plant and equipment			102.541	(6.551)	95.990
Intangible assets			34.254	(15.955)	18.299
Tax receivable			553	(476)	77
Deferred tax asset			12.286	--	12.286
Other assets			231.796	(37.422)	194.374
Total assets			**6.846.637**	**(60.178)**	**6.786.459**
Liabilities					
Deposits by banks			176.355	--	176.355
Customer deposits and other customer accounts			5.808.125	11.941	5.820.066
Tax payable			5.263	(92)	5.171
Deferred tax liability			2.498	(147)	2.351
Other liabilities			152.433	(59.117)	93.316
Loan capital		c	139.667	--	139.667
Total liabilities			**6.284.341**	**(47.415)**	**6.236.926**
Equity					
Share capital			99.237	--	99.237
Reserves			459.648	(9.352)	450.296
Equity attributable to owners of the parent company			**558.885**	**(9.352)**	**549.533**
Non-controlling interest			3.411	(3.411)	--
Total equity		a/b	**562.296**	**(12.763)**	**549.533**
Total liabilities and equity			**6.846.637**	**(60.178)**	**6.786.459**

4.5 Regulatory Capital

The tables below disclose the components of regulatory capital as at 31 December 2018 and 2017 on both a transitional and fully loaded basis.

This disclosure has been prepared using the format set out in Annex VI of the "Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the CRR.

Transitional Own Funds 2018 (€000)		**Transitional basis**	**Transitional impact**	**Fully loaded basis**
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts		614.860	--	614.860
Retained earnings		(116.421)	--	(116.421)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		294.110	--	294.110
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**792.549**	**--**	**792.549**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Intangible assets (net of related tax liability)		(49.450)	--	(49.450)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		(13.599)	--	(13.599)
(-) Additional deductions of CET1 capital due to Article 3 CRR		(245)	--	(245)
(-) Value adjustments due to the requirements for prudent valuation		(6.380)	**--**	(6.380)
IFRS 9 transitional arrangements		36.643	(36.643)	--
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(33.032)**	**(36.643)**	**(69.674)**
Common Equity Tier 1 (CET1) capital		**759.517**	**(36.643)**	**722.875**
Additional Tier 1 (AT1) capital: instruments				
Capital instruments and the related share premium accounts		129.667	**--**	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments		**129.667**	**--**	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments				
Other transitional adjustments to AT1 capital		**--**	**--**	**--**
Total regulatory adjustments to Additional Tier 1 (AT1) capital		**--**	**--**	**--**
Additional Tier 1 (AT1) capital		**129.667**	**--**	**129.667**
Tier 1 capital (T1 = CET1 + AT1)		**889.184**	**(36.643)**	**852.542**
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts		**--**	**--**	**--**
Tier 2 (T2) capital before regulatory adjustments		**--**	**--**	**--**
Tier 2 (T2) capital: regulatory adjustments				
Other transitional adjustments to T2 capital		--	**--**	**--**
Total regulatory adjustments to Tier 2 (T2) capital		--	**--**	**--**
Tier 2 (T2) capital		--	**--**	**--**
Total capital (TC = T1 + T2)		**889.184**	**(36.643)**	**852.542**
Total risk weighted assets		**4.799.600**	**(62.510)**	**4.737.090**
Capital ratios and buffers				
Common Equity Tier 1		**15,82%**	**(0,56%)**	**15,26%**
Tier 1		**18,53%**	**(0,53%)**	**18,00%**
Total capital		**18,53%**	**(0,53%)**	**18,00%**

4.5 Regulatory Capital (continued)

Transitional Own Funds 2018 (€000)		**Transitional basis**	**Transitional impact**	**Fully loaded basis**
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)		6,38%	2,13%	8,50%
of which: capital conservation buffer requirement		1,88%	0,63%	2,50%
of which: countercyclical buffer requirement		0,00%	0,00%	0,00%
of which: systemic risk buffer requirement		0,00%	0,00%	0,00%
of which: Other Systemically Important Institution (O-SII) buffer		0,00%	1,50%	1,50%
Common Equity Tier 1 available to meet buffers		9,45%	(2,69%)	6,76%
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		24.371	--	24.371
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		2.727	--	2.727
Applicable caps on the inclusion of provisions in Tier 2				
Cap on inclusion of credit risk adjustments in T2 under standardised approach		50.124	--	49.343

4.5 Regulatory Capital (continued)

Transitional Own Funds 2017 (€000)		Transitional basis	Transitional impact	Fully loaded basis
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts		614.860	--	614.860
Retained earnings		(400.971)	--	(400.971)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		316.692	--	316.692
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**530.581**	**--**	**530.581**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Intangible assets (net of related tax liability)		(28.858)	(7.214)	(36.072)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		(9.829)	(2.457)	(12.286)
(-) Additional deductions of CET1 capital due to Article 3 CRR		(242)	--	(242)
(-) Value adjustments due to the requirements for prudent valuation		(8.647)	--	(8.647)
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(47.576)**	**(9.671)**	**(57.247)**
Common Equity Tier 1 (CET1) capital		**483.005**	**(9.671)**	**473.334**
Additional Tier 1 (AT1) capital: instruments				
Capital instruments and the related share premium accounts		129.667	--	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments		**129.667**	**--**	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments				
Other transitional adjustments to AT1 capital		(7.213)	7.213	--
Total regulatory adjustments to Additional Tier 1 (AT1) capital		**(7.213)**	**7.213**	**--**
Additional Tier 1 (AT1) capital		**122.454**	**7.213**	**129.667**
Tier 1 capital (T1 = CET1 + AT1)		**605.459**	**(2.458)**	**603.001**
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts		1.331	--	1.331
Tier 2 (T2) capital before regulatory adjustments		**1.331**	**--**	**1.331**
Tier 2 (T2) capital: regulatory adjustments				
Other transitional adjustments to T2 capital		3.790	(3.790)	--
Total regulatory adjustments to Tier 2 (T2) capital		**3.790**	**(3.790)**	**--**
Tier 2 (T2) capital		**5.121**	**(3.790)**	**1.331**
Total capital (TC = T1 + T2)		**610.580**	**(6.247)**	**604.332**
Total risk weighted assets		**3.419.634**	**--**	**3.419.634**
Capital ratios and buffers				
Common Equity Tier 1		14,12%	(0,28%)	13,84%
Tier 1		17,71%	(0,07%)	17,63%
Total capital		**17,86%**	**(0,18%)**	**17,67%**

4.5 Regulatory Capital (continued)

Transitional Own Funds 2017 (€000)		**Transitional basis**	**Transitional impact**	**Fully loaded basis**
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)		**5,75%**	**2,25%**	**8,00%**
of which: capital conservation buffer requirement		1,25%	1,25%	2,50%
of which: countercyclical buffer requirement		0,00%	0,00%	0,00%
of which: systemic risk buffer requirement		0,00%	0,00%	0,00%
of which: Other Systemically Important Institution (O-SII) buffer		0,00%	1,00%	1,00%
Common Equity Tier 1 available to meet buffers		***8,37%***	***(2,53%)***	***5,84%***
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		18.973	--	18.973
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		--	--	--
Applicable caps on the inclusion of provisions in Tier 2				
Cap on inclusion of credit risk adjustments in T2 under standardised approach		37.575	--	37.575

4.6 Transitional Own Funds Disclosure

The table below discloses the components of regulatory capital as at 31 December 2018 and 2017 after taking into account the transitional provisions.

This disclosure has been prepared using the format set out in Annex VI of the" Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements for institutions, according to the CRR.

Transitional Own Funds (€000)	As at 31 December 2018[5]	As at 31 December 2017[6]
Common Equity Tier 1 (CET1) capital: instruments and reserves		
Capital instruments and the related share premium accounts	614.860	614.860
Retained earnings	(116.421)	(400.971)
Accumulated other comprehensive income (and other reserves)	294.110	316.692
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**792.549**	**530.581**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(49.450)	(28.858)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(13.599)	(9.829)
Regulatory adjustments to Common Equity Tier 1 (CET1)	**(63.049)**	**(38.687)**
(-) Additional deductions of CET1 Capital due to Article 3 CRR	(245)	(242)
(-) Value adjustments due to the requirements for prudent valuation	(6.380)	(8.647)
IFRS 9 transitional arrangements	36.643	--
Common Equity Tier 1 (CET1) capital	**759.517**	**483.005**
Additional Tier 1 (AT1) capital: instruments		
Capital instruments and the related share premium accounts	129.667	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments	**129.667**	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments		
Other transitional adjustments to AT1 capital	--	(7.213)
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**--**	**(7.213)**
Additional Tier 1 (AT1) capital	**129.667**	**122.454**
Tier 1 capital (T1 = CET1 + AT1)	**889.184**	**605.459**
Tier 2 (T2) capital: instruments and provisions		
Capital instruments and the related share premium accounts	**--**	1.331
Tier 2 (T2) capital before regulatory adjustments	**--**	**1.331**
Tier 2 (T2) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans	--	--

[5] Under IFRS9 transitional basis
[6] Under IAS39 transitional basis

4.6 Transitional Own Funds Disclosure (continued)

Transitional Own Funds (€000)		**As at 31 December 2018**Error! Bookmark not defined.	**As at 31 December 2017**Error! Bookmark not defined.
Other transitional adjustments to T2 capital		--	3.790
Total regulatory adjustments to Tier 2 (T2) capital		**--**	**3.790**
Tier 2 (T2) capital		**--**	**5.121**
Total capital (TC = T1 + T2)		**889.184**	**610.580**
Total risk weighted assets		**4.799.600**	**3.419.634**
Capital ratios and buffers			
Common Equity Tier 1		15,82%	14,12%
Tier 1		18,53%	17,71%
Total capital		18,53%	17,86%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 plus the combined Buffer Requirement)		**6,38%**	**5,75%**
of which: capital conservation buffer requirement		1,88%	1,25%
of which: countercyclical buffer requirement		0,00%	0,00%
of which: systemic risk buffer requirement		0,00%	0,00%
of which: Other Systemically Important Institution (O-SII) buffer		0,00%	0,00%
Common Equity Tier 1 available to meet buffers		***9,45%***	***8,37%***
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		24.371	18.973
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		2.727	--
Applicable caps on the inclusion of provisions in Tier 2			
Cap on inclusion of credit risk adjustments in T2 under standardised approach		50.124	37.575

4.7 Main features of Capital Instruments

The capital base of the Group for regulatory purposes is divided into three main categories: Common Equity Tier 1 (CET 1), Additional Tier 1 (AT1) and Tier 2 (T2).

The main features of the capital instruments of the Group as at 31 December 2018 are presented below:

		1	2	3	4
		CET1	**AT1**	**AT1**	**T2**
1	Issuer	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	CY0105570119	CY0144170111	CY0144180110	N/A
3	Governing law(s) of the instrument	Cyprus Law	Cyprus Law	Cyprus Law	Cyprus Law
	Regulatory treatment				
4	Transitional CRR rules	CET1	AT1	AT1	T2
5	Post-transitional CRR rules	CET1	AT1	AT1	T2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type	Share capital	Loan capital	Loan capital	Loan capital
8	Amount recognised in regulatory capital (currency in thousands, as of most recent reporting date)	€99.237	€1.597	€128.070	€0
9	Nominal amount of instrument	€0,01	€1.597	€128.070	€10.000
9 (a)	Issue price	€1	€1	€1	€100
9 (b)	Redemption price	N/A	At par including accrued interest and excluding any cancelled interest	At par including accrued interest and excluding any cancelled interest	At par including accrued interest
10	Accounting classification	Shareholders’ equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost

4.7 Main features of Capital Instruments (continued)

		1	2	3	44
		CET1	AT1	AT1	T2
11	Original date of issuance	Refer to Annual Financial Report on Share capital note 35	30 September 2013	30 September 2013	1 September 2008
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	No maturity	31 August 2018
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Refer to Section 4.2.1.1.3	Refer to Section 4.2.1.1.3	N/A
16	Subsequent call dates, if applicable	N/A	Refer to Section 4.2.1.1.3	Refer to Section 4.2.1.1.3	N/A
	Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Floating
18	Coupon rate and any related index	N/A	Annual 11% payable every quarter	Annual 10% payable every quarter	3-month Euribor + 2,75% per annum
19	Existence of a dividend/coupon stopper	Yes - Refer to Sub Note2 below	Yes	Yes	No
20 (a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Fully or partially discretionary	Fully or partially discretionary	N/A
20 (b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Fully or partially discretionary	Fully or partially discretionary	N/A
21	Existence of step up or other incentive to redeem	N/A	No	No	Yes
22	Non-cumulative or cumulative	N/A	Non-cumulative	Non-cumulative	N/A
23	Convertible or non-convertible	N/A	Convertible	Convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	Refer to Section 4.2.1.1.4 & 4.2.1.1.5	Refer to Section 4.2.1.1.4 & 4.2.1.1.5	N/A

4.7 Main features of Capital Instruments (continued)

			1	2	3	4
			CET1	AT1	AT1	T2
25	If convertible, fully or partially		N/A	Partially	Partially	N/A
26	If convertible, conversion rate		N/A	Refer to Section 4.2.1.1.6 & 4.2.1.1.7	Refer to Section 4.2.1.1.6& 4.2.1.1.7	N/A
27	If convertible, mandatory or optional conversion		N/A	Mandatory or optional	Mandatory or optional	N/A
28	If convertible, specify instrument type convertible into		N/A	Common Equity Tier 1	Common Equity Tier 1	N/A
29	If convertible, specify issuer of instrument it converts into		N/A	Hellenic Bank Public Company Ltd	Hellenic Bank Public Company Ltd	N/A
30	Write-down features		No	No	No	No
31	If write-down, write-down trigger(s)		N/A	N/A	N/A	N/A
32	If write-down, full or partial		N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary		N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism		N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)		N/A	Refer to Section 4.2.1.1	Refer to Section 4.2.1.2	Refer to Section 4.2.2.2
36	Non-compliant transitional features		No	No	No	No
37	If yes, specify non-compliant features		N/A	N/A	N/A	N/A

Sub Note: As per 2018 draft[1] SREP letter, the Bank shall refrain from making any distributions to its shareholders where this prohibition does not constitute an event of default of the Bank.

4.8 Countercyclical Capital Buffer

As set out in Article 130(1) of Directive 2013/36/EU Member States are obliged to require institutions to maintain an institution-specific countercyclical capital buffer.

With a view to ensuring transparency and comparability across institutions, the CRR requires institutions to disclose the key elements of the calculation of their countercyclical capital buffer, comprising the geographical distribution of their relevant credit exposures and the final amount of their institution-specific countercyclical capital buffer.

As set out in Article 130(1) of Directive 2013/36/EU, an institution-specific countercyclical buffer is calculated as the product of its total risk exposure amount in accordance with Article 92(3) of the CRR and the institution-specific countercyclical buffer rate.

As set out in Article 140(1) of Directive 2013/36/EU, an institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located. The distribution by country of relevant credit exposures is provided in the tables below for 2018 and 2017 respectively, in accordance with the provisions laid down in Commission Delegated Regulation (EU) No 1152/2014:

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (€000) 31 December 2018		**General Credit Exposures**		**Trading Book Exposure**		**Securitisation Exposure**		**Own Funds Requirements**				**Own Funds Requirements Weights**	**Counter cyclical Buffer Rate**
		SA	IRB	SA	IRB	SA	IRB	General Credit Exposures	Trading Book Exposures	Securitisation Exposures	**Total**		
Cyprus		5.044.725	0	450	0	7.068	0	315.102	36	113	**315.251**	**100%**	**0%**

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (€000) 31 December 2017		**General Credit Exposures**		**Trading Book Exposure**		**Securitisation Exposure**		**Own Funds Requirements**				**Own Funds Requirements Weights**	**Counter cyclical Buffer Rate**
		SA	IRB	SA	IRB	SA	IRB	General Credit Exposures	Trading Book Exposures	Securitisation Exposures	**Total**		
Cyprus		3.271.756	-	450	-	11.874	-	235.335	36	190	**235.561**	**100%**	**0%**

The large deviation between 2018 and 2017 is attributed to the acquisition of the ex-CCB portfolio, the increased deposit base and the investments to fixed income securities of the Cyprus Government.

In accordance with Article 2 (5) (b) of Commission Delegated Regulation (EU) No 1152/2014, foreign general credit risk exposures, whose aggregate does not exceed 2% of the aggregate of the general credit, trading book and securitisation exposures of that institution, may be allocated to the institutions' home member state. The Bank has applied this discretion and since the highest foreign exposure is less than the 2% threshold, all foreign exposures have been allocated to Cyprus.

4.8 Countercyclical Capital Buffer (continued)

The table below summarizes the countercyclical buffer rate calculation for 2018 and 2017 respectively:

Amount of institution-specific countercyclical capital buffer (€000) – 31 December 2018		**Amount**
Total Risk Exposure Amount		4.799.600
Institution specific countercyclical buffer rate		0%
Institution specific countercyclical buffer requirement		0

Amount of institution-specific countercyclical capital buffer (€000) – 31 December 2017		**Amount**
Total Risk Exposure Amount		3.419.634
Institution specific countercyclical buffer rate		0%
Institution specific countercyclical buffer requirement		0

4.9 EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of Financial Statement categories

(Ref: Template 1: EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of Financial Statement categories with regulatory risk categories)

2018 €000	Carrying values as reported in consolidated published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with Central Banks	4.391.444	4.391.443	4.391.443	--	--	4.391.443	--
Placements with other banks	307.888	294.283	294.283	--	--	294.283	--
Loans and advances to customers	6.283.438	6.283.438	6.283.438	--	--	6.283.438	--
Debt securities	4.526.428	4.525.629	4.518.561	--	7.068	4.525.629	--
Equity securities & Collective Investment Units	34.638	11.497	11.497	--	--	11.497	--
Investment in subsidiary companies	0	33.748	33.748	--	--	33.748	--
Investment in associate company	8.997	8.997	8.997	--	--	8.997	--
Property plant and equipment	101.489	95.063	95.063	--	--	95.063	--
Intangible assets	46.546	31.711	--	--	--	--	31.711
Tax receivable	494	114	114	--	--	114	--
Deferred tax asset	16.326	16.326	2.727	--	--	--	13.599
Derivative financial assets	567	567	--	567	--	567	--
Other assets	407.931	372.062	372.062	--	--	372.062	--
Total assets	**16.126.186**	**16.064.878**	**16.011.933**	**567**	**7.068**	**16.016.841**	**45.310**
Liabilities							
Deposits by banks	216.199	216.199	--	--	--	216.199	--
Customer deposits and other customer accounts	14.709.168	14.720.565	--	--	--	14.720.565	--
Tax payable	5.322	5.124	--	--	--	5.124	--
Deferred tax liability	44.457	44.249	--	--	--	44.249	--
Derivative financial liabilities	7.981	7.981	--	7.981	--	7.981	--
Other liabilities	188.845	130.027	36.768	--	--	130.027	--
Loan capital	129.667	129.667	--	--	--	--	129.667
Total liabilities	**15.301.639**	**15.253.812**	**36.768**	**7.981**	**--**	**15.124.145**	**129.667**

4.9 EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of Financial Statement categories (continued)

2017 **€000**	**Carrying values as reported in consolidated published financial statements**	**Carrying values under scope of regulatory consolidation**	**Carrying values of items**				
			Subject to the credit risk framework	**Subject to the CCR framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets							
Cash and balances with Central Banks	2.293.754	2.293.753	2.293.753	--	--	2.293.753	--
Placements with other banks	348.176	336.273	336.273	--	--	336.273	--
Loans and advances to customers	2.766.738	2.766.738	2.766.738	--	--	2.766.738	--
Debt securities	1.018.902	1.018.090	1.006.216	--	11.874	1.018.090	--
Equity securities & Collective Investment Units	30.037	9.231	8.781	--	--	9.231	--
Investment in subsidiary companies	--	33.748	33.748	--	--	33.748	--
Investment in associate company	7.600	7.600	7.600	--	--	7.600	--
Property plant and equipment	102.541	95.990	95.990	--	--	95.990	--
Intangible assets	34.254	18.299	--	--	--	-	18.299
Tax receivable	553	77	77	--	--	77	--
Deferred tax asset	12.286	12.286	2.457	--	--	2.457	9.829
Derivative financial assets	229	229	--	229	--	229	
Other assets	231.567	194.145	194.145	-	--	194.145	--
Total assets	**6.846.637**	**6.786.459**	**6.745.778**	**229**	**11.874**	**6.755.874**	**28.128**
Liabilities							
Deposits by banks	176.355	176.355	--	--	--	176.355	--
Customer deposits and other customer accounts	5.808.125	5.820.066	--	--	--	5.820.066	--
Tax payable	5.263	5.171	--	--	--	5.171	--
Deferred tax liability	2.498	2.351	--	--	--	2.351	--
Derivative financial liabilities	5.212	5.212	--	5.212	--	5.212	--
Other liabilities	147.221	88.104	11.503	--	--	88.104	--
Loan capital	139.667	139.667	--	--	--	--	139.667
Total liabilities	**6.284.341**	**6.236.926**	**11.503**	**5.212**	--	**6.097.259**	**139.667**

4.9 EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of Financial Statement categories (continued)

Differences between the carrying values reported in the consolidated audited Financial Statements and the carrying values reported under the scope of regulatory consolidation arise from different consolidation rules applied for prudential purposes. The basis for consolidation for prudential purposes includes only subsidiary companies which forms the basis for the calculation of regulatory capital requirements. Information on the basis of consolidation for accounting purposes and the basis of consolidation for prudential purposes is presented in Section 1.3 Scope of Application. In addition, reconciliation between the Statement of Financial Position as presented in the Group Financial Statements with the statement of financial position prepared for regulatory purposes is presented in Section 4.4.

The column “Subject to market risk framework” includes trading book positions that are subject to interest rate, foreign exchange and equity risk, as well as assets and liabilities that are subject to foreign exchange risk (this includes all assets and all liabilities of the Bank, except where deducted from Own Funds). The amounts reported in column “Carrying values under scope of regulatory consolidation” do not equal the sum of the amounts reported in the remaining columns of this table as a number of items are subject to regulatory capital requirements under both CR or CCR (derivatives) and the market risk framework (as described above).

4.10 EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements

(Ref: Template 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements)

2018 (€000)	**Total**	**Items subject to**			
		Credit risk framework	**CCR framework**	**Securitisation framework**	**Market risk framework**
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**16.064.878**	**16.011.933**	**567**	**7.068**	**16.016.841**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(15.253.812)	(36.768)	(7.981)	0	(15.124.145)
Total net amount under the regulatory scope of consolidation	**811.066**	**15.975.165**	**(7.414)**	**7.068**	**892.696**
Off-balance sheet amounts	1.365.983	295.091	--	--	--
Differences due to different netting rules, other than those already included in row "Liabilities carrying value amount under the regulatory scope of consolidation"	6.897	--	6.897	--	--
Difference due to consideration of provisions	36.635	36.635	--	--	--
Items not subject to capital requirements or subject to deduction from capital	(63.049)	--	--	--	--
Difference due to other deductions from capital	(17.741)	--	--	--	--
Liabilities not under RWA scope	15.217.044	--	--	--	--
Exposure amounts considered for regulatory purposes	**17.356.834**	**16.306.891**	**(518)**	**7.068**	**892.696**

4.10 EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements (continued)

2017 (€000)	**Total**	**Items subject to**			
		Credit risk framework	**CCR framework**	**Securitisation framework**	**Market risk framework**
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**6.786.459**	**6.745.778**	**229**	**11.874**	**6.755.874**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(6.236.926)	(11.503)	(5.212)	-	(6.097.259)
Total net amount under the regulatory scope of consolidation	**549.533**	**6.734.275**	**(4.983)**	**11.874**	**658.615**
Off-balance sheet amounts	958.349	252.867	--	--	--
Differences due to different netting rules, other than those already included in row "Liabilities carrying value amount under the regulatory scope of consolidation"	4.724	--	4.724	--	--
Items not subject to capital requirements or subject to deduction from capital	(28.128)	--	--	--	--
Difference due to other deductions from capital	(17.775)	--	--	--	--
Liabilities not under RWA scope	6.225.423	--	--	--	--
Exposure amounts considered for regulatory purposes	**7.692.126**	**6.987.142**	**(259)**	**11.874**	**658.615**

"Off-balance sheet amounts'' reported in the Total column do not equal the amounts reported in column "Credit risk framework" as the latter are reported after the application of the relevant conversion factor.

"Differences due to different netting rules, other than those already included in row 'Liabilities carrying value amount under the regulatory scope of consolidation'" includes the add-on for derivative transactions, calculated in accordance with the Mark-to-Market method for CCR.

"Differences due to consideration of provisions" relates to the application of the scaling factor on credit risk adjustments as per IFRS9 transitional arrangements.

"Items not subject to capital requirements or subject to deduction from capital" relate to the part of intangible assets and deferred tax assets that is deducted from CET 1 capital as per Article 36 (1) of CRR, and in consideration of the transitional arrangements applicable for the financial year 2017.

4.11 Comparison of institutions' own funds and capital and leverage ratios with the application of transitional arrangements for IFRS 9 or analogous ECLs

			As at 31 December 2018	As at 1 January 2018
	Available capital (amounts)			
1	Common Equity Tier 1 (CET1) capital		759.517	473.392
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		722.875	436.749
3	Tier 1 capital		889.184	603.060
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		852.542	566.417
5	Total capital		889.184	604.391
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		852.542	567.748
	Risk-weighted assets (amounts)			
7	Total risk-weighted assets		4.799.600	3.418.767
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		4.737.090	3.381.243
	Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)		15,82%	13,85%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		15,26%	12,92%
11	Tier 1 (as a percentage of risk exposure amount)		18,53%	17,64%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		18,00%	16,75%
13	Total capital (as a percentage of risk exposure amount)		18,53%	17,68%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		18,00%	16,79%
	Leverage ratio			
15	Leverage ratio total exposure measure		16.416.724	7.040.764
	Leverage ratio total exposure measure as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		16.379.539	7.005.596
16	Leverage ratio		5,42%	8,57%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied		5,20%	8,09%

The increase of 197 basis points in CET 1 ratio[7] (transitional basis) compared to 31 December 2017[8], was mainly the result of the following:

i) overall increase in CET1 capital, mainly due to:
   - current year profits (effect of 941 basis points increase), mainly due to negative goodwill arising from the Acquisition)

[7] Including 4Q2018 profits, prior to obtaining AGM approval of year-end profits.

[8] Fully loaded basis applicable for 31 December 2017, adjusted with IFRS 9 initial application impact and applying transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposure treatment of certain public-sector exposures denominated in the domestic currency of any Member state as per Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017.

- the decrease in other comprehensive income (effect of 66 basis points decrease), due to the decrease in revaluation reserve from bonds mainly as a result of the disposal of Cyprus Government Bonds, for which a positive impact is reflected in the current year profits
- and the increase in intangible assets, resulted from the Acquisition (effect of 39 basis points decrease),

ii) overall increase in RWAs, mainly as a result of the Acquisition (effect of 639 basis points decrease).

5. RISK MANAGEMENT UNIT

This section describes the Bank's organisation and risk management mechanisms.

5.1 Risk Management Framework

Throughout 2018, the Bank has continued its efforts to further enhance the framework by which it identifies, assesses, monitors and controls risks.

In May 2018, the Board approved the Enterprise Risk Management Framework (ERMF), the highest-level risk framework that sets out its approach to the identification, assessment and management of risks across the Group.

The ERMF:

- serves as the umbrella framework under which all risk frameworks, policies and procedures are developed

- sets out the principles under which risk is managed and applies to all risks being taken and managed by the Bank

- sets out the roles of the Board as ultimately responsible for the risk and control environment within the Group, as well as the Board and Executive Management committee structures, roles and responsibilities with respect to risk management (summarized in Section 5.1.1)

- confirms that the Bank adopts a three line of defence model and sets out the roles of each (summarized in Section 5.1.2)

- recognises the importance of having a robust risk culture within the Board and supports the key factors that contribute to an open and transparent environment where well-trained and informed individuals take intelligent risk, under clear policies, in pursuit of achieving the Group's business strategy (summarized in Section 5.1.3)

- defines the architecture of risk frameworks and policies for use across the Bank.

During 2018 the Board of Directors also approved a revised Risk Appetite Framework (RAF) developed by the Risk Management Unit in line with international standards and best practice. The new RAF is part of the broader Enterprise Risk Management Framework and prescribes the process for risk appetite setting, feeding from the formulation of Material Risk Assessment and with a direct input into the Strategic Plan and ICAAP. The framework encompasses both quantitative and qualitative limits across an array of the risk types facing the Bank and delineates responsibilities for its implementation, monitoring and governance (which also entails a breach escalation framework) in line with the Three Lines of Defence model and the Enterprise Risk Management Framework.

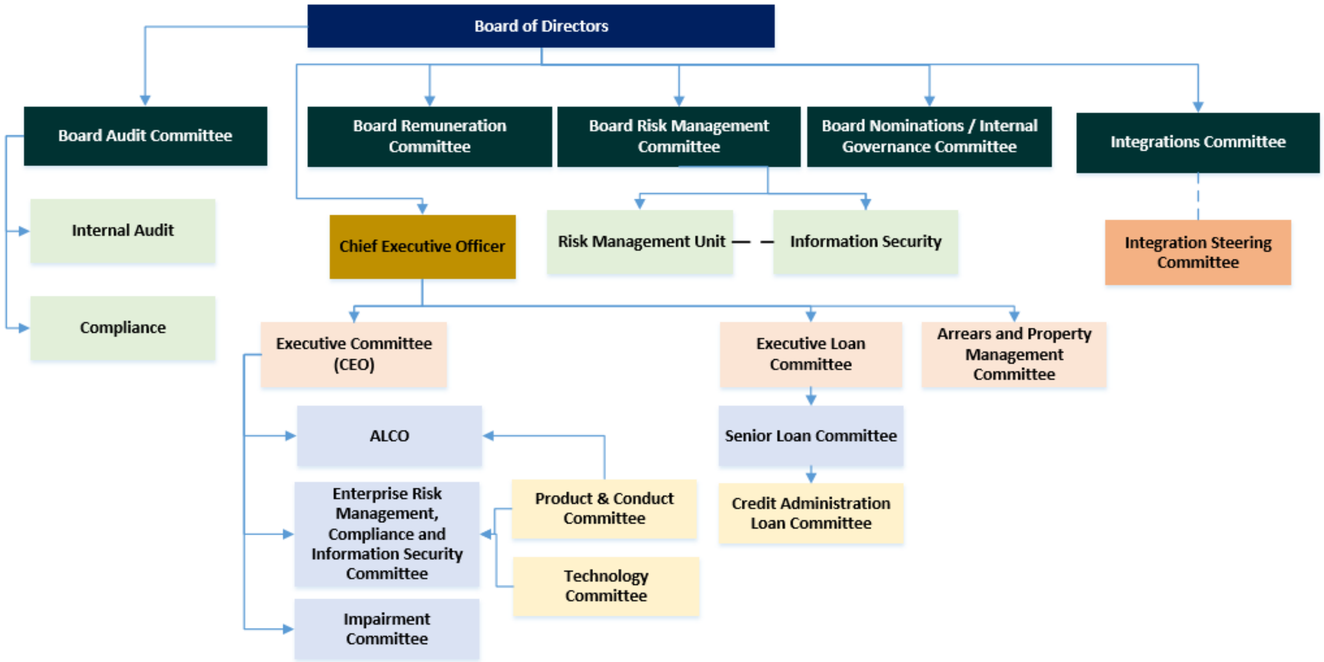
In addition, on 28 of February 2018, the Bank's Board of Directors approved a revised Risk Management Charter. One of the main changes in the Charter, was the enhancement of the responsibilities of the risk Units to better respond to regulatory requirements and conform with best practice. In specific the responsibilities of the Credit Analysis & Evaluation Unit, Credit Monitoring & Control and Enterprise Risk Management & Governance were enhanced and further clarified. The changes aim to enhance the organisation of Risk Management and to reinforce the role of the second line of defence throughout the risk management cycle, with a special focus on the Bank's material risks.

5.1.1 Risk Governance

The Board is the Bank's primary governing body and is responsible for (a) approving overall policy in relation to the types and level of risk that the Bank is permitted to assume in the implementation of its strategic and business plans and (b) maintaining a sufficient control environment to managing the principal risks.

A number of Executive and Board committees as shown in the below chart assist the Board in fulfilling the above responsibilities and in monitoring the embedding of the ERMF:

Board and Executive Committee Structure



The key duties and responsibilities of the Board Committees are shown below. The Board Committees are subject to full Terms of Reference that are available in the Annual Corporate Governance Report for 2018, which can be found on the Bank's website along with more details on their composition.

The ***Board Risk Management Committee's*** duties and responsibilities include:

- Defining and submitting for Board approval risk management principles, frameworks, policies and risk appetite in relation to undertaking and managing all forms of risk and the use of capital that corresponds to the business objectives of the Bank, the Group and/or each subsidiary company separately,

- Promoting and embedding a culture of risk/ information security awareness and appropriate risk taking across the Group and assisting the Management Body of the Bank in implementing the strategy,

- Advising and developing recommendations for the Board on the Group's overall current and future risk appetite and ensuring it remains consistent with the Bank's short and long-term strategy, business and capital plans, risk capacity as well as compensation programs; taking into account relevant legal and regulatory requirements,

- Reviewing the Group's risk profile in relation to its strategy and risk appetite and monitoring material risks, key risk trends, concentrations and exposures,

- Reviewing and recommending to the Board the Group's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), the Group's Recovery Plan and the Group's Liquidity Contingency Plan,

- Overseeing the implementation of the Basel Risk Data Aggregation and Risk Reporting Principles and in particular reviewing the Framework for Risk Data Aggregation and Reporting,

- Reviewing and recommending to the Board for approval the Group's Compliance Policy to the Pillar 3 disclosure requirements as per CRR / CRD IV,

- Reviewing whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings,

- Overseeing the Risk Management and Information Security Functions, including Charters, plans, Heads, as well as the design, operation, adequacy and effectiveness of the internal risk management and information systems,

- Determining the nature, the amount, the format and the frequency of the information which it is to receive on the risk situation of the Group and for each type of risk and each business unit,

- Promoting the development of relevant Early Warning Indicators,

- Evaluating and recommending to the Board the risks related to any new markets, companies or business ventures,

- Periodically and at least on a six-monthly basis evaluating the Arrears Management Strategy and its underlying hypotheses and assumptions and ensuring appropriate control mechanisms exist to effectively manage NPE and Forborne loans,

- Defining the principles which should be considered in the recruitment of employees, the selection of vendors, the development of products, services, and processes as well as in the implementation and operation of information systems and information processing facilities as set out by the Information Security Framework and the Information Security Policy itself,

- Cultivating an internal environment of risk management, information security, appropriate risk taking and control, that will govern the business decision-making processes across the activities and Units of the Group and its subsidiaries and which will be consistent with the Board's communicated Business Strategy and Risk Appetite Statement.

During 2018, the Risk Management Committee held 18 meetings, one of which was held jointly with the Audit Committee.

The ***Board Audit Committee's*** duties and responsibilities include:

- Monitoring the integrity, accuracy and reliability of the Group's quarterly and annual financial reporting process and Financial Statements, as well as any formal announcements relating to the Group's Financial performance, to assess the adequacy of the provisions in line with accounting policies and standards, and to monitor the establishment of accounting policies and practices,

- The Committee Members must satisfy themselves that the Non-Auditing Services ('NAS') provided by the Auditors do not compromise the Auditor's independence,

- Overseeing the relationship with external auditors, and submitting proposals to the Board regarding the appointment, compensation, terms and scope of engagement and substitution or rotation of the approved Auditor and other external auditors of the Group,

- Assessing and monitoring the independence, adequacy and effectiveness of the Internal Audit and Compliance Functions,

- Assessing the adequacy of the provisions in line with applicable accounting policies and standards and submitting a relevant report to the Board of Directors and the Risk Management Committee on a quarterly basis,

- Overseeing the Internal Audit Function, including its Charter, plan and Head and monitoring and assessing, on an annual basis, the adequacy and effectiveness of the Group's internal control systems and information systems, based on reports of the Internal Audit Unit and the observations and comments of the external Auditors and the competent supervisory authorities,

- Assessing and monitoring the independence, adequacy and effectiveness of the Compliance Unit, submitting recommendations on the appointment and replacement of the Head of the Compliance Unit and advising on the adequacy and effectiveness of the Compliance Framework,

- Examining any significant transactions, of any nature, carried out by the Bank and/or its subsidiary companies, in which a Member of the Board, the Chief Executive Officer, a Senior Executive, the Company Secretary, the Auditor or a major shareholder of the Bank (who directly or indirectly holds more than 5% of the issued share capital of the Bank or its voting rights) has, directly or indirectly, any significant interest, so as to ensure that these transactions are carried out within the framework of the Bank's normal commercial practices (at arm's length). The definition includes the Members of the Board of subsidiary companies,

- Preparing, with the assistance of the Executive Officer responsible for ensuring compliance with the Corporate Governance Code, the Report of the Board of Directors on Corporate Governance to be included in the Group's Annual Financial Report,

- Overseeing that Senior Management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by External Auditors, the Internal Audit and Compliance Units and the supervisory authorities.

During 2018, the Audit Committee held eighteen meetings, one of which was held jointly with the Risk Management Committee.

The ***Remuneration Committee's*** duties and responsibilities include:

- Defining and recommending for Board approval the Group Remuneration Policy and the Remuneration Principles, which are aligned to the Group's strategic objectives and values,

- Proposing for Board approval the Annual Remuneration Policy Report, as part of the Annual Report of the Bank, which is submitted to the Annual General Meeting of the Shareholders for approval,

- Ensuring that the Remuneration policy and practices are consistent with the risk appetite of the Bank, preventing conflicts of interest and promoting sound and effective risk management,

- Involvement in the identification process of staff whose professional activities have a material impact on the Bank's risk profile, in line with its responsibilities for the preparation of decisions regarding remuneration,

- Submitting proposals concerning the framework and level of remuneration (including fixed pay, performance-related pay, bonuses, pension rights and any compensation payments, share options, etc.) of Executive and Non-Executive Members of the Board or its subsidiary companies, the Company Secretary, the Chief Executive Officer of the Bank or its subsidiary companies, his/her direct reports and the Heads of the Control Functions (Key Function Holders),

- Reviewing and approving the Annual Remuneration Statement, prepared by Group Human Resources for inclusion in the Group's annual Accounts or in the notes to the annual Accounts, in accordance with the Code of Corporate Governance and the relevant Cyprus Central Bank's Directives/Guidelines.

During 2018, the Remuneration Committee held two meetings.

The ***Nominations / Internal Governance Committee's*** duties and responsibilities include:

- Preparing proposals for the Board of Directors regarding the selection of individuals for nomination of Executive and Non-Executive Members of the Board of Directors, of the Board of Directors of subsidiaries or associated companies of the Group,

- Reviewing and recommending to the Board for approval policies for recruitment, rotation and promotion of staff reporting accordingly to the Board,

- Responsibility for the development, implementation and oversight of policies of internal governance arrangements within the Bank,

- Assessing whether any interests or relationships declared by Members of the Board present an actual or potential conflict of interest and approving Members of the Board's requests related to directorships with other companies or intra-Group,

- Reassessing the fitness and probity of members and managers, on the basis of the assessment criteria included in the Directive on the Assessment of Fitness and Probity of Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the Central Bank of Cyprus,

- Reviewing and approving, where this is deemed necessary, the job descriptions of the Executive Members of the Board, the Chief Executive Officer, his/her direct reports and the Heads of the Control Functions.

During 2018, the Nominations / Internal Governance Committee held five meetings.

Following the acquisition of certain assets and liabilities from the ex-Cyprus Cooperative Bank Limited, the Board of Directors decided to establish a temporary / ad hoc ***Integration Committee*** of the Board as from 1st August 2018. The Board's Integration Committee's main duty and responsibility is to ensure the effective oversight and input of the Board of Directors in smoothly implementing the integration plan of the acquired business into that of the Bank.

It is anticipated that the Integration Committee will be operational for a period of up to 18 months.

During 2018, since its establishment, the Integration Committee held eight meetings.

Changes of the heads of Internal Control, Risk Management, Compliance and Internal Audit during 2018:

- Mrs. Marina Kolokotroni, Chief Compliance Officer, resigned on 28 February 2018. Mr. Mattheos Charalambides holds the position of Chief Compliance Officer since 6 June 2018.
- Mr. Stefano Capodagli, Chief Risk Officer (CRO), resigned following a mutual agreement with the Bank on 8 March 2018. Until the appointment of a new CRO, Mr. Yiannis Ioannou Manager of Market and Liquidity Risk, was designated as Interim Chief Risk Officer on 16 March 2018. On 6 February 2019 Mr. Yiannis Ioannou and Mr. Joseph Antoniou were appointed as Joint Interim Chief Risk Officers. Mr. Dimitrios Anagnostopoulos joined as the new CRO in Hellenic Bank on the 2nd of April 2019 and his appointment is subject to CBC/ECB consent.

There were no changes in the heads of the Internal Audit and Information Security during 2018 and 2019.

Changes in the Executive Committee Structure:
In December 2017 the Board of Directors was notified of changes in the Executive Committee Structure, which became effective by the first quarter of 2018. The key enhancements of the Governance Structure, focused on the membership stature, representativeness, efficiency in decision making, and other simplifications to ensure that the Committees are well represented, streamlined and effective, while ensuring a fast decision-making, structured in a way that is best-suited to support the Bank to achieve its objectives in line with the Bank's Strategy and Operating Model.

The revised Executive Committees' structure is comprised in two categories, 'Client-transaction level Committees' and 'Bank-Portfolio level Committees'.

a. Client - Transaction level Committees
Client-transaction level Committees include the Executive Lending Committees and Arrears and Property Management which will be chaired by the Chief Executive Officer (CEO) and comprise top membership from Credit Management and functional areas. Risk Management will attend as a non-voting member in the Lending Committees (with right of escalation) and the Business will have a standing invitation to present the cases and address any questions. The credit-granting process is being tailored to align to the revised Group structure and ensure enhanced control mechanism across First and Second Lines of Defense.

The Credit Analysis & Evaluation Unit, within Risk Management will perform a risk based assessment for cases submitted to the Committees with oversight of new lending, arrears and property management to safeguard the objectivity and independence of the credit assessment process.

b. Bank - Portfolio level Committees

Bank-Portfolio level Committees relate to the business-wide activities of the Group, and their composition was revised so that they have better representation from Functional areas. The Executive Committee (ExCo) is the highest executive body within the Bank with a number of sub-committees and is responsible for directing the day-to-day business activities. ExCo oversees the execution of the Bank's strategy within the risk appetite defined by the Board, in compliance with applicable laws, regulations and corporate governance principles.

5.1.2 The Three Lines of Defence - roles, responsibilities, obligations

The Bank operates a Three Lines of Defence Model with responsibilities allocated as follows:

First Line	Second Line	Third Line
• The first line of defence includes line management of the business units involved in the day to day identification, taking and management of risk and has ultimate ownership of the risks taken. • The business units follow the risk processes and controls as set out in the Bank's risk management frameworks and policies. They are also responsible for implementing corrective actions to address deficiencies in processes and controls. • Line management guides the development and implementation of risk frameworks, policies and procedures ensuring that activities are consistent with the Bank's goals and objectives.	• The second line of defence oversees risk management. The second line establishes, in consultation with the first line, the policies which the first line must follow. • The second line also provides support in implementing and embedding these policies within the business. • The second line is responsible for ensuring that policies, risk and strategy are all aligned. • The second line is responsible for providing assurance to internal audit that the policies and processes have been implemented in the first line.	• Internal Audit - the third line of defence provides independent objective assurance that risk is being effectively owned, managed and overseen by the first and second line.

5.1.3 Risk Culture

The Board of Directors emphasises the importance of having a robust risk culture in the Bank, which can best be illustrated though the following:

- A clear "tone from the top" sponsoring and embodying a strong governance culture,
- A clear business strategy that is well communicated and understood throughout the Bank,
- A Risk Appetite that is in line with the business strategy and embedded in the day-to-day management of the Bank,
- Shared responsibility between front line and control functions with respective roles well understood, trusted and respected,
- Clear and well understood risk frameworks and policies,
- Confident and well-informed decision making with a strong sense of personal accountability,
- Open channels of communication throughout the Bank to freely raise, challenge and address issues,
- An appropriate and risk differentiated control environment which is closely monitored,
- Consistent training and development for all employees engaged in taking and controlling risk,
- No tolerance for ethical breaches which are swiftly identified and managed, and
- Effective performance mechanisms to promote strong risk management and penalise poor risk management.

Risk Management related issues constitute a vital part of the Performance Appraisal system of the Bank. Risk issues are addressed and form part of a Core Competency - 'Compliance & Risk Management' (out of the six core competencies), for all employees, in all hierarchical levels. The behaviours that describe the competency differ, depending on the grade, but overall it refers and evaluates behaviours such as keeping constantly up to date and complying with the Bank's risk policies relevant to one's responsibilities, taking and managing risk responsibly, being accountable for decisions and escalating matters of concern to the next hierarchical level.

5.1.4 Risk Management Unit (RMU)

The Group has an independent control function, the Risk Management Unit (RMU) which is headed by the CRO. The RMU is responsible for monitoring all risks of the Group through specialised units as shown in the organisational chart below. Information Security as depicted in the Risk Governance Structure is a separate control function that reports to the CRO only for administrative purposes. The Risk Management Unit is empowered to veto decisions taken by the Assets & Liabilities Committee (ALCO) and refer them to the Board of Directors for final approval.

On 28 February 2018, the Bank's Board of Directors under the scope of the annual review of the Risk Management Charter, approved a revised Charter whereby some of the key changes concerned more clearly defined responsibilities of the below units:

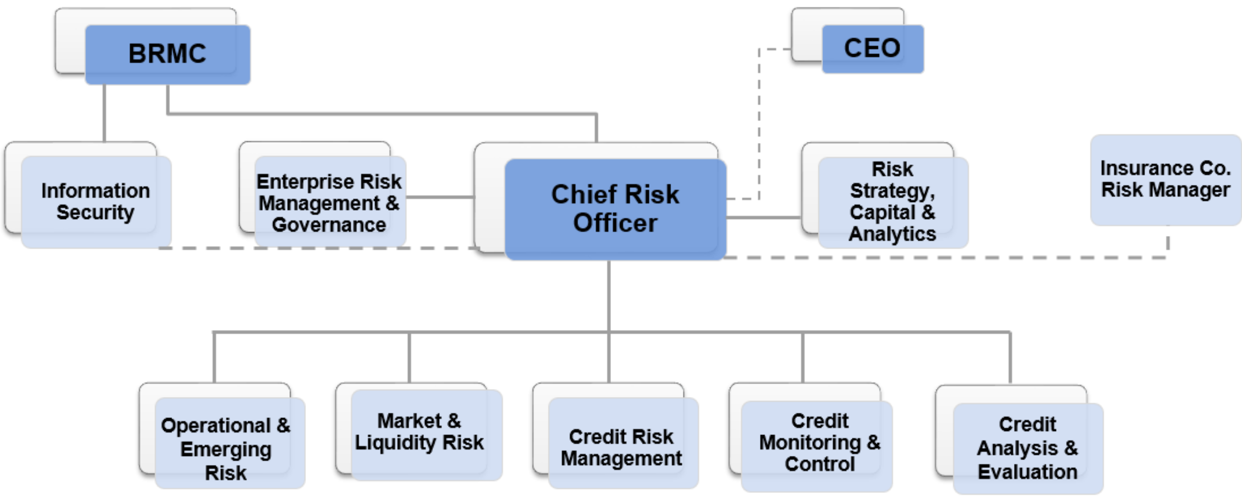
- **Credit Analysis & Evaluation**: The unit will have ex-ante involvement (as Second Line) in the assessment/evaluation stage of the credit process both in performing and non-performing portfolio. It will ensure that risk review and recommendations are adequately recorded/acknowledged at Executive and Senior Loan approval level.

- **Enterprise Risk Management & Governance**: The responsibilities of the unit were enhanced with the aim to become a horizontal function that facilitates the holistic management of risk by bringing together all of Risk Management's activities, across the risk spectrum, under one integrated structure. The unit manages the interaction between different risk types, in co-ordination with key stakeholders, thereby helping to foster long-term value while achieving a sustainable risk profile for the Bank. In 2018 the unit has also setup independent Model Validation capability which will provide Risk Oversight, Governance, Model Assessment and Validation. The unit is the owner of the Model Risk Framework, which will be developed over the course of 2019.

- **Credit Monitoring & Control Unit:** The unit will also have responsibility for the Bank's Early Warning Monitoring process, the timely identification and assessment of "watch list clients" and generation of individual assessment for clients in specific 'Early Warning' and 'Watch List' categories, and responsibility for reporting to ERM & Compliance Committee and to the General Manager of the related business unit key findings on a monthly basis.

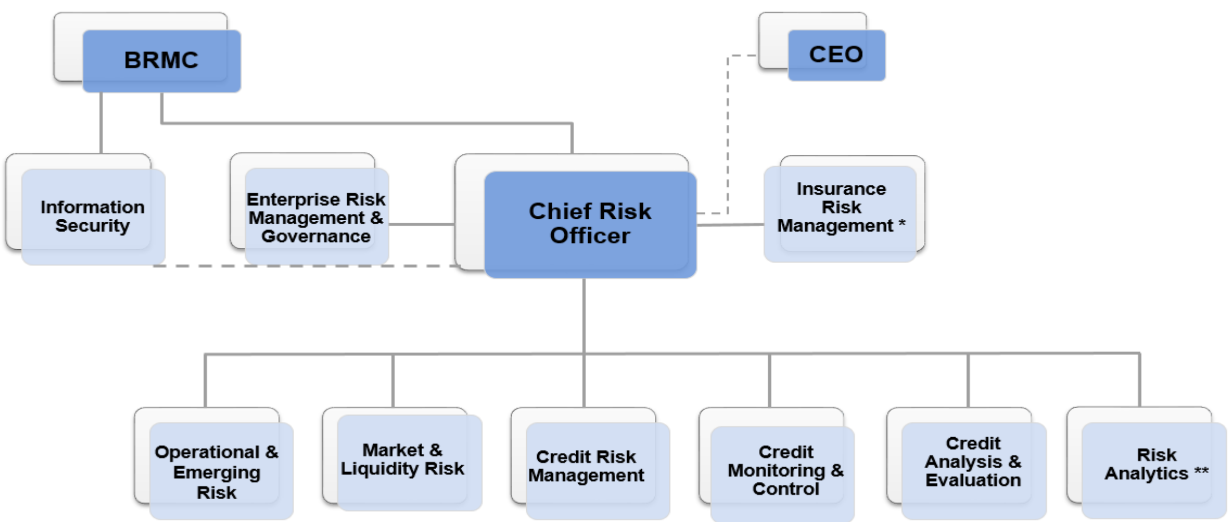
The Risk Management Unit (RMU) organisation has been enhanced to allow for end-to-end risk management, reinforcing the second line of defence role throughout the risk cycle with special focus on the Bank's core material risk (i.e. credit and NPL risks).

Risk Management Structure – as applicable until December 2018



On 19 March 2019, the Bank's Board of Directors under the scope of the annual review of the Risk Management Charter, also approved a revised Charter whereby some of the key changes concerned the renaming of 'Risk Strategy, Capital & Analytics to 'Risk Analytics' following the segregation of the duties of the set department into 1st and 2nd line of defence.

Revised Risk Management Structure



**dotted line to General Managers of Insurance Companies*

*** Renamed from 'Risk Strategy, Capital and Analytics' to 'Risk Analytics' and segregation of duties into 1st and 2nd line of defense*

5.1.5 Risk Management Architecture of Risk Frameworks and Policies

Within the ERMF, the Bank has defined the structure of documents to govern risk management as follows:

- ***Risk Management Framework*** – a high level, Board-approved document setting out the principles and governance arrangements under which a specific risk family is managed.
- ***Risk Management Charter*** – a Board approved document which sets out the purpose, standing and authority of an internal control function.
- ***Risk Management Policy*** – a Board approved document that sets out the rules that govern, manage how a specific risk is taken, managed and controlled within a particular risk framework.
- ***Risk Management Procedure*** – an Executive approved document that sets out how a risk policy is implemented and controlled on a day-to-day basis.

Each specific risk family has its own Risk Management Framework under which a number of policies and procedures exist, governing how the risks are managed.

During 2018, the following frameworks, charters, policies and plans which fall within the remit of Risk Management activities were approved/reviewed by the Board:

- Risk Management Charter
- Risk Appetite Framework/Risk Appetite Statement
- Material Risk Assessment Methodology & Procedure
- Enterprise Risk Management Framework
- Restructuring Policy
- Impairment Policy
- Credit Risk Manual - Lending Policy Chapter: Covenants – KPIs
- Pricing Policy for Legal Entities
- Credit Risk Weighted Assets Calculation Policy
- Asset Repossession Policy, Management and Sales Policy
- Credit Monitoring Cycle Policy
- Vendor and outsourcing Management Policy
- Products and Services Management Policy
- Product Governance Policy for Investment Products
- Reputation Risk Policy
- Conduct Risk policy
- Data Governance Policy
- Information Security Policy
- Liquidity and Funding Risk Management Framework
- Liquidity Risk Policy
- Liquidity Contingency Plan (LCP)
- Market Risks Management Framework
- Interest Rate Risk Policy
- Market Risk Policy

5.2 Risk Appetite Framework and Statement

The Risk Appetite of the Bank is defined as the aggregate level and types of risk the Bank is willing to assume within its risk capacity to achieve its strategic objectives and execute its business plan.

The Bank's Risk Appetite Statement was revised over 2018 to consider transactions deemed significant either by size, either via single name concentrations or at transaction level, or by nature, vis-à-vis associated Reputational or Conduct Risk. In particular, on 25 June 2018 the Bank announced the acquisition of part of Cooperative Central Bank's assets and assumed liabilities, whereby the acquisition was completed on 3 September 2018. In specific, this transaction fundamentally changed the risk profile of the Bank, necessitating the recalibration of the key Risk Appetite metrics. The recalibrated Risk Appetite Limits were approved by the Board of Directors in January 2019.

The key enhancements made in the recalibrated Risk Appetite Limits which incorporated the acquired assets and assumed liabilities were as follows:

- *Streamlining the RAS metrics*: in a continuous effort to make the Risk Appetite more targeted and focused the Risk Appetite Limits were streamlined
- *Integration risk*: introduction of RAS limits covering integration risk arising from the transaction
- *Concentration Limits*: Credit concentration limits were introduced for the overall loan portfolio (e.g. for specific high risk industries)
- *Investment Limits*: Incorporation of the acquired sovereign position of Cyprus Government bonds in the investment limits
- *Non-Performing loans*: Targeted metrics on Non-performing loans introduced.

Furthermore, the Risk Appetite Framework (RAF) which governs the process for setting risk appetite, has been enhanced over 2018 as part of the enrichment of the broader ERMF.

The Bank's revised Risk Appetite Framework considers the resilience of risk limits and risk capacity under stress and makes the intrinsic link to the Bank's stress testing in the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Internal Capital Adequacy Assessment Process (ICAAP) and has input to the Strategic Plan. The outcomes of the stress tests are thereby incorporated into the risk framework, Strategic Plan, Capital Plan and the Contingency Funding Plan.

The RAF sets out:

- The role of the Risk Appetite Framework within the Risk Management Framework.
- The roles and responsibilities of the Board, Board sub-committees and Executive Management.
- The business strategy of the Bank.
- The material risks associated with delivering the business strategy (Material Risk Assessment).
- The way risk appetite is used in the business.
- The RAS.

5.2.1 Material Risk Assessment

The Risk Appetite Framework which sets out the Risk Appetite Statement (RAS), starts with the risk identification and the Material Risk Assessment (MRA), which feeds -inter alia- into the limit setting methodology, the monitoring and reporting mechanism and the governance and escalation process.

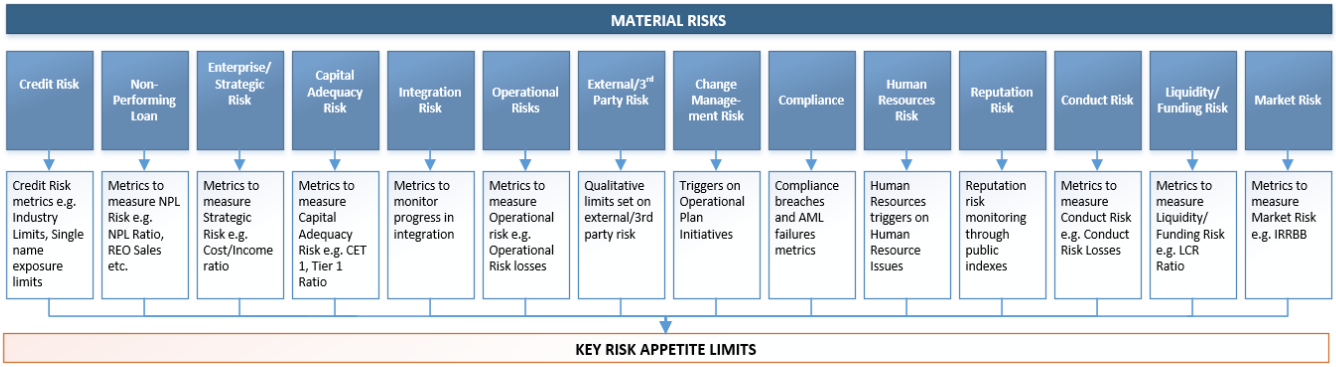
The Bank's risk identification process comprises of both qualitative and quantitative factors which provides a balanced and integrated picture of the current and emerging risks facing the bank, taking into consideration both the 'likelihood' and 'impact' that would arise from the crystallization of said risks. This process includes challenge and review sessions with the Executive Committee (ExCo) and Board Risk Management Committee (BRMC).

The Risk Appetite framework therefore ensures that the RAS is the result of a process which determines the Bank's risk capacity across key risk categories within its risk taxonomy, by setting risk appetite and risk tolerance levels for all risks which have been assessed as material and/or emerging for the Bank via the Material Risk Assessment process.

The Material Risk Assessment and the Risk Appetite Statement are reviewed at least annually or more frequently if there are any significant changes in the Bank's operations, strategy or external operating environment which means that previous assessments are no longer valid. Following the acquisition of part of Cooperative Central

Bank's assets and assumed liabilities, the Material Risk Assessment was concluded in November 2018. The Material Risks which have been identified are depicted below as well as the key Risk Appetite Limits which have been set.

Material Risks and Key Risk Appetite Limits



5.2.2 Key Components of the Risk Appetite Statement

In considering its Risk Appetite, the Board defines its Risk Capacity as:

- **Capital** – the Bank will not accept any risk that would result in its reportable Total Capital or Common Equity Tier 1 or Tier 1 falling below regulatory requirements or internally set capital limits
- **NPL Management** – The Bank will not accept any risk that would derail it from the deleveraging of the NPL portfolio or result in a less optimal resolution of its NPL portfolio
- **Strategic Risk** – The Bank will not accept any risk that will render its strategy as sub-optimal or be poorly executed
- **Credit** – The Bank will not accept any risk that will compromise the quality of its new lending net of run-offs and introduce higher credit risk to its portfolio
- **Liquidity** – the Bank will not accept any risk that would result in its Liquidity Coverage Ratio falling below regulatory requirements.
- **Regulatory** – the Bank will not knowingly breach any applicable law or regulation
- **Operational** – the Bank will not take any risk that cannot be assessed, measured, reported or managed or that, in extremis, could jeopardise the viability of the Bank
- **Reputation** - The Bank will not knowingly accept any risk or enter into any activity that might result in disrepute or negative reputational incident(s).

The major Risk Statements and parameters of the recalibrated Risk Appetite Statement as was approved by the Board of Directors are summarized below:

Credit Risk

- Financing creditworthy businesses targeting those that increase the competitiveness and productivity of the country. Similarly, it will finance creditworthy households, targeting mortgages, small loans to new and existing who have adequate debt service capacity;
- Targeting investing in assets, through risk-adjusted return assessment, in order to profitably deploy its liquidity, including fixed income securities and other securities within its Investment Framework;
- The Bank has no appetite for excessive concentration. To this end, the Bank has drafted a clear and transparent concentration risk policy, as part of the broader credit risk process;
- The Bank has appropriate metrics to monitor deterioration of performing loans leading to delinquencies or eventually defaults.

Key Risk Metrics

A number of key risk indicators are in place to monitor credit risk such as Industry Concentration Limits, New Defaults, performing deterioration, Single name concentration, new lending quality metrics, etc.

Non-Performing Loans

- Reduce NPLs, with speedy resolution being the primary objective while complying with CBC Directives and ensuring cooperative borrowers are treated fairly;
- Appetite to investigate potential alternative solutions to NPL management and restructurings through the use of external asset managers and/ or servicers.

Key Risk Metrics
A number of key risk indicators are in place to monitor the non-performing risk such as NPL ratio, NPE amount, cash collections from non-performing loans, REO sales, etc.

Enterprise/Strategic Risks

- The Bank will consider inorganic opportunities in Cyprus such as acquisitions or divestments, should these present themselves, within its risk capacity, subject to requisite Board/ shareholder approvals;
- The Bank will implement changes in its organizational structure where these changes are necessary to improve execution ability and executive management's focus on the key business strategic direction of the Bank.

Key Risk Metrics
The key metric which is in place to monitor Enterprise/Strategic Risk is the Cost/Income ratio.

Capital Adequacy Risk

Hellenic Bank both at Group and at Bank level should maintain at all times sufficient capital so as to meet, at least, the levels required by regulators and should have sufficient capital to meet the Group's capital requirements assessed in the ICAAP exercise.

Key Risk Metrics
A number of key risk indicators are in place to monitor Capital Adequacy Risk such as CET 1 ratio, Tier 1 ratio, Total Own Funds ratio, Leverage Ratio.

Operational Risk

Integration Risk

- The Bank recognizes that several risks related to the Integration, however unwelcome, are unavoidable. Therefore, it accepts that some level of such risks will be tolerated to avoid stifling or curtailing business operations and the timely & successful completion of the integration project.
- Significant resources have been committed to the project management process and a strong project management governance has been set up, where integration issues are raised, monitored and resolved.
- The Bank has set up the right internal processes to promptly identify and resolve bottlenecks that may significantly delay the integration, that is, monitoring and take immediate action when and if any of the checkpoints monitored in certain time intervals has not been achieved.
- Integration checkpoints will be considered for timely completion of the integration project as a qualitative RAS and missing the checkpoints will be considered as a risk.

Other Operational Risks

Through its RAS the Bank sets limits and monitors aggregated operational risk losses as well as conduct risk losses whereas a number of Key Risk Indicators as well as qualitative statements are in place stating out the risk tolerance level of each one of the operational risk sub-categories according to HB's internal taxonomy.

To this extent, trigger levels are defined to monitor the following operational risk subcategories: Compliance, HR, Change Management, IT, Information Security, Business Continuity.

In order to ensure that the Bank operates within its risk appetite, distinct policies are developed under the Operational Risk Management Framework for each one of the operational risk subcategories that encompass the Banks' approach on the management of the risks.

In order to eliminate operational risks as per its RAS the Bank, inter alia:

- Adopts compliance measures, assurance and reviews on a risk-based approach;
- Invests in the resilience of its IT systems against data loss, cyber threat or system outages;

- Has in place adequate contingency and business continuity plans to ensure its ability to operate on an ongoing basis and limit losses in the event of material business disruption;
- Assures the accuracy and completeness of KYC documentation for all client relationships as per each risk level requirements set by the Customer Acceptance Policy;
- Maintains a strong Data Governance Policy which ensures that, the Bank's data is managed in a manner maintaining its quality, integrity, reliability and value maximized towards meeting business needs and regulatory obligations;
- Implements appropriate control measures to prevent external fraud risk;
- Empowers employees to exercise their roles and responsibilities, cultivating a culture of respect across the organization.

Reputation Risk
The Bank seeks to minimize any deterioration to its reputation as a trusted financial institution by being proactive in returning the Bank back to sustainable profitability, by serving customers fairly and professionally, by adopting high standard selling practices and by not tolerating unethical behavior by its employees, associates or directors. A number of key risk indicators are in place to monitor reputation risk such as the Net Promoter Score and Stockwatch 'Trust Index'.

Liquidity/Funding Risk
The Bank will maintain sufficient liquidity to cover a combined idiosyncratic and market stress event of at least 90 days and will continue to maintain a liquidity buffer over regulatory required levels. Furthermore, the Bank will maintain its LCR Risk Appetite limit.

Key Risk Metrics
A number of key risk indicators are in place to monitor Liquidity/Funding risk such as the CRD IV liquidity Coverage Ratio, the ILAAP stress coverage ratio at 90 days, etc.

Market Risk
The Bank will take Market Risk related to open foreign currency positions according to the internal limits allowed under the 'Limits framework for Group Dealing Room operations'. The Bank will not take Market risk from other proprietary trading.

Key Risk Metrics
The key metric which is in place to monitor Market Risk is IRRBB.

The following table also sets out a number of the Group's Key Performance Indicators (KPIs) utilised to monitor the Bank's risk profile and the actual results as at 31 December 2018:

Indicators		**31 December 2018**	**31 December * 2017**
NIM		1,96%	2,0%
Cost to income ratio		70,0%	85,7%
Cost of risk		0,8%	2,1%
Net loans to deposits ratio		42,7%	47,6%
Non Performing Exposures (NPE)s % to gross loans		32,4%	53,3%
NPEs provision coverage		54,6%	59,6%
CET1 ratio (IFRS 9 transitional basis/IAS 39 transitional basis)		15,8%	14,1%
Tier 1 ratio (IFRS 9 transitional basis/IAS 39 transitional basis)		18,5%	17,7%
Leverage ratio (IFRS 9 transitional basis/IAS 39 transitional basis)		5,4%	8,6%

* Figures for 31 December 2017 are as per IAS 39.

5.2.3 Risk Appetite Monitoring and Escalation Process

It is the responsibility of the CRO to establish a process, data collection, independent assurance and reporting for all qualitative and quantitative Risk Appetite Statements, including Risk Limits. The CRO facilitates for Board approval, the setting of risk limits and of sufficient internal triggers for action prior to breach of such Risk Appetite

Limits. He/She monitors adherence to the Risk Appetite Framework and ensures that a Red-Amber-Green (RAG) dashboard is established to provide early warning of a potential breach.

In the event that the Bank falls in the amber zone, Executive Management should be informed by the Risk Steward on the specific RAS metric to evaluate the possibility of a prospective breach and any corrective action or any other appropriate measure.

These triggers are monitored regularly. The Responsible Party (Individual Risk Steward/Business Line) monitoring each limit needs to inform the Enterprise Risk Management and Governance and CRO of the breach as well as the relevant Executive Committee (or its delegated sub-committee) of any actual breaches of Risk Appetite Limits or Regulatory Limits, as soon as these are identified. The Business owner (guided by their respective Risk Steward on the specific metric) should then develop a suitable and sufficient Management Action Plan to address the breach and return within the Bank's prescribed Risk Capacity. The CRO subsequently informs the Chairman of the BRMC about the breach, who then decides whether to notify BRMC Members and/or the Board depending on the nature. The Board or BRMC will assess the breach and evaluate the corresponding management Action Plan to address and take necessary action or make the relevant recommendations.

Anticipated breaches to Risk Tolerance limits (Red RALS) should be reported to the Board Risk Management Committee and Board at their next scheduled meeting, or earlier if the CRO deems it necessary, for their approval, together with an action plan to reduce the risk position back under the Risk Limit or otherwise as decided by the Board. The Board may decide to tolerate a breach where it has been flagged in advance and is satisfied that the risk exposure is within the Bank's Risk Capacity. The Board is not expected to tolerate a breach in any other circumstances.

The CRO will provide confirmation of compliance with Risk Limits in the Risk Report, as well as a qualitative statement that describes the risk taking culture, material risk exposures and whether the risk appetite is appropriately embedded within the culture of the institution.

Breaches of Risk Limits are also notified to the Bank's Joint Supervisory Team at the Central Bank of Cyprus / Single Supervisory Mechanism through their receipt of Board papers in normal course of business.

5.3 Pillar II, ICAAP and SREP

Pillar II aims at enhancing the link between an institution's risk profile, risk management, risk mitigation systems and its capital planning. Pillar II is divided into two major components, the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).

The ICAAP is reviewed and evaluated by the Single Supervisory Mechanism as part of its SREP, which occurs periodically and contributes to SSM's assessment of capital adequacy and additional own funds requirements.

ICAAP is an integral part within the holistic risk management approach at the Bank. It is integrated with the Bank's strategic processes, including the Risk Appetite Framework and Business as well as Capital Planning. As an example, the Material Risk Assessment process undertaken by the Risk Appetite Framework identifies key risks that the Bank is exposed to, with ICAAP assessing potential capital requirements for such risks, both on a point-in-time (static) and a forward-looking basis, as part of the ICAAP Stress Test.

During 2018 the Bank conducted the ICAAP to arrive at a forward-looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilising internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework and was carried out in accordance with the guidance provided by the European Banking Authority (EBA) through the Guidelines on Common Procedures and Methodologies for SREP (EBA/GL/2014/13 – 19 December 2014) and the Consultation Paper on Guidelines on ICAAP and ILAAP information collected for SREP purposes (EBA/GL/2016/10 – 03 November 2016).

5.4 Recovery Plan

Following the acquisition of certain assets and liabilities from Cyprus Cooperative Bank, the submission of the Recovery Plan which was due in December 2018 was postponed by the regulators to 30 June 2019.

The passing of the Bank Recovery and Resolution Directive (BRRD) and the transposition of its provisions into country legislations including Cyprus, the process of developing and updating the Recovery Plan has been normalized into the annual cycle of risk management and regulatory submissions.

As per the legislation and supporting EBA guidelines, the Recovery Plan (Plan):

- Identifies the Bank’s core business lines and critical functions,
- Sets out the governance of the Plan, identifying how it is integrated into the “business as usual” risk management practices of the Bank,
- Identifies the early warning and recovery indicators - breach of the latter triggers the decision making escalation process of the recovery plan,
- Lists the recovery options and assesses these across necessitated dimensions,
- Tests the effectiveness of recovery options in exceptional but plausible scenarios that are severe enough to threaten the viability of the Bank, and
- Establishes a communication structure to facilitate possible recovery plan implementation comprising of external and internal communication.

In accordance with the regulatory requirements, the Bank’s Recovery Plan will be updated annually or more frequently in case of material changes, which are defined within the Plan.

5.5 Declaration of the Board of Directors

The Board of Directors, provide assurance that the risk management systems put in place are adequate with regard to the institution’s profile and strategy and have confirmed this in writing.

The Board of Directors, also declare that the liquidity risk management systems of the institution are adequate, given the risk profile and strategy of the Bank and have confirmed this in writing.

6. CAPITAL REQUIREMENTS

The Group follows the Standardised Approach for the calculation of the Pillar I capital requirement for credit risk and market risk and the Basic Indicator Approach for operational risk. Pillar II requirements are calculated through the ICAAP exercise.

A comparison of Pillar I capital requirement (defined on Pillar 1 total capital at 8%) between 2017 and 2018 is provided in the table below (*Ref: Template 4: EU OV1 – Overview of RWAs*).

The increase in total RWA is stemming from the acquisition of the ex-CCB portfolio (which has increased credit risk RWA) and increased operational risk RWA.

EU OV1 - Overview of RWAs (€000)			**RWA**		**Minimum Capital Requirements**
			Dec 2018	**Dec 2017**	**Dec 2018**
1	Credit Risk (excluding CCR)		3.937.592	2.955.189	315.007
2	*Of which the standardised approach*		*3.937.592*	*2.955.189*	*315.007*
6	CCR		6.906	2.058	552
7	*Of which mark to market*		*3.282*	*1.023*	*263*
12	*Of which CVA*		*3.624*	*1.034*	*290*
14	Securitisation exposures in the banking book (after the cap)		1.414	2.375	113
18	*Of which standardised approach*		*1.414*	*2.375*	*113*
19	Market risk		947	3.938	76
20	*Of which the standardised approach*		*947*	*3.938*	*76*
22	Large exposures		0	0	0
23	Operational risk		785.082	408.688	62.807
24	*Of which basic indicator approach*		*785.082*	*408.688*	*62.807*
27	Amounts below the thresholds for deduction (subject to 250% risk weight)		67.660	47.387	5.413
28	Floor adjustment				
29	**Total**		**4.799.600**	**3.419.634**	**383.968**

6.1 CREDIT RISK MANAGEMENT

6.1.1 Definition of Credit Risk

Credit risk is the risk arising from the uncertainty/potential failure of a counterparty to meet its contractual obligations. The primary source of Credit risk is the loan book but credit risk is also inherent in other types of assets such as those in the Treasury book (debt securities).

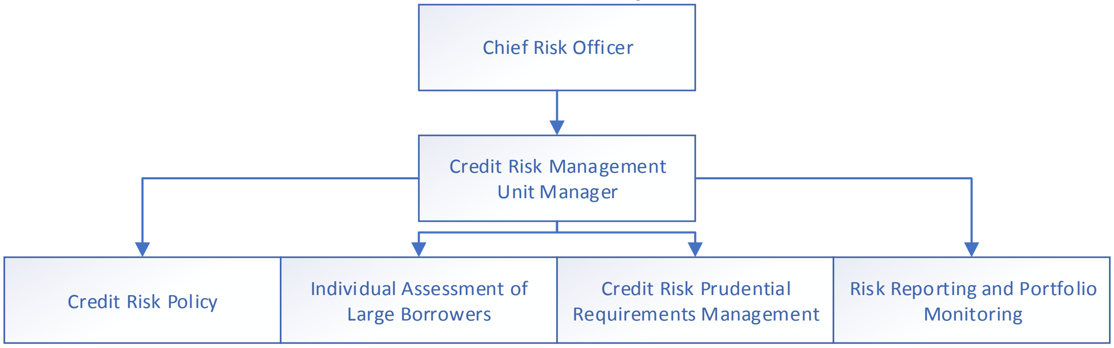
6.1.2 Credit Risk Management

Credit risk management is centralised and performed by the Risk Management Unit (RMU).

Under its second Line of Defence remit, the RMU key responsibilities include:

- Formulate credit risk management policies for approval by the BoD and related internal control processes,
- Recommend limit setting of specific credit activities,
- Establish and utilize systems to monitor and control the nature, composition and quality of the credit portfolio,
- Monitor and review the loan portfolio and establish an effective credit risk management reporting system to the Executive Management and Management Body,
- Ensure implementation of a credit risk management information system for credit risk quality monitoring,
- Submit comprehensive reports to the BoD and/or sub-committees dealing with significant credit activities and composition and quality of the credit portfolio,
- Ensure implementation of an effective assessment of credit risk management activities,
- Provide recommendations for the improvement of the quality of credit portfolio,
- Analyse and assess credit decisions within pre-determined criteria,
- Validate individual assessments on borrowers and challenge assumptions used for the impairment assigned for credit losses,
- Ensure that the credit risk management process is adequately implemented,
- Assess the adequacy of the management information systems for the whole credit risk management process,
- Provide a risk assessment for new loans over a predetermined limit and criteria,
- Set limits for specific credit risk measures through the RAF/RAS Framework, in a way that facilitates both the monitoring of the execution of Strategic Plan and the take-up of proper action, the latter achieved through a 3-level set of metrics, i.e. Comfort Zone/Management Action Trigger/Limit,
- Assess credit risk arising from loan book exposures (including off-balance sheet items),
- Calculate credit risk RWAs and establish a mechanism that enables the Bank to optimize the capital requirements within the Board approved business strategy and risk appetite,
- Assess and provide reports for credit risk in the following areas:
    - the nature and composition of credit portfolio,
    - credit quality of loan portfolio,
    - the level and quality of credit risk mitigation,
    - credit concentration risk arising from exposures to large borrower/ counterparty or group of related counterparties, sectoral concentrations, product concentrations and collateral concentrations,
    - the level and adequacy of provisions.

The structure of the CRMU is demonstrated in the diagram below:



6.1.3 Credit Risk Management Strategies

The Bank has adopted a holistic approach to credit risk assessment and considers credit risk management as part of an integrated approach to the management of all risks. To this regard, the Bank has established a Credit Risk Management Framework that forms part of the overall Enterprise Risk Management Framework of the Group. This Framework covers areas such as credit risk strategy approval, credit portfolio review, approval of credit/lending policy, delegation of credit approving authority and evaluation of the credit processes.

The Credit Risk Management Framework (CRMF) is applicable to all activities of the Group which involve credit risk and includes all aspects of effective communication of credit strategy to all staff involved in the credit process. The CRMF is the cornerstone of sound credit risk management and involves procedures for identifying, measuring, evaluating, approving, monitoring, reporting, and controlling or mitigating credit risk on a timely basis. The CRMF is consistent with the Group's general business strategy, business plan and risk appetite.

The objectives of the CRMF are to:

- Ensure that the Bank has adequate and efficient functions, policies and processes to identify, measure, assess, approve, monitor, control and mitigate credit risk, as integral part of the Bank's business,
- Ensure that the Bank does not undertake credit risk which may jeopardise its viability, including ongoing profitability, capital adequacy and reputation,
- Enable the Bank to maximize its risk-adjusted return on equity by maintaining credit risk exposure within the RAS as approved by the BoD,
- Enable the Bank to manage credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions,
- Develop a common understanding of credit risk across the Bank with all the employees involved in the credit management process,
- Enable the Business units to improve controls and incorporate mitigants where necessary to reduce credit risk throughout the Bank,
- Cultivate a Credit Risk Culture in the Bank and especially at First Line of Defence functions, who are the generators and owners of Risks,
- Ensure that policies for future undertaking and management of credit risk are updated based on a continuous feedback from past portfolio performance.

The main principles adopted by the Bank for the Management of Credit Risk are:

- Establishing an appropriate credit risk environment:
  - The strategy followed by the Bank reflects the appetite for risk and the level of profitability the Bank expects to achieve for incurring various credit risks.
  - Senior management has responsibility for implementing the credit risk strategy approved by the BoD and for developing policies and procedures for identifying, approving, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the Bank's activities at both the individual/ obligor level as well as at portfolio level.
  - The Bank will identify and manage credit risk inherent in all its products and activities. The Bank will ensure that the risks of new products and activities are subject to adequate risk management procedures and controls before being undertaken.
- Operating under a sound underwriting process through:
  - Establishing overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in a comparable and meaningful manner different types of exposures, both in the banking and non-banking book.

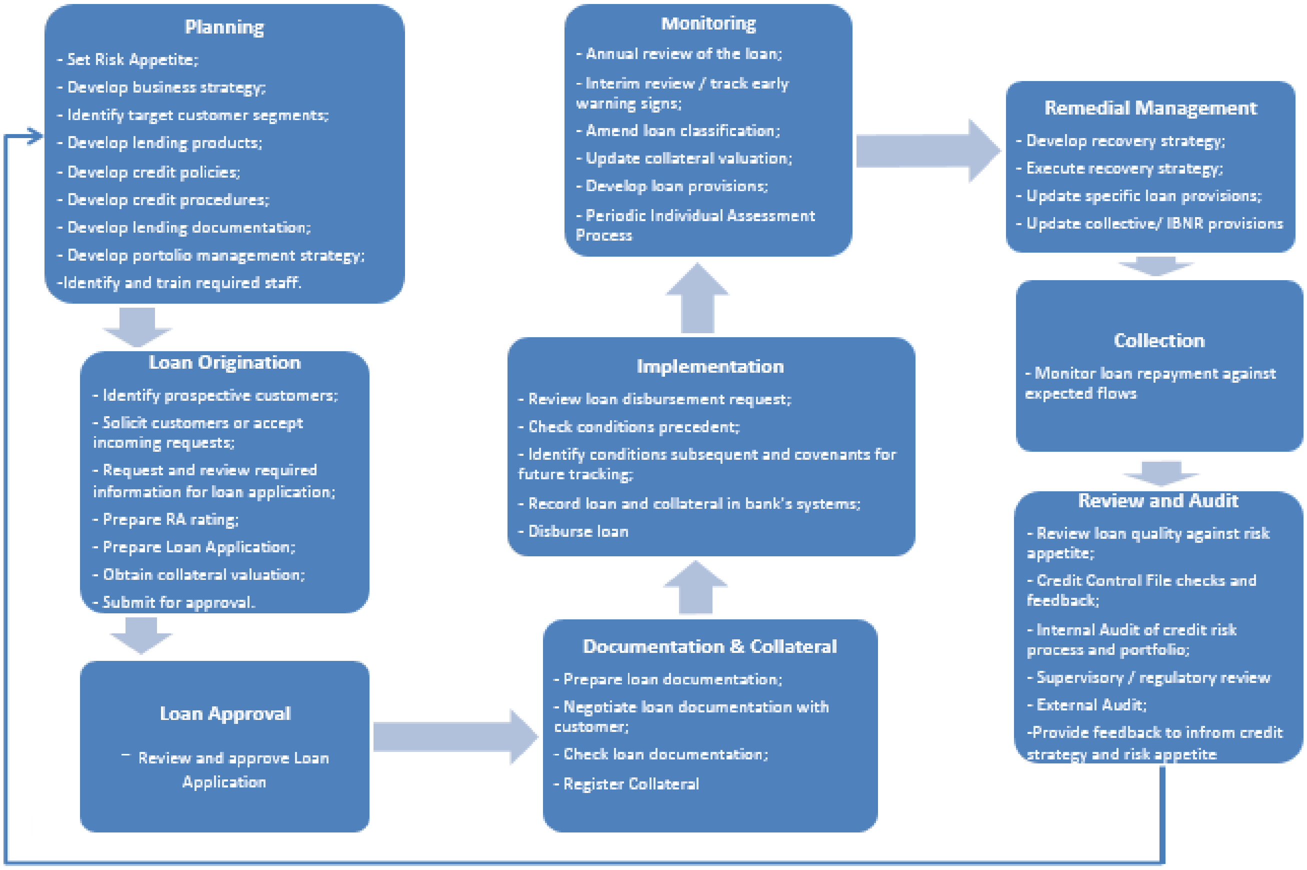
- Maintaining an appropriate credit administration, measurement and monitoring process through:
  - Having in place systems for the ongoing administration of the various credit risk-bearing portfolios.
  - Having in place systems for monitoring the condition of individual credits, including determining the adequacy of provisions and reserves.
  - Developing, using and periodically revalidating the internal risk rating system in assessing credit risk, consistent with the nature, size and complexity of the Bank's activities.
  - Ensuring that it has reliable risk data, robust information systems and analytical techniques, that enable management to understand, measure and manage credit risk inherent in its activities.
  - Having in place a system for monitoring the overall composition and quality of the credit portfolio.
  - Taking into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, both under base and adverse assumptions.
- Ensuring adequate controls over credit risk through:
  - Having a system of independent, ongoing assessment of the Bank's credit risk management processes and by communicating the results of such reviews to the Board Risk Committee and senior management.
  - Ensuring that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits.
  - Having a system in place for early remedial action on deteriorating credits.

Credit risk is managed in accordance with the Three Lines of Defence model:

- First Line of Defence (Business Units)
  - The first line of defence includes line management of the business units involved in the day to day identification, taking and management of risk and has ultimate ownership of the risks taken.
  - The business units follow the risk process and controls as set out in the Bank's risk management frameworks and policies. They are also responsible for implementing corrective actions to address deficiencies in processes and controls.
  - Line management guides the development and implementation of risk frameworks, policies and procedures, ensuring that activities are consistent with the Bank's goals and objectives.
- Second Line of Defence (Risk Management and Compliance Function)
  - Oversees risk management.
  - Drafts and puts in place, in consultation with the first line, the policies and procedures which the first line must follow.
  - Provides support in implementing and embedding these policies within the business.
  - Ensures that policies, risk and strategy are all aligned.
  - Provides assurance to internal audit that the policies and processes have been implemented in the first line.
- Third Line of Defence (Internal Audit)
  - Provides independent objective assurance that risk is being effectively owned, managed and overseen by the first and second line.

6.1.4 Credit Risk Management Process

The Credit Risk Management Process is outlined in the figure below:



6.1.5 Measurement Systems

Great emphasis is placed in assessing the quality and performance of credit portfolios in the Bank for determining whether credit risks are identified and dealt with in a timely and effective manner. To achieve this, credit risk is measured by assessing borrowers based both on their behaviour with the Bank as well as based on their quantitative and qualitative characteristics.

The Bank maintains a Policy for credit rating and its purpose is to:

- set the framework for credit ratings, including risk tolerance levels and guide the Bank's credit-granting activities;
- provide the principles of HB's credit rating system to assess and evaluate credit risk;
- establish the process for credit rating, including monitoring and reporting for the whole credit management process.

The Bank maintains a credit risk rating system which derives based on specific attributes. HB's credit risk rating system is integrated into the Bank's overall credit risk management process and forms the foundation for credit risk measurement, monitoring and reporting, and it supports the Bank's decision making.

All credit exposures of HB are rated to reflect the risks posed by both the borrower's expected performance and the transaction's structure considering their repayment capacity and loss potential.

The Bank's credit rating classification is used to assess the quality of the Bank's loan portfolio and reflects the direct and indirect ability of recovery, as well as other purposes of the existing structure.

The Bank performs back-testing exercises, on an annual basis or whenever it is considered necessary, for checking the reliability and consistency of the Rating/ Scoring models.

For corporations, a credit rating model has been used which classifies companies into credit ratings. The model assists in both the assessment of companies and the rationalisation of pricing according to the risk undertaken. The credit rating model takes into account the financial position of the company (quantitative criteria) as well as other qualitative criteria that relate to the company itself and the market in which it operates.

For the credit rating of individuals, the Bank uses credit scoring models which estimate the borrower's probability of default considering: i. for new customers, borrower type characteristics such as demographics and ii. for existing borrowers, borrower type characteristics as well as behavioural scores.

During 2018, the Bank has worked towards the introduction of a Credit Scoring System by developing a series of measures which include behavioural scoring, application scoring and credit status measures. The latter has been developed for both in-Bank status and status across the Banking System (through Artemis). These measures where incorporated into decision making both for monitoring/managing existing customers and it was fully implemented at the end of 2018.

Existing customers' management relies on the introduction of an Early Warning System which is based on a series of measurements including behavioural score, credit status score and a set of qualitative rules. The Early Warning System serves as the basis for customer monitoring which includes both pro-active as well as remedial actions and is the basis for renewal of revolving facilities to retail customers.

Currently the Bank is working towards incorporating the Credit Scoring System measures into New Business decision making and in specific, towards developing an integrated and semi-automated (for cases where this can be done) assessment of customers, aiming at improving both the cost-efficiency of taking customers on-board as well as improving the quality of new lending.

6.1.6 Stress Testing

The Bank is cognizant of the growing importance of stress testing as a key risk management tool driving and informing a number of key decision making processes across the Bank such as its Risk Appetite Statement, ICAAP, ILAAP and Recovery Planning. Furthermore, the need to have in place sound stress testing processes and policies in order to assess the Bank's capital adequacy and liquidity position, as these stem from the CRR and the related EBA Guidelines, is recognised in setting the governance process and the main pillars to be followed under stress testing.

The overarching objective of stress testing is to ensure that the Bank's financial position and risk profile provide sufficient resilience to withstand the impact of adverse economic stress.

Stress testing is based on exceptional but plausible events with an adequate degree of severity. For capital adequacy and capital planning purposes, the stress testing covers at least one severe economic downturn. The severity of the scenarios is assessed by taking into account the specific vulnerabilities of the Bank on the basis of its business model (e.g. exposed to international markets). The Bank ensures that its choice of the scenario is sufficiently severe both in relative and absolute terms with the macro-scenario having a probability of occurrence of 5% and negative GDP growth in at least one year of the horizon.

The stress testing program of the Bank includes (but is not exhausted to):

- **Sensitivity Analysis**: Impact of change on provisioning assumptions on the stock of provisions (e.g. +1-year increase in liquidation period) to the loan portfolio.
- **Integrated Stress Testing**: Assess the capital adequacy of the Bank in adverse macro-economic conditions over a 3-year horizon (applicable to both loan and treasury portfolio).
- **Reverse Stress Testing**: Explore scenarios and circumstances that might cause the Bank's capital to fall below its minimum internal capital requirements or recovery thresholds (applicable to both loan and treasury portfolio).

6.1.7 Risk Reporting

The effective management of credit risk is a critical component of a comprehensive approach to the overall risk management and essential for the long-term soundness of the Bank. Sustainable and robust credit risk management requires an effective credit monitoring framework to monitor both individual credits (borrowers) and a holistic portfolio level.

To this regard, the Bank has established a holistic framework through the "Credit Monitoring Cycle Policy" for the efficient and effective monitoring and controlling, including reporting and escalating of credit risk, both at individual credit level and portfolio level.

The Bank monitors portfolio performance of the loan book in different stages of the credit cycle with specific metrics.

Under the scope of credit risk management, the following analysis is regularly performed:

- Size and evolution of its NPL portfolio on an appropriate level of granularity, e.g. division, industry.
- Breakdown of the total portfolio on an appropriate level of granularity, e.g. division, industry, forbearance, NPEs.
- NPEs in-flows and out-flows and their drivers.
- Forbearance in-flows and out-flows and their drivers.
- Amounts in early arrears and/or prone to default or re-default.
- Volume of restructurings, types of restructuring solutions implemented and performance of each.
- Vintage analysis of restructurings, analysis of the performance of restructurings and estimation of the exit day based on restructuring solution proposed as well as analysis of the particularities of large borrower groups.
- Evolution of forborne facilities including repayments, Debt to Asset swaps, write offs (contractual and non-contractual).
- New lending vintage cohort analysis (in relation to delinquency buckets) and overall credit assessment of any new defaults.
- Assessment of credit quality step of corporates that were granted new lending.
- Industry analysis.
- Provisions coverage and drivers.
- Collateral coverage and types of collaterals.
- Migration matrices within delinquency buckets.
- Concentration analysis, e.g. industry, top groups, particular types of lending (leveraged finance, shipping, syndicated loans).
- Actual performance vs. RAF/RAS metrics.
- Interest rates by customer category (Non-Financial Corporations, Households/NPEs/PEs/Forborne/Non-Forborne/Terminated).
- Date of cure of NPEs under a non-performing forbearance probation period.
- Cash collections per customer category as well as scheduled vs. actual borrower engagements.
- Produces KPIs for Management and BoD Committees on asset quality.
- Evolution of capital requirements of the loan portfolio and analysis of the drivers affecting the risk weights assigned by industry and performing status.
- Credit review reports and findings.
- Watch list reports.
- Accounts that are likely to enter to or exit from the NPE category.
- Mortgages on immovable properties that lack adequate insurance coverage.

Reporting to Management Body / Executive Management

Credit risk analysis is communicated to the Management and BoD through various reporting channels including (but not exhausted to):

- Annual Risk Reports
- Quarter Risk Report
- KPI Dashboard (monthly)
- Customer Portfolio Credit Risk Analysis (Monthly)
- Recovery Plan Dashboard (Monthly)
- Provisions Movement (Monthly)
- Various other ad-hoc reports

6.1.8 Policies for Hedging and Mitigating Credit Risk

Credit Risk Policies lay down the conditions and guidelines for the identification, measurement, evaluation, approval, monitoring, reporting, control or mitigation of credit risk for the individual credit as well as for portfolio level.

Credit policies are documented, well-defined and consistent with prudent practices and regulatory requirements and reflect all credit activities. Credit policies are communicated throughout the Bank, mainly to all staff involved in the credit functions, and are periodically reviewed, at least annually, and adjusted based on the prevailing market conditions and regulatory framework.

Exceptions from the established credit policies require authorization from the appropriate level of approval. Credit Risk Management Unit regularly reviews significant and frequent policy exceptions to determine the impact on its credit risk profile and the effectiveness of existing credit policies and reflects such feedback in future updates.

The key Frameworks governing credit risk are:

- Credit Risk Management Framework.
- Risk Appetite Framework – which sets out the Bank's internal governance for establishing, monitoring and embedding its risk appetite on an on-going basis.
- Stress Testing Framework – which sets out the Bank's internal governance for stress testing its risk profile for risk management purposes, including its Internal Capital Adequacy Assessment Process (ICAAP).

The key Policies governing credit risk are:

- Lending Policy
- Bank Investment Framework
- Pricing Policy
- Concentration Risk Policy
- Restructuring Policy
- Credit Monitoring Cycle Policy
- Property Valuation Policy
- Impairment Policy
- Write Off: Debt Forgiveness and Write Down Policy
- Stress Test Policy

The Bank monitors the effectiveness and efficiency of the above policies on a continuous basis through active interaction with the front-line staff, the internal audit function and external advisors and ensures that the above policies are aligned with industry best practises tailored to the particularities of the local market.

6.1.9 Internal Capital and ICAAP

The Bank assesses the adequacy of its internal capital on an annual basis through the ICAAP exercise.

The ICAAP is an integral part of Pillar II of the Basel III regulatory framework (CRR). Its purpose is to identify and measure the material risks that the Bank is currently exposed to, extending beyond those covered within the regulatory framework of Pillar I and estimate capital requirements where appropriate (internal capital).

ICAAP is integrated into the Bank's risk management framework and explicitly interrelated to the business planning process of the Bank. Defining a suitable risk appetite by articulating the RAS based on the identification of material risks is a prerequisite for the formulation of the Bank's Strategic Plan. The Strategic Plan in turn feeds back into the Risk Appetite setting process, if necessary, to ensure alignment. The Strategic Plan forms the basis for the preparation of the annual targets and budget and it is also used to develop the Baseline scenario of the ICAAP Stress Test process. The results of the ICAAP process inform the capital planning process in preparation of the Bank's Capital Plan.

For the purposes of the ICAAP, the Bank carries out a Point-in-Time Assessment, whereby risks are assessed on an individual basis, and a forward-looking assessment which includes a Baseline scenario that is aligned with the Strategic Plan as well as an Adverse scenario. In determining the minimum Internal Capital requirements, the Bank is considering both assessments:

- Point-in-Time Assessment (Pillar II Add-Ons): Risks that are not considered under the Pillar I regulatory RWAs.
- Forward looking Risk Assessment (ICAAP Stress Test): The Bank assesses its capital adequacy over a 3-year horizon in Adverse conditions which is specific to the Bank and targets its vulnerabilities.

6.1.10 Capital Requirements – Credit RWAs

The tables below presents the RWA and Minimum Capital Requirements as at 31 December 2018 and 2017 by asset class respectively:

Exposure Class - 31 December 2018 (€000)		RWA	Minimum capital requirement
Central governments or central banks		0	0
Regional governments or local authorities		323	26
Public sector entities		46	4
Multilateral development banks		2.697	216
International organisations		N/A	N/A
Institutions		66.691	5.335
Corporates		894.957	71.597
Retail		785.910	62.873
Secured by mortgages on immovable property		616.124	49.290
Exposures in default		715.877	57.270
Items associated with particularly high risk		496.902	39.752
Items representing securitisation positions		1.414	113
Covered bonds		4.659	373
Claims on institutions and corporates with a short-term credit assessment		N/A	N/A
Collective investments undertakings		N/A	N/A
Equity exposures		48.817	3.905
Other exposures		375.531	30.042
Total standardised approach		**4.009.947**	**320.796**

Exposure Class - 31 December 2017 (€000)		RWAs	Minimum capital requirement
Central governments or central banks		--	--
Regional governments or local authorities		91	7
Public sector entities		N/A	N/A
Multilateral development banks		2.632	211
International organisations		N/A	N/A
Institutions		59.193	4.735
Corporates		706.044	56.484
Retail		231.691	18.535
Secured by mortgages on immovable property		344.396	27.552
Exposures in default		725.045	58.004
Items associated with particularly high risk		587.078	46.966
Items representing securitisation positions		2.375	190
Covered bonds		4.001	320
Claims on institutions and corporates with a short-term credit assessment		N/A	N/A
Collective investments undertakings		N/A	N/A
Equity exposures		47.387	3.791
Other exposures		296.041	23.683
Total standardised approach		**3.005.974**	**240.478**

Credit RWAs have increased from last year by c. €1.000m mainly as a result of the acquisition of the ex-CCB portfolio. This is particularly evident in the “Retail”, “Corporate” and “Secured by Immovable Property” Asset

Classes. Credit RWA assigned to “Exposures in Default” and “Items associated with particularly high risk” asset classes have decreased as a result of the deleveraging actions (Debt for asset swaps, write offs, settlements, credit risk adjustments, etc.) performed on these types of exposures. The exposures on-boarded from the ex-CCB portfolio that are classified as either “Exposures in Default” or “Items associated with particularly high risk” are largely secured with the APS scheme and as such the capital consumption is constrained. Credit RWA assigned to the asset class “Other Exposures” have increased as a result of the acquisition of the ex-CCB portfolio and the debt for asset swaps deleveraging strategies noted above.

6.1.11 Nominated External Credit Assessment Institutions for the application of the Standardised Approach

For the purposes of applying the Standardised Approach, the nominated External Credit Assessment Institutions (ECAIs), recognised by the Bank are Fitch Ratings, Standard and Poor's Rating Services and Moody's Investor Service.

For all asset classes, the Group has selected to proceed with the 3 Ratings approach as this is prescribed under Article 138 of CRR.

The use of Fitch, Standard and Poor’s, and Moody’s Rating Services, for determining risk weights and capital requirements is in compliance with the directives of the supervisory authorities, provided they are used consistently for all exposures belonging to an asset class and will continue to be used consistently going forward.

Where only one credit assessment is available from a nominated ECAI (as defined above) for a rated item, that credit assessment is used to determine the risk weight for that item. Where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight is assigned. Where three credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights are referred to. If the two lowest risk weights are different, the higher risk weight is assigned. If the two lowest risk weights are the same, that risk weight is assigned.

Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure belongs, this credit assessment is used to determine the risk weight to be assigned to that item.

Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment is used in either of the following cases:

a. It produces a higher risk weight than would otherwise be the case and the exposure in question ranks pari-passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant,
b. It produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.

In all other cases, the exposure is treated as unrated.

The Bank complies with the standard assignment of external ratings of each nominated ECAI with the credit quality steps. The assignment is applied in accordance with the following table:

Credit Quality Steps	Fitch Ratings	Moody's Ratings	S&P Ratings
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

The tables below present the exposure values before and after credit risk mitigation and credit conversion factors, per credit quality step for 2018 and 2017 respectively. The Credit Quality Step (CQS) is based on the asset class and the credit rating of the item (or counterparty if the item is not rated). The values before credit risk mitigation represent the initial exposure value net of credit risk valuation adjustments. The values after credit risk mitigation present exposures considering the eligible financial collateral (funded credit protection) and unfunded credit protection, both before and after the conversion of the off-balance sheet items to on-balance sheet.

Credit Quality Step - 31 December 2018 (€000)	**Exposure values before credit risk mitigation**	**Exposure values taking into account unfunded credit protection**	**Exposure values after credit risk mitigation**	**Exposure values after credit risk mitigation and credit conversion factors**
CQS 1	4.647.618	4.647.618	4.647.618	4.647.618
CQS 2	215.992	215.992	215.992	213.619
CQS 3	44.960	44.960	44.960	41.843
CQS 4	4.261.361	6.156.218	6.156.218	6.156.218
CQS 5	34.067	73.670	73.670	71.240
CQS 6	169	169	169	169
Unrated*	8.166.808	6.232.348	5.817.603	4.895.951
Deducted From Own Funds	63.050	63.050	63.050	63.050
Total	**17.434.025**	**17.434.025**	**17.019.280**	**16.089.708**

Credit Quality Step – 31 December 2017 (€000)	**Exposure values before credit risk mitigation**	**Exposure values taking into account unfunded credit protection**	**Exposure values after credit risk mitigation**	**Exposure values after credit risk mitigation and credit conversion factors**
CQS 1	2.683.252	2.683.252	2.683.252	2.683.252
CQS 2	165.116	165.116	165.116	162.761
CQS 3	28.032	28.032	28.032	28.032
CQS 4	718.414	718.998	718.998	710.839
CQS 5	21.405	62.206	62.206	62.184
CQS 6	139	139	139	139
Unrated*	4.066.339	4.024.954	3.802.935	3.161.723
Deducted From Own Funds	45.901	45.901	45.901	45.901
Total	**7.728.598**	**7.728.598**	**7.506.579**	**6.854.831**

** "Unrated" refers mainly to individuals and legal entities of the loan book that lack credit rating from the recognised ECAIs.*

The large deviation observed between current and last year in rating Bands CQS 1 and CQS 4 is stemming from the increased exposure to ECB and Cyprus Government (through investment in Fixed Income Securities and the APS scheme) respectively. The category "Unrated", which corresponds mainly to individuals and legal entities of the loan book that lack credit rating from the recognised ECAIs have increased as a result of the acquisition of the ex-CCB portfolio.

The tables below present the total value of exposures by Asset Class and Credit Quality Step based on the asset class and the credit rating of the item (or counterparty if the item is not rated), after credit risk valuation adjustments, credit risk mitigation techniques and credit conversion factors for 2018 and 2017 respectively. "Unrated" refers mainly to individuals and legal entities of the loan book that lack credit rating from the recognised ECAIs.

Asset Class – 31 December 2018 (€000)		CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6	Unrated	Total
Central governments or central banks		4.337.898	--	--	6.101.169	--	--	--	**10.439.068**
Regional governments or local authorities		--	--	--	--	--	--	1.616	**1.616**
Public sector entities		--	--	--	--	--	--	49	**49**
Multilateral development banks		239.107	--	5.395	--	--	--	--	**244.501**
International organisations		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Institutions		23.980	213.273	9.837	63	38.968	169	10.408	**296.698**
Corporates		41	345	26.611	54.986	32.272	--	775.293	**889.549**
Retail		--	--	--	--	--	--	1.099.838	**1.099.838**
Secured by mortgages on immovable property		--	--	--	--	--	--	1.427.407	**1.427.407**
Exposures in default		--	--	--	--	--	--	652.538	**652.538**
Items associated with particularly high risk		--	--	--	--	--	--	331.268	**331.268**
Covered bonds		46.592	--	--	--	--	--	--	**46.592**
Claims on institutions and corporates with a short-term credit assessment		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Collective investments undertakings		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Equity exposures		--	--	--	--	--	--	20.355	**20.355**
Other exposures		--	--	--	--	--	--	577.177	**577.177**
Total standardised approach		**4.647.618**	**213.619**	**41.843**	**6.156.218**	**71.240**	**169**	**4.895.951**	**16.026.658**

Asset Class – 31 December 2017 (€000)		**CQS 1**	**CQS 2**	**CQS 3**	**CQS 4**	**CQS 5**	**CQS 6**	**Unrated**	**Total**
Central governments or central banks		2.285.872	--	--	678.214	3.984	--	--	**2.968.070**
Regional governments or local authorities		--	--	--	--	--	--	455	**455**
Public sector entities		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Multilateral development banks		237.159	--	5.264	--	--	--	--	**242.423**
International organisations		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Institutions		120.150	161.954	3.229	82	37.267	139	3.404	**326.225**
Corporates		56	807	19.539	32.413	17.421	--	635.904	**706.140**
Retail		--	--	--	--	--	--	341.041	**341.041**
Secured by mortgages on immovable property		--	--	--	--	--	--	734.600	**734.600**
Exposures in default		--	--	--	130	3.513	--	668.273	**671.916**
Items associated with particularly high risk		--	--	--	--	--	--	391.385	**391.385**
Covered bonds		40.015	--	--	--	--	--	--	**40.015**
Claims on institutions and corporates with a short-term credit assessment		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Collective investments undertakings		N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
Equity exposures		--	--	--	--	--	--	18.955	**18.955**
Other exposures		--	--	--	--	--	--	367.705	**367.705**
Total standardised approach		**2.683.252**	**162.761**	**28.032**	**710.839**	**62.185**	**139**	**3.161.722**	**6.808.930**

The large deviation observed between current and last year in rating Band CQS 1 and CQS 4 is stemming from the increased exposure to ECB and Cyprus Government (through investment in Fixed Income Securities and the APS scheme) respectively. The category "Unrated", which corresponds mainly to individuals and legal entities of the loan book that lack credit rating from the recognised ECAIs have increased across exposure classes as a result of the acquisition of the ex-CCB portfolio.

The tables below present the breakdown of exposures by asset class and risk weight for 2018 and 2017 respectively (*Ref: Template 20: EU CR5 – Standardised approach*)

	Exposure Classes – 31 December 2018 (€000)	**Risk Weight**										**Total**	**Of which: Unrated (excl. Deducted)**
		0%	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Deducted**		
1	Central governments or central banks	10.439.068	--	--	--	--	--	--	--	--	--	**10.439.068**	--
2	Regional governments or local authorities	--	--	1.616	--	--	--	--	--	--	--	**1.616**	1.616
3	Public sector entities	--	--	5	--	--	--	45	--	--	--	**49**	49
4	Multilateral development banks	239.107	--	--	--	5.395	--	--	--	--	--	**244.501**	--
5	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**--**	--
6	Institutions	38.842	0	244.573	--	7.096	--	802	21	5.363	--	**296.697**	8.065
7	Corporates	--	--	41	--	345	--	856.891	32.272	--	--	**889.549**	775.293
8	Retail	--	--	--	--	--	1.099.838	--	--	--	--	**1.099.838**	1.099.838
9	Secured by mortgages on immovable property	--	--	--	1.017.460	262.813	--	147.134	--	--	--	**1.427.407**	1.427.407
10	Exposures in default	--	--	--	--	--	--	525.862	126.676	--	--	**652.538**	652.538
11	Items associated with particularly high risk	--	--	--	--	--	--	--	331.268	--	--	**331.268**	331.268
12	Covered bonds	--	46.592	--	--	--	--	--	--	--	--	**46.592**	--
13	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**--**	--
14	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**--**	--
15	Equity exposures	--	--	--	--	--	--	1.381	--	18.974	--	**20.355**	20.355
16	Other exposures	151.691	--	67.556	--	--	--	355.204	--	2.726	63.050	**640.227**	577.177
17	**Total**	**10.868.707**	**46.592**	**313.792**	**1.017.460**	**275.649**	**1.099.838**	**1.887.319**	**490.237**	**27.064**	**63.050**	**16.089.708**	**4.895.951**

	Exposure Classes – 31 December 2017 (€000)	Risk Weight										Total	Of which: Unrated (excl. Deducted)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Deducted		
1	Central governments or central banks	2.968.070	--	--	--	--	--	--	--	--	--	**2.968.070**	--
2	Regional governments or local authorities	--	--	455	--	--	--	--	--	--	--	**455**	455
3	Public sector entities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**N/A**	N/A
4	Multilateral development banks	237.159	--	--	--	5.264	--	--	--	--	--	**242.423**	--
5	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**N/A**	N/A
6	Institutions	37.267	--	287.213	--	16	--	1.704	25	--	--	**326.225**	3.404
7	Corporates	--	--	68	--	807	--	685.575	19.690	--	--	**706.140**	635.904
8	Retail	--	--	--	--	--	341.041	--	--	--	--	**341.041**	341.041
9	Secured by mortgages on immovable property	--	--	--	413.124	216.752	--	104.724	--	--	--	**734.600**	734.600
10	Exposures in default	3.643	--	--	--	--	--	554.728	113.545	--	--	**671.916**	668.273
11	Items associated with particularly high risk	--	--	--	--	--	--	--	391.385	--	--	**391.385**	391.385
12	Covered bonds	--	40.015	--	--	--	--	--	--	--	--	**40.015**	--
13	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**N/A**	N/A
14	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	--	**N/A**	N/A
15	Equity exposures	--	--	--	--	--	--	--	--	18.955	--	**18.955**	18.955
16	Other exposures	57.635	--	17.537	--	--	--	292.533	--	--	45.901	**413.606**	367.705
17	**Total**	**3.303.774**	**40.015**	**305.273**	**413.124**	**222.839**	**341.041**	**1.639.264**	**524.645**	**18.955**	**45.901**	**6.854.831**	**3.161.722**

The increased exposure in asset class “Central governments or central banks” is attributed to the increased deposit base (exposure to ECB), increased exposure in Cyprus Government Fixed Income Securities and the APS scheme (indirect exposure to Cyprus Government). Exposures classes “Retail”, “Corporate” and “Secured by Immovable Property” have increased as a result of the acquisition of the ex-CCB portfolio whilst the decreased exposure observed in the asset class “Exposures in Default” and “Items associated with particularly high risk” is attributed to the deleveraging actions performed on these portfolios (debt for asset swaps, write offs, settlements, provisions, etc.). The increased exposure in the asset class “Other exposures” is attributed to the acquisition of the ex-CCB portfolio and the on-boarding of fixed assets as a result of the debt for asset swap strategy noted above.

6.1.12 Credit Risk Hedging and Mitigation Policies

6.1.12.1 On and Off Balance Sheet Netting

Article 195 of CRR, provides that an institution may use on-balance sheet netting of mutual claims between itself and its counterparty as an eligible form of credit risk mitigation.

Eligibility is limited to reciprocal cash balances between the Bank and the counterparty. The Bank may amend risk-weighted exposure amounts and only for loans and deposits that are subject to an on-balance sheet netting agreement.

Loans to and deposits with the Bank subject to on-balance sheet netting are treated as cash collateral for the purpose of calculating the effect of funded credit protection for those loans and deposits of the Bank subject to on-balance sheet netting which are denominated in the same currency.

On-balance sheet netting agreements are considered as an eligible form of credit risk mitigation where all the following conditions are met:

- Those agreements are legally effective and enforceable.
- The Bank is able to determine at any time the assets and liabilities that are subject to those agreements.
- The Bank monitors and controls the risks associated with the termination of the credit protection on an ongoing basis.
- The Bank monitors and controls the relevant exposures on a net basis and does so on an ongoing basis.

As at 31/12/2018, the Bank does not perform any on or off-balance sheet netting practices in its loan book.

6.1.12.2 Main types of Collateral Taken & Collateral Valuation and Management

According to the Group's policy, the decisive / overriding criterion for granting a Credit Facility is the Borrower's ability to repay his/her obligations within the approved time limit. The value of the collateral is not a determining factor in assessing the application for the granting of a credit facility. The collateral may be used as a secondary source of repayment and is only assessed as such.

Collaterals taken are segmented into the following two categories:

- Primary Collaterals are defined as the collaterals classified as tangible security meaning that value is recognised to the collateral.
- Secondary collaterals are defined as the collateral considered as adequate for enhancing the primary collaterals however those are not considered as tangible security.

The main types of collaterals accepted by the Bank as primary collaterals are listed below:

1. Mortgages on Immovable Property (90% of Recognised Tangible Security as at 31 December 2018)
    a. This is the main type of collateral accepted by the Group.
    b. Immovable property to be obtained as collateral is considered as adequate after assessing the quality of the property in terms of location zoning, marketability or if the property concerns specialized facilities. The property should be properly insured against the risk of damage up to the insurable amount of the property and the insurance contract shall be pledged in the Bank's favour.
    c. The amount recognised is the lowest between the mortgage amount plus interest and the Indexed Value based on the recent valuation and indices.
    d. The Bank maintains a standardized property valuation process which allows consistently accurate and timely analysis of property valuations across the loan portfolio. Sound appraisal procedures are followed for property valuations.
    e. The Bank accepts valuations for properties to be mortgaged as collaterals only if they are prepared on behalf of the Bank. Borrower initiated or borrower provided property valuations are not accepted.
    f. The Bank maintains, an independent from the credit underwriting loan processing and monitoring process, Property Valuations Department. The Property Valuations Department has a separate reporting line from Business Units and is independent from them.
    g. The Bank has a properly approved panel of professional valuers using appropriate selection criteria (which could distinguish valuers to handle specialized/complex cases) consistent with the

Bank's loan portfolio risk. An on-going process for the assessment of performance of professional valuers is in place and constitutes a basic criterion for remaining or not on the panel. This assessment includes amongst others a review of a valuer's performance and professional indemnity insurance. A concentration limit of maximum exposure to single professional valuer has been set.

h. The Property Valuation Department ensures that professional valuers are independent in accordance with relevant laws, regulations and best practises.
i. The Bank performs an independent audit on a yearly basis to assess the quality of the valuations performed and performance of each valuer included in the panel of professional valuers.
j. The Bank carries out an independent professional valuation at a frequency that is based on criteria of exposure, performing status, type of property and other risk-based concepts such as LTV %.

2. Mortgages on Ships (2% of Recognised Tangible Security as at 31 December 2018)
    a. Mortgage over vessels is considered adequate primary security and realizable value is estimated based on the open market value.
    b. According to the Bank's ship finance lending policy, an independent valuation report of the vessel should be available and thorough assessment of all factors affecting the value of the vessel should be considered during the application assessment.
    c. The lowest between the mortgage amount plus interest and the market value based on the recent valuation is recognised.
    d. Vessels should be properly insured for Hull & Machinery, Protection and Indemnity, Mortgage Interest Insurance and mortgage Additional Perils Interest.
3. Pledge of Cash (4% of Recognised Tangible Security as at 31 December 2018)
    a. Pledging of deposits is considered as adequate primary security and it can be either pledging of deposits maintained with the Bank or with Third Party Financial Institutions.
    b. The full amount of the cash collateral is recognised.
4. Life Insurance Policies (0,03% of Recognised Tangible Security as at 31 December 2018)
    a. Assignment of Insurance policies is considered as adequate collateral provided that insurance companies are regulated by the Superintendent's office.
    b. Regarding assignment of life insurance policy, realizable value is recognised provided that insurance policy has surrender value which is certified annually by the insurance company. Otherwise no value is recognised.
5. Government Guarantees (2% of Recognised Tangible Security as at 31 December 2018)
    a. Government Guarantees are accepted and recognised up to 100% of the guaranteed amount as long as they are irrevocable and unconditional.
    b. No values are recognised if the expiry date of the Government Guarantee has passed and not renewed.
    c. The figure presented above excludes the APS scheme.
6. Bank Guarantees (1% of Recognised Tangible Security as at 31 December 2018)
    a. Bank Payment Guarantees (irrevocable and unconditional) are considered as adequate collateral and realizable value is recognised provided that:
        i. The consent of the Financial Institution Department regarding the risk of the Financial Institution is obtained.
        ii. The consent of the Risk Management Unit regarding counterparty and country risk is obtained.
        iii. The consent of the Internal Legal services regarding the wording of the guarantee is obtained.
    b. No values are recognised if the expiry date of the Bank Guarantee has passed and not renewed.
7. Other Forms of primary collaterals used by the Bank (1% of Recognised Tangible Security as at 31/12/2018)
    a. Fixed Charge.
    b. Floating Charge.
    c. Shares & Bonds.
    d. Equities.
    e. Motor Vehicles.

The main type of secondary collaterals (for which no value is recognised) are Personal and Corporate Guarantees.

In terms of Pillar I capital adequacy calculations, in order for the aforementioned types of collaterals to be regarded as eligible collateral for mitigating credit risk exposure, the Bank first examines whether they meet the various collateral eligibility requirements as these are set in Chapter 4, Title II of the CRR.

Asset Protection Scheme

Following the acquisition of part of ex-CCB's (now called KEDIPES) assets and liabilities, the Bank entered into an agreement with ex-CCB on an Asset Protection Scheme (APS). The Bank will receive credit protection through a 90% vertical loss borne by ex-CCB whose obligations under the Business Transfer Agreement (BTA), the APS Agreement and the Transitional Services Agreement (TSA), are guaranteed by the Republic of Cyprus in connection with defined pools of loans and receivables (APS Assets) which are part of the APS. The APS protects parts of the acquired loan portfolio, including non-performing exposures and high risk performing loans, against future losses (including impairment losses, losses on sale and costs of recoveries) to the Bank.

Accordingly, the terms of the APS are based on two distinct asset-pools, APS1 and APS2, where:

- APS1 comprises of non-performing exposures and performing exposures that exhibit an elevated credit risk profile,
- APS2 comprises of performing exposures, classified as Stage 1 and Stage 2 as per IFRS 9.

The duration of APS1 and APS2 is 12 and 10 years, respectively.

The asset component which is afforded protection under the APS perimeter is risk weighted against the Republic of Cyprus and therefore provides eligible credit risk mitigation in line with Chapter 4 of CRR.

Transitional Services Agreement

Pursuant to a Transitional Services Agreement (TSA), certain services are provided to the Bank by KEDIPES on a transitional basis prior to the full integration of the Business into the Bank's business. These services include Central Unit Operations, Front Line Operations, Front Line Credit and Information Technology to assist in the orderly transition of the Business into the Bank's ownership. The TSA commenced on the date of Completion of the Acquisition with a duration of 15 months.

6.1.12.3 Credit Risk Mitigation Techniques Recognised under the Basel Framework

The credit risk mitigation techniques employed in credit RWAs calculation as at 31 December 2018 and 31 December 2017 are as follows (figures below correspond to exposure net of credit risk adjustments and before the application of credit risk mitigation and conversion factors):

Type of Credit Risk Mitigation - 31 December 2018 - (€000)		Non Default	Default	Total	% Allocation
Mortgages on Immovable Property		1.444.508	118.305	1.562.812	40%
of which: RRE as per Art 125		1.025.725	92.895	1.118.620	29%
of which: CRE as per Art 126		265.834	25.410	291.243	7%
of which: Other		152.949	--	152.949	4%
Guarantees		1.567.540	366.921	1.934.460	49%
of which: Bank Guarantees		39.603	--	39.603	1%
of which: Government Guarantees		1.527.937	366.921	1.894.857	48%
Financial Collateral		404.602	10.143	414.745	11%
of which: Cash		404.364	9.809	414.172	11%
of which: Other		239	334	573	0%
Total		**3.416.650**	**495.368**	**3.912.018**	**100%**

Type of Credit Risk Mitigation - 31 December 2017 - (€000)	Non Default	Default	Total	% Allocation
Mortgages on Immovable Property	747.861	160.392	908.253	78%
of which: RRE as per Art 125	416.659	123.279	539.937	46%
of which: CRE as per Art 126	221.941	37.113	259.054	22%
of which: Other	109.261	--	109.262	9%
Guarantees	37.741	3.644	41.385	4%
of which: Bank Guarantees	37.288	3.513	40.801	3%
of which: Government Guarantees	453	131	584	0%
Financial Collateral	217.241	4.778	222.019	19%
of which: Cash	202.637	4.504	207.141	18%
of which: Other	14.604	274	14.878	1%
Total	**1.002.843**	**168.814**	**1.171.657**	**100%**

As per Article 125 of CRR, the amount of Residential Real Estate (RRE) recognised as eligible for the preferential risk weight assignment of 35% to non-defaulted items and 100% to defaulted items amounts to the lesser of 80% of Open Market Value of latest valuation, 80% of Indexed Open Market Value and total pledged amount.

As per Article 126 of CRR, the amount of Commercial Real Estate (CRE) recognised as eligible for the preferential risk weight assignment of 50% to non-defaulted items and 100% to defaulted items amounts to the lesser of 50% of Open Market Value of latest valuation, 50% of Indexed Open Market Value and total pledged amount.

Due to the strict requirements imposed by CRR regarding the recognition of immovable properties as eligible credit risk mitigants (e.g. adequately insured against the risk of damage, repayment ability of the borrower does not depend on cash flows generated by the underlying collateral, etc.), a part of the collateral base of the Bank is disregarded for capital reduction purposes.

The Bank employs the comprehensive approach for the recognition of financial collaterals and applies the haircuts included in Articles 224 - 239 of CRR.

The large increase observed between current and last year across all collateral segments is attributed to the acquisition of the ex-CCB portfolio. The increase of Government Guarantees is attributed to the APS scheme.

The following table provides the exposure amount that was secured by guarantees and credit derivatives by exposure class on 31 December 2018:

Exposure Class - 31 December 2018 (€000)		**Value of exposures secured by guarantees or credit derivatives**
Central governments or central banks		--
Regional governments or local authorities		1.013
Public sector entities		2
Multilateral development banks		--
International organisations		--
Institutions		--
Corporates		181.237
Retail		1.370.357
Secured by mortgages on immovable property		--
Exposures in default		357.882
Items associated with particularly high risk		23.969
Items representing securitisation positions		--
Covered bonds		--
Claims on institutions and corporates with a short-term credit assessment		--
Collective investments undertakings		--
Equity exposures		--
Other exposures		--
Total standardised approach		**1.934.460**

Unfunded credit protection is primarily associated with the APS scheme (outflow to Cyprus Government) that secures ex-CCB exposures. Further details about this scheme are provided in the relevant section of the report.

The tables below outline the collateral, financial guarantees and credit derivatives used as credit risk mitigants for all secured exposures as at 31 December 2018 and 31 December 2017 respectively (*Ref: Template 18: EU CR3 – CRM techniques – Overview*):

31 December 2018 - (€000)			**a**	**b**	**c**	**d**	**e**
			Exposures unsecured – Carrying amount	**Exposures secured – Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Total loans		3.742.665	3.912.018	1.977.557	1.934.460	N/A
2	Total debt securities		4.526.157	--	--	--	N/A
3	**Total exposures**		**8.268.822**	**3.912.018**	**1.977.557**	**1.934.460**	**N/A**
4	*Of which defaulted*		*755.481*	*495.368*	*128.447*	*366.921*	*N/A*

31 December 2017 - (€000)			a	b	c	d	e
			Exposures unsecured – Carrying amount	**Exposures secured – Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**
1	Total loans		2.551.072	1.171.657	1.130.272	41.385	N/A
2	Total debt securities		1.018.092	--	--	--	N/A
3	**Total exposures**		**3.569.164**	**1.171.657**	**1.130.272**	**41.385**	**N/A**
4	*Of which defaulted*		*759.339*	*168.814*	*165.171*	*3.643*	*N/A*

The large increase observed between current and last year in the category “Total Loans” is attributed to the acquisition of the ex-CCB portfolio where the increase in debt securities is attributed to the increased exposure to Cyprus Government Bonds.

6.1.12.4 Credit risk exposure and CRM effects

The tables below illustrate the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR as at 31 December 2018 and 2017 respectively (*Ref: Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects*):

31 December 2018 - (€000)		**a**	**b**	**c**	**d**	**e**	**f**
		Exposure before CCF and CRM		**Exposure post CCF and CRM**		**RWA**	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA Density**
1	Central governments or central banks	8.544.210	--	10.439.068	--	--	0%
2	Regional governments or local authorities	4.296	7.203	1.614	2	323	20%
3	Public sector entities	51	731	49	--	46	92%
4	Multilateral development banks	244.501	--	244.501	--	2.697	1%
5	International organisations	N/A	N/A	N/A	N/A	N/A	N/A
6	Institutions	249.176	4.842	274.333	14.910	63.415	22%
7	Corporates	1.015.303	569.027	801.377	88.167	894.952	101%
8	Retail	2.604.902	584.482	1.059.016	40.820	785.909	71%
9	Secured by mortgages on immovable property	1.373.751	70.757	1.373.751	53.656	616.124	43%
10	Exposures in default	1.011.132	34.147	645.796	6.743	715.877	110%
11	Items associated with particularly high risk	342.635	58.240	309.031	22.238	496.902	150%
12	Covered bonds	46.592	--	46.592	--	4.659	10%
13	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A
14	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A
15	Equity exposures	20.355	--	20.355	--	48.817	240%
16	Other exposures	577.177	--	577.177	--	375.531	65%
17	**Total**	**16.034.081**	**1.329.430**	**15.792.660**	**226.535**	**4.005.251**	**25%**

31 December 2017 - (€000)		a	b	c	d	e	f
		Exposure before CCF and CRM		**Exposure post CCF and CRM**		**RWA**	
	Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA Density**
1	Central governments or central banks	2.967.617	--	2.968.070	--	--	0%
2	Regional governments or local authorities	851	32	455	--	91	20%
3	Public sector entities	N/A	N/A	N/A	N/A	N/A	N/A
4	Multilateral development banks	242.423	--	242.423	--	2.632	1%
5	International organisations	N/A	N/A	N/A	N/A	N/A	N/A
6	Institutions	282.425	4.950	308.576	12.698	58.170	18%
7	Corporates	708.204	400.824	619.856	86.284	706.044	100%
8	Retail	376.409	253.633	324.671	16.369	231.691	68%
9	Secured by mortgages on immovable property	689.584	58.277	689.584	45.015	344.396	47%
10	Exposures in default	669.913	13.319	667.464	4.452	725.045	108%
11	Items associated with particularly high risk	366.799	215.811	356.305	35.081	587.078	150%
12	Covered bonds	40.015	--	40.015	--	4.001	10%
13	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A
14	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A
15	Equity exposures	18.955	--	18.955	--	47.387	250%
16	Other exposures	367.704	--	367.704	--	296.041	81%
17	**Total**	**6.730.899**	**946.846**	**6.604.078**	**199.899**	**3.002.576**	**44%**

The increased exposure in asset class “Central governments or central banks” is attributed to the increased deposit base (exposure to ECB) and increased exposure in Cyprus Government Fixed Income Securities. Exposures classes “Retail”, “Corporate” and “Secured by Immovable Property” have increased as a result of the acquisition of the ex-CCB portfolio whilst the decreased exposure observed in the asset class “Exposures in Default” (post CRM – mainly the APS scheme) and “Items associated with particularly high risk” is attributed to the deleveraging actions performed on these portfolios (debt for asset swaps, write offs, settlements, provisions, etc.). The increased exposure in the asset class “Other exposures” is attributed to the acquisition of the ex-CCB portfolio and the on-boarding of fixed assets as a result of the debt for asset swap strategy noted above.

6.1.13 Credit Risk Adjustments

6.1.13.1 Past due & Impaired Exposures

Past due items represent loans at the Debt Recovery Unit, loans in default (the repayment of capital and/or interest is in arrears) and loans for which an impairment provision has been charged.

The Bank has aligned the definition of “Non-Performing” exposure as per EBA Guidelines with the definition of Default as per CRR Article 178.

All exposures with past due amounts (exceeding the materiality thresholds of the local regulator) over 90 days are considered as Default as per CRR Article 178.

An exposure is considered as Forborne (Restructured) in accordance with the EBA Definition.

The accounting policy followed by the Group for the recognition of impairment of Financial assets and Non Financial assets is as follows:

The "Expected Credit Loss (ECL)" approach is applied to all debt instruments that are measured at amortised cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees. IFRS 9 replaces the existing “incurred loss” impairment approach with a forward looking ECL model where provisions are taken upon initial recognition of the financial asset reflecting expectation of potential credit losses at the time of initial recognition. The Group recognized a loss allowance for such losses at each reporting date.

Measurement of ECL

The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group calculates ECL as the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). Refer to sections below for details on each of these components.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

- Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12-month expected credit losses.

- Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

- Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Financial assets that are credit-impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit-impaired (POCI) assets is discussed further below.

For accounts that meet the criteria to be individually assessed for provisions the Bank reviews and validates the Stage classification using a combination of backward looking, current and forward-looking indicators.

Loans and advances acquired as part of a business combination are initially recognised at fair value. The fair values on initial recognition form the gross amount of the loans irrespective of the principal amount of these loans and what constituted the gross carrying amount of these loans in the accounting records of the Seller. In cases where the acquired loans were credit impaired, the Bank includes the initial expected credit losses in the estimated cash flows when calculating the credit adjusted effective interest rate. Accordingly, the effective interest rate of a POCI would be the discount rate that equates the present value of the expected cash flows with the purchase price of the loan.

Probability of default (PD)

PD represents the likelihood of a borrower defaulting on their financial obligation in a specified time period, assuming it has not closed or defaulted since the reporting date. Projection of PDs is based on macro-economic scenarios and are differentiated based on segment (e.g. Retail, SME and Corporate), and status (e.g. 0 dpd, Restructured). For the external rated exposures (e.g. Treasury and International lending), the historical default rates published by Moody's per segment are utilized. For the non-external rated facilities, i.e. local loan book, the PD is estimated based on the Bank's historical default rates.

Exposure at default (EAD)

EAD represents the amount expected to be owed if a default event was to occur. The EAD is determined by calculating the expected cash flows which vary depending on the product type (e.g. revolving products). By analyzing the behavior of the product types, the behavioral maturity of these products is estimated. The utilization of the off-balance sheet of revolving products is also considered in determining Credit Conversion Factor (CCF) allocation.

Loss given default (LGD)

LGD represents an estimate of the loss arising on default. It is calculated as the expected loss at default divided by EAD. LGD is based on factors that impact the likelihood and value of any subsequent write-off, in which case it takes into account property prices, liquidation haircuts due to forced sale or market conditions, liquidation periods and other factors.

Forward looking information

In line with IFRS 9 impairment requirements, forward looking information, including current conditions and projections of macroeconomic and other factors, are incorporated in a range of unbiased future economic scenarios for ECL purposes. The ECL estimate incorporates the expected impact of all reasonable and supportable forward-looking information, taking into consideration the macroeconomic factors. The Bank incorporated three forward looking macroeconomic scenarios in its ECL calculations process: a baseline scenario, an optimistic scenario and a pessimistic scenario. Probability weights were attributed to each scenario.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition of default used for internal credit risk management purposes. Under IFRS 9 default occurs when the borrower is unlikely to pay its credit obligations to the Group in full, and the borrower is more than 90 days past due on any material credit obligation to the Group. The Bank aligned Stage 3 classification with the European Banking Authority's (EBA) criteria for NPE classification.

Purchased or Originated Credit-Impaired Financial assets (POCI)

Financial assets are considered purchased or originated credit impaired (POCI) if upon initial recognition they are purchased or originated at a deep discount that reflects evidence of impairment. Since the asset is originated credit-impaired, the Bank only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance in profit or loss until the POCI is derecognised.

Significant increase in credit risk

Under IFRS 9, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information. The assessment of significant increase in credit risk is key in determining when to move from measuring an allowance based on 12 month ECLs to one that is based on lifetime ECLs.

The criteria for determining whether the exposure has experienced significant deterioration in credit risk since origination are in line with Stage 2 criteria and are as follows:

- Days in Arrears: Exposures with more than 30 days in arrears,
- Forbearance flag: A performing account with an active forbearance flag in line with the European Banking Authority (EBA) definition,
- Accounts managed by recovery units (before default),
- A pooling effect is applied at a customer level which classifies as Stage 2 accounts not meeting the above criteria but fall under the same customer whose other accounts exhibit credit triggers such as those above,
- Behavioural Score: Retail and SME exposures with low behavioural score resulting from models developed by the Bank for predicting defaults/delinquencies.

Interest income recognition

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 by applying the effective interest rate (EIR). For financial assets at Stage 3, interest income is calculated by applying EIR to the amortised cost (i.e. gross carrying amount less credit loss allowance). For POCI financial assets, interest income is recognised by applying a credit-adjusted EIR (CAEIR) (based on an initial expectation of further credit losses) on the amortised cost of the financial asset.

Write-offs

The Group reduces, either partially or in full, the carrying amount of a financial asset when there is no reasonable expectation of recovery.

6.1.13.2 Specific and General Credit Risk Adjustments

The amounts required to be included in the calculation of general and specific credit risk adjustments are equal to all amounts by which Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items.

Any amounts resulting in the above manner which have been recognised during the financial year, may only be included in the calculation of general and specific credit risk adjustments if the respective amounts have been deducted from an institution's Common Equity Tier 1 capital, in accordance with Article 36(1) of CRR.

The amounts that should be included in the calculation of general credit risk adjustments fulfil both of the following criteria:

- Are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised.
- Reflect credit risk losses for a group of exposures for which the Bank has currently no evidence that a loss event has occurred.

All other amounts are included in the calculation of specific credit risk adjustments. Currently, all the credit risk adjustments of the Bank are considered as specific.

6.1.13.3 Total and Average Net Amount of Exposures

The tables below present the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes as at 31 December 2018 and 2017 respectively *(Ref: Template 7: EU CRB-B – Total and average net amount of exposures):*

31 December 2018 - (€000)			**(a)**	**(b)**
			Net value of exposures at the end of the period	**Average net exposures over the period**
16	Central governments or central banks		8.544.210	5.630.751
17	Regional governments or local authorities		11.499	6.189
18	Public sector entities		782	512
19	Multilateral development banks		244.501	245.993
20	International organisations		N/A	N/A
21	Institutions		261.474	308.957
22	Corporates		1.584.335	1.384.135
23	*Of which: SMEs*		*1.169.569*	*881.019*
24	Retail		3.189.386	1.963.220
25	*Of which: SMEs*		*591.551*	*355.233*
26	Secured by mortgages on immovable property		1.444.508	1.117.501
27	*Of which: SMEs*		*435.960*	*349.881*
28	Exposures in default		1.045.279	865.353
29	Items associated with particularly high risk		400.875	471.717
30	Covered bonds		46.592	39.313
31	Claims on institutions and corporates with a short-term credit assessment		N/A	N/A
32	Collective investments undertakings		N/A	N/A
33	Equity exposures		20.355	19.320
34	Other exposures		577.177	469.841
35	**Total standardised approach**		**17.370.975**	**12.522.803**

31 December 2017 - (€000)			(a)	(b)
			Net value of exposures at the end of the period	**Average net exposures over the period**
16	Central governments or central banks		2.967.617	2.798.207
17	Regional governments or local authorities		883	1.183
18	Public sector entities		N/A	N/A
19	Multilateral development banks		242.423	258.157
20	International organisations		N/A	N/A
21	Institutions		292.327	425.655
22	Corporates		1.109.028	1.049.580
23	Of which: SMEs		817.064	792.893
24	Retail		630.043	623.028
25	Of which: SMEs		293.358	280.684
26	Secured by mortgages on immovable property		747.861	726.362
27	Of which: SMEs		347.782	327.836
28	Exposures in default		683.233	696.476
29	Items associated with particularly high risk		582.609	609.607
30	Covered bonds		40.014	32.828
31	Claims on institutions and corporates with a short-term credit assessment		N/A	N/A
32	Collective investments undertakings		N/A	N/A
33	Equity exposures		18.955	14.216
34	Other exposures		367.705	344.550
35	**Total standardised approach**		**7.682.698**	**7.579.849**

The increased exposure in asset class "Central governments or central banks" is attributed to the increased deposit base (exposure to ECB), increased exposure in Cyprus Government Fixed Income Securities and the APS scheme (indirect exposure to Cyprus Government). Exposures classes "Retail", "Corporate" and "Secured by Immovable Property" and "Exposures in default" have increased as a result of the acquisition of the ex-CCB portfolio whilst the decreased exposure observed in the asset class "Items associated with particularly high risk" is attributed to the deleveraging actions performed on this portfolio (debt for asset swaps, write offs, settlements, provisions, etc.). The increased exposure in the asset class "Other exposures" is attributed to the acquisition of the ex-CCB portfolio and the on-boarding of fixed assets as a result of the debt for asset swap strategy noted above.

6.1.13.4 Geographical Distribution of Exposures

The tables below present the value of the total exposures analysed by asset class and by industry segment, after on and off balance sheet netting and credit risk valuation adjustments as at 31 December 2018 and 2017 respectively *(Ref: Template 8: EU CRB-C – Geographical breakdown of exposures):*

31 December 2018 - (€000)		**Net Value**								
	Exposure Class	**Significant Area 1: Cyprus**	**Significant Area 2: Int. Org./MDB/ECB**	**Significant Area 3: Non Cyprus and Int. Org./MDB/ECB**	**Of Which: Germany**	**Of Which: United States**	**Of Which: United Kingdom**	**Of Which: Greece**	**Of Which: Other**	**Total**
7	Central governments or central banks	4.206.312	4.240.085	97.813	97.813	--	--	--	--	**8.544.210**
8	Regional governments or local authorities	11.499	--	--	--	--	--	--	--	**11.499**
9	Public sector entities	782	--	--	--	--	--	--	--	**782**
10	Multilateral development banks	--	239.107	5.395	--	--	--	--	5.395	**244.501**
11	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions	7.814	--	253.659	2.201	84.783	42.839	169	123.668	**261.474**
13	Corporates	1.375.372	--	208.963	6.011	7	20.659	14.738	167.548	**1.584.335**
14	Retail	3.137.956	--	51.430	1.308	863	13.815	6.857	28.587	**3.189.386**
15	Secured by mortgages on immovable property	1.373.040	--	71.467	1.375	770	16.787	15.484	37.051	**1.444.508**
16	Exposures in default	997.961	--	47.318	4	127	15.060	6.043	26.084	**1.045.279**
17	Items associated with particularly high risk	394.260	--	6.615	--	--	107	4.335	2.173	**400.875**
18	Covered bonds	--	--	46.592	8.711	--	--	--	37.881	**46.592**
19	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures	20.355	--	--	--	--	--	--	--	**20.355**
22	Other exposures	577.177	--	--	--	--	--	--	--	**577.177**
23	**Total standardised approach**	**12.102.531**	**4.479.192**	**789.252**	**117.422**	**86.551**	**109.267**	**47.626**	**428.386**	**17.370.975**

31 December 2017 - (€000)		Net Value								
	Exposure Class	**Significant Area 1: Cyprus**	**Significant Area 2: Int. Org./MDB/ECB**	**Significant Area 3: Non Cyprus and Int. Org./MDB/ECB**	**Of Which: Germany**	**Of Which: United States**	**Of Which: Russia**	**Of Which: Greece**	**Of Which: Other**	**Total**
7	Central governments or central banks	677.761	2.169.952	119.904	88.479	--	--	3.984	27.441	**2.967.617**
8	Regional governments or local authorities	883	--	--	--	--	--	--	--	**883**
9	Public sector entities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
10	Multilateral development banks	--	237.159	5.264	--	--	--	--	5.264	**242.423**
11	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions	1.948	--	290.379	37.711	89.235	-	139	163.294	**292.327**
13	Corporates	973.488	--	135.540	4.019	8	39.185	26.390	65.938	**1.109.028**
14	Retail	592.720	--	37.323	821	243	5.673	4.703	25.883	**630.043**
15	Secured by mortgages on immovable property	685.711	--	62.150	816	751	11.576	8.007	41.000	**747.861**
16	Exposures in default	630.198	--	53.035	1	161	10.007	7.849	35.017	**683.233**
17	Items associated with particularly high risk	574.773	--	7.836	--	--	3.290	4.330	216	**582.609**
18	Covered bonds	--	--	40.014	8.271	--	--	--	31.743	**40.014**
19	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures	18.955	--	--	--	--	--	--	--	**18.955**
22	Other exposures	367.705	--	--	--	--	--	--	--	**367.705**
23	**Total standardised approach**	**4.524.142**	**2.407.111**	**751.445**	**140.118**	**90.398**	**69.731**	**55.402**	**395.796**	**7.682.698**

The exposure to Cyprus has increased as a result of the acquisition of the ex-CCB portfolio and the investment to Cyprus Government Bonds. This is particularly evident in the classes “Central governments or central banks”, “Corporates”, “Retail”, “Secured by mortgages on immovable property” and “Exposures in default”. The exposure to “Int. Org./MDB/ECB” has increased mainly as a result of an increased placement to ECB due to the additional deposits assumed after the acquisition of the ex-CCB portfolio. Exposure to Russia has decreased due to an outflow of foreign currency deposits that were placed with Russian Institutions (classified as Corporates as per CRR Rules). Exposure to United Kingdom has increased mainly as a result of increased placements with British institutions.

6.1.13.5 Distribution of Exposures by Industry

The tables below present the distribution of the exposures by industry, broken down by exposure class as at 31 December 2018 and 2017 respectively (*Ref: Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types*):

31 December 2018 - (€000)		**Net Value**											
	Exposure Class	**Construction & Real Estate**	**Hotels, Restaurants & Bars**	**Manufacturing**	**Wholesale & Retail Trade**	**Services**	**Health & Social Work**	**Transport, Storage & Telecommunication**	**Financial & Insurance**	**Other**	**Private Individuals**	**Not Applicable**	**Total**
7	Central governments or central banks	--	--	--	--	--	--	--	246	--	--	8.543.965	**8.544.210**
8	Regional governments or local authorities	--	--	--	--	--	--	--	--	11.499	--	--	**11.499**
9	Public sector entities	--	--	--	--	--	--	598	--	184	--	--	**782**
10	Multilateral development banks	--	--	--	--	--	--	--	5.395	--	--	239.107	**244.501**
11	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions	--	--	--	--	--	--	--	10.221	19	--	251.234	**261.474**
13	Corporates	300.993	300.822	199.167	268.714	72.913	58.947	135.007	36.854	127.677	55.374	27.869	**1.584.335**
14	Retail	99.395	43.531	76.066	211.999	127.675	21.889	19.200	12.217	78.798	2.498.599	15	**3.189.386**
15	Secured by mortgages on immovable property	106.416	62.516	64.808	109.048	62.591	31.721	6.074	11.881	31.379	958.074	--	**1.444.508**
16	Exposures in default	104.979	60.587	51.825	140.798	49.040	5.184	29.740	18.947	44.753	539.426	--	**1.045.279**
17	Items associated with particularly high risk	396.130	--	--	--	--	--	--	--	--	--	4.745	**400.875**
18	Covered bonds	--	--	--	--	--	--	--	--	--	--	46.592	**46.592**
19	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures	--	--	--	--	--	--	--	--	--	--	20.355	**20.355**
22	Other exposures	--	--	--	--	--	--	--	--	--	--	577.177	**577.177**
23	**Total standardised approach**	**1.007.913**	**467.456**	**391.866**	**730.560**	**312.219**	**117.741**	**190.619**	**95.760**	**294.310**	**4.051.472**	**9.711.058**	**17.370.975**

31 December 2017 - (€000)		Net Value											
	Exposure Class	**Construction & Real Estate**	**Hotels, Restaurants & Bars**	**Manufacturing**	**Wholesale & Retail Trade**	**Services**	**Health & Social Work**	**Transport, Storage & Telecommunication**	**Financial & Insurance**	**Other**	**Private Individuals**	**Not Applicable**	**Total**
7	Central governments or central banks	--	--	--	--	--	--	--	--	--	--	2.967.617	**2.967.617**
8	Regional governments or local authorities	--	--	--	--	--	--	--	--	883	--	--	**883**
9	Public sector entities	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
10	Multilateral development banks	--	--	--	--	--	--	--	5.264	--	--	237.159	**242.423**
11	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions	--	--	--	--	--	--	--	4.967	--	--	287.360	**292.327**
13	Corporates	125.966	178.768	150.127	238.173	60.012	43.524	110.959	61.242	80.409	23.761	36.087	**1.109.028**
14	Retail	24.941	22.470	31.681	119.168	51.663	6.324	9.580	10.311	17.218	336.686	1	**630.043**
15	Secured by mortgages on immovable property	45.702	64.122	59.107	99.274	32.443	35.370	5.174	17.035	13.234	376.400	--	**747.861**
16	Exposures in default	40.316	61.973	39.029	188.054	59.996	5.130	28.484	17.217	20.008	223.026	--	**683.233**
17	Items associated with particularly high risk	577.539	--	--	--	--	--	--	--	--	--	5.070	**582.609**
18	Covered bonds	--	--	--	--	--	--	--	--	--	--	40.014	**40.014**
19	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures	--	--	--	--	--	--	--	--	--	--	18.955	**18.955**
22	Other exposures	--	--	--	--	--	--	--	--	--	--	367.705	**367.705**
23	**Total standardised approach**	**814.464**	**327.333**	**279.944**	**644.669**	**204.114**	**90.348**	**154.197**	**116.036**	**131.752**	**959.873**	**3.959.968**	**7.682.698**

Compared with last year, the exposure of all industries have increased mainly as a result of the acquisition of the ex-CCB Portfolio. This is more evident in the “Private Individuals” asset class. The category “Not Applicable” which refers to the Non Lending Portfolio has also increased as a result of the increased deposit base (exposure to ECB) and increased exposure to Cyprus Government Fixed Income Securities.

6.1.13.6 Distribution of Exposures by Residual Maturity

The tables below present the residual maturity breakdown of all the exposures, broken down by exposure class as at 31 December 2018 and 2017 respectively *(Ref: Template 10: EU CRB-E – Maturity of exposures):*

31 December 2018 - (€000)			**Net Value**					
	Asset Class		**On Demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
7	Central governments or central banks		4.240.331	1.230.108	2.461.267	612.504	--	**8.544.210**
8	Regional governments or local authorities		10.707	457	257	79	--	**11.499**
9	Public sector entities		140	598	--	44	--	**782**
10	Multilateral development banks		--	125.893	118.608	--	--	**244.501**
11	International organisations		N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions		142.686	106.775	6.641	8	5.363	**261.474**
13	Corporates		380.515	237.767	295.122	670.932	--	**1.584.335**
14	Retail		746.856	65.009	194.635	2.182.886	--	**3.189.386**
15	Secured by mortgages on immovable property		76.825	53.877	99.707	1.214.099	--	**1.444.508**
16	Exposures in default		236.667	35.495	122.087	651.029	--	**1.045.279**
17	Items associated with particularly high risk		135.093	20.901	124.017	116.120	4.745	**400.875**
18	Covered bonds		--	8.711	37.881	--	--	**46.592**
19	Claims on institutions and corporates with a short-term credit assessment		N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings		N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures		--	--	--	--	20.355	**20.355**
22	Other exposures		193.789	112.856	2.677	--	267.855	**577.177**
23	**Total standardised approach**		**6.163.608**	**1.998.447**	**3.462.898**	**5.447.702**	**298.319**	**17.370.975**

31 December 2017 - (€000)		Net Value					
	Asset Class	**On Demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
7	Central governments or central banks	2.238.575	12.340	183.618	533.084	--	**2.967.617**
8	Regional governments or local authorities	17	--	559	306	--	**883**
9	Public sector entities	N/A	N/A	N/A	N/A	N/A	**N/A**
10	Multilateral development banks	--	164.674	77.748	--	--	**242.423**
11	International organisations	N/A	N/A	N/A	N/A	N/A	**N/A**
12	Institutions	141.989	150.185	144	8	--	**292.327**
13	Corporates	320.593	192.301	149.750	446.384	--	**1.109.028**
14	Retail	230.364	58.923	114.745	226.010	--	**630.043**
15	Secured by mortgages on immovable property	57.291	44.384	64.473	581.713	--	**747.861**
16	Exposures in default	217.218	26.351	96.811	342.853	--	**683.233**
17	Items associated with particularly high risk	151.605	121.793	190.103	114.039	5.070	**582.610**
18	Covered bonds	0	4.998	35.017	--	--	**40.015**
19	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	**N/A**
20	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Equity exposures	--	1.324	--	17.631	--	**18.955**
22	Other exposures	--	110.651	3.738	8	253.307	**367.705**
23	**Total standardised approach**	**3.357.652**	**887.925**	**916.707**	**2.262.037**	**258.378**	**7.682.698**

"On Demand" maturity band has increased as a result of an increased placement with ECB (due to increased deposit base). All other maturity bands have also increased due to the acquisition of the ex-CCB lending portfolio. The band "> 1 year <= 5 years" has also increased due to investment in Fixed Income Securities.

6.1.13.7.1 Credit quality of exposures by exposure class and instrument

The tables below present total carrying values per default status, specific and general credit risk adjustments, accumulated write offs of the period, credit risk adjustments of the period (calculated as additional risk adjustments and write offs per exposure class) and net values broken down by exposure class as at 31 December 2018 and 31 December 2017 respectively *(Ref: Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument):*

31 December 2018 - (€000)		**a**	**b**	**c**	**d**	**e**	**f**	**g**
Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument		**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net Values**
		Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
16	Central governments or central banks	--	8.544.757	547	--	--	547	**8.544.210**
17	Regional governments or local authorities	--	11.772	273	--	--	272	**11.499**
18	Public sector entities	--	785	2	--	--	2	**782**
19	Multilateral development banks	--	244.502	1	--	--	-5	**244.501**
20	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Institutions	--	261.975	501	--	--	495	**261.474**
22	Corporates	--	1.612.103	27.768	--	--	18.443	**1.584.335**
23	*Of which: SMEs*	--	*1.191.000*	*21.432*	--	--	*14.838*	***1.169.569***
24	Retail	--	3.256.396	67.010	--	--	59.822	**3.189.386**
25	*Of which: SMEs*	--	*603.958*	*12.406*	--	--	*9.943*	***591.551***
26	Secured by mortgages on immovable property	--	1.444.508	--	--	--	--	**1.444.508**
27	*Of which: SMEs*	--	*435.960*	--	--	--	--	***435.960***
28	Exposures in default	2.040.450	--	995.170	--	114.020	31.663	**1.045.279**
29	Items associated with particularly high risk	485.990	196.869	281.983	--	31.849	-16.466	**400.875**
30	Covered bonds	--	46.592	--	--	--	--	**46.592**
31	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
32	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
33	Equity exposures	--	20.355	--	--	--	--	**20.355**
34	Other exposures	--	577.177	--	--	--	--	**577.177**
35	**Total standardised approach**	**2.526.440**	**16.217.791**	**1.373.256**	--	**145.870**	**94.771**	**17.370.975**
37	*Of Which: Loans**	*2.479.952*	*5.180.861*	*1.335.560*	--	*145.870*	*69.722*	*6.325.252*
38	*Of Which: Debt Securities*	--	*4.519.007*	*432*	--	--	--	*4.518.575*
39	*Of which: Off-balance-sheet exposures*	*46.488*	*1.319.496*	*36.553*	--	--	*25.050*	*1.329.430*

*Include only on balance sheet items. Off balance sheet items are reported separately in row 39

31 December 2017 - (€000)		a	b	c	d	e	f	g
Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument		**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net Values**
		Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
16	Central governments or central banks	--	2.967.617	--	--	--	--	**2.967.617**
17	Regional governments or local authorities	--	884	1	--	--	(12)	**883**
18	Public sector entities	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
19	Multilateral development banks	--	242.429	6	--	--	6	**242.423**
20	International organisations	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
21	Institutions	--	292.334	7	--	--	7	**292.327**
22	Corporates	--	1.118.353	9.325	--	--	(5.547)	**1.109.028**
23	*Of which: SMEs*	--	*823.658*	*6.594*	--	--	*(5.528)*	***817.064***
24	Retail	--	637.231	7.188	--	--	(3.592)	**630.043**
25	*Of which: SMEs*	--	*295.821*	*2.464*	--	--	*(1.044)*	***293.357***
26	Secured by mortgages on immovable property	--	747.861	--	--	--	--	**747.861**
27	*Of which: SMEs*	--	*347.782*	--	--	--	--	***347.782***
28	Exposures in default	1.760.761	--	1.077.528	--	103.583	173.049	**683.233**
29	Items associated with particularly high risk	573.493	339.415	330.299	--	33.339	8.647	**582.609**
30	Covered bonds	--	40.014	--	--	--	-	**40.014**
31	Claims on institutions and corporates with a short-term credit assessment	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
32	Collective investments undertakings	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**
33	Equity exposures	--	18.955	--	--	--	--	**18.955**
34	Other exposures	--	367.705	--	--	--	--	**367.705**
35	**Total standardised approach**	**2.334.254**	**6.772.798**	**1.424.354**	**--**	**136.922**	**172.557**	**7.682.698**
37	*Of Which: Loans**	*2.293.643*	*1.895.091*	*1.412.851*	--	*136.922*	*175.877*	*2.775.883*
38	*Of Which: Debt Securities*	--	*1.006.216*	--	--	--	--	*1.006.216*
39	*Of which: Off-balance-sheet exposures*	*40.611*	*917.738*	*11.503*	--	--	*(3.319)*	*946.846*

*Include only on balance sheet items. Off balance sheet items are reported separately in row 39

The increased exposure in asset class “Central governments or central banks” is attributed to the increased deposit base (exposure to ECB) and increased exposure in Cyprus Government Fixed Income Securities. Exposures classes “Retail”, “Corporate” and “Secured by Immovable Property” and “Exposures in default” have increased as a result of the acquisition of the ex-CCB portfolio whilst the decreased exposure observed in the asset class “Items associated with particularly high risk” is attributed to the deleveraging actions performed on this portfolio (debt for asset swaps, write offs, settlements, provisions, etc.). The increased exposure in the asset class “Other exposures” is attributed to the acquisition of the ex-CCB portfolio and the on-boarding of fixed assets as a result of the debt for asset swap strategy noted above.

6.1.13.7.2 Credit quality of exposures by industry

The tables below present total carrying values per default status, specific and general credit risk adjustments, accumulated write offs of the period, credit risk adjustments of the period (calculated as additional risk adjustments and write offs per industry) and net values broken down by debtor industry as at 31 December 2018 and 2017 respectively. Accumulated write offs refer to the write offs taken each year (2018 & 2017). *(Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types):*

31 December 2018 - (€000)		**a**	**b**	**c**	**d**	**e**	**f**	**g**
		Gross carrying values of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net Values**
Asset Class		**Defaulted exposures**	**Non-defaulted exposures**					**(a+b-c-d)**
1	Construction & Real Estate	662.905	706.331	361.323	--	41.540	12.093	**1.007.913**
2	Hotels, Restaurants & Bars	129.412	410.773	72.729	--	442	1.720	**467.456**
3	Manufacturing	115.520	345.030	68.684	--	5.375	1.278	**391.866**
4	Wholesale & Retail Trade	366.163	599.471	235.075	--	58.443	-26.922	**730.560**
5	Services	106.016	268.906	62.703	--	6.475	-16.542	**312.219**
6	Health & Social Work	9.564	113.861	5.684	--	1.941	316	**117.741**
7	Transport, Storage & Telecommunication	55.973	162.365	27.719	--	13.589	2.280	**190.619**
8	Financial & Insurance	33.858	77.562	15.660	--	1.534	134	**95.760**
9	Other	83.010	255.444	44.143	--	6.294	14.342	**294.310**
10	Private Individuals	964.018	3.565.847	478.393	--	10.237	104.929	**4.051.472**
11	Not Applicable	0	9.712.201	1.143	--	--	1.143	**9.711.058**
12	**Total**	**2.526.440**	**16.217.791**	**1.373.256**	**--**	**145.870**	**94.771**	**17.370.975**

31 December 2017 - (€000)		a	b	c	d	e	f	g
		Gross carrying values of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net Values**
Asset Class		**Defaulted exposures**	**Non-defaulted exposures**					**(a+b-c-d)**
1	Construction & Real Estate	672.887	532.347	390.770	--	46.373	19.977	**814.464**
2	Hotels, Restaurants & Bars	132.629	266.155	71.451	--	5.992	2.341	**327.333**
3	Manufacturing	110.362	242.362	72.780	--	2.639	9.253	**279.944**
4	Wholesale & Retail Trade	504.838	460.270	320.439	--	45.667	78.963	**644.669**
5	Services	144.246	145.590	85.722	--	8.588	4.377	**204.114**
6	Health & Social Work	11.881	85.776	7.308	--	921	(828)	**90.349**
7	Transport, Storage & Telecommunication	66.764	126.460	39.028	--	12	15.297	**154.196**
8	Financial & Insurance	33.719	99.376	17.059	--	638	155	**116.036**
9	Other	55.296	112.552	36.096	--	15.743	4.118	**131.752**
10	Private Individuals	601.632	741.942	383.701	--	10.349	38.904	**959.873**
11	Not Applicable	--	3.959.968	--	--	--	--	**3.959.968**
12	**Total**	**2.334.254**	**6.772.798**	**1.424.354**	**--**	**136.922**	**172.557**	**7.682.698**

Compared with last year, the exposures of all industries have increased mainly as a result of the acquisition of the ex-CCB Portfolio. This is more evident in the "Private Individuals" asset class. The category "Not Applicable" which refers to the Non Lending Portfolio has also increased as a result of the increased deposit base (exposure to ECB) and increased exposure to Cyprus Government Fixed Income Securities. The additional credit risk charges of the period are attributable to the additional credit risk adjustments and write offs incurred in the loan book during the year and to the acquisition of the ex-CCB portfolio.

The tables below provides further analysis of impaired and past due exposures per the debtor's industry as at 31 December 2018 and 2017 respectively:

Impaired and Past Due Exposures by Counterparty Industry - 31 December 2018 (€000)			Past Due Exposures	Impaired Exposures
1	Construction & Real Estate		536.376	662.905
2	Hotels, Restaurants & Bars		111.140	129.412
3	Manufacturing		103.587	115.520
4	Wholesale & Retail Trade		330.129	366.163
5	Services		103.119	106.016
6	Health & Social Work		16.392	9.564
7	Transport, Storage & Telecommunication		52.734	55.973
8	Financial & Insurance		24.011	33.858
9	Other		81.025	83.010
10	Private Individuals		1.183.488	964.018
11	**Total**		**2.542.000**	**2.526.440**

Impaired and Past Due Exposures by Counterparty Industry - 31 December 2017 (€000)			Past Due Exposures	Impaired Exposures
1	Construction & Real Estate		529.347	647.698
2	Hotels, Restaurants & Bars		105.876	131.089
3	Manufacturing		102.131	110.212
4	Wholesale & Retail Trade		400.897	491.231
5	Services		112.740	136.335
6	Health & Social Work		17.572	11.158
7	Transport, Storage & Telecommunication		32.492	66.764
8	Financial & Insurance		15.895	30.247
9	Other		56.468	55.006
10	Private Individuals		644.840	595.217
11	**Total**		**2.018.258**	**2.274.957**

Compared with last year, the increased past due and impaired exposure is mainly driven by the acquisition of the ex-CCB portfolio. This is particularly evident in the "Private Individuals" sector, where the ex-CCB portfolio is mainly concentrated.

6.1.13.7.3 Credit quality of exposures by geographical location

The tables below present total carrying values per default status, specific and general credit risk adjustments, accumulated write offs of the period, credit risk adjustments of the period (calculated as additional risk adjustments and write offs per geographical location) and net values broken down by geographical location of the debtor as at 31 December 2018 and 2017 respectively. Accumulated write offs refer to the write offs taken each year (2018 & 2017). *(Ref: Template 13: EU CR1-C – Credit quality of exposures by geography*).

31 December 2018 - (€000)			**a**	**b**	**c**	**d**	**e**	**f**	**g**
			Gross carrying values of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net Values**
			Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d)**
1	Significant Area 1: Cyprus		2.377.339	10.994.057	1.268.865	--	137.678	80.352	**12.102.531**
2	Significant Area 2: Int. Org./MDB/ECB		--	4.479.306	114	--	0	114	**4.479.192**
	Significant Area 3: Other Countries		149.101	744.427	104.276	--	8.192	14.305	**789.252**
3	Of Which: Germany		19	117.443	40	--	--	21	**117.422**
4	Of Which: United States		582	86.510	541	--	--	164	**86.551**
5	Of Which: United Kingdom		61.156	95.385	47.274	--	809	5.210	**109.267**
6	Of Which: Greece		23.767	41.873	18.014	--	69	3.277	**47.626**
7	Of Which: Other		63.576	403.216	38.407	--	7.314	5.632	**428.386**
8	**Total**		**2.526.440**	**16.217.791**	**1.373.256**	**--**	**145.870**	**94.771**	**17.370.975**

31 December 2017 - (€000)			a	b	c	d	e	f	g
			Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net Values
			Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Significant Area 1: Cyprus		2.184.138	3.666.194	1.326.191	--	134.468	157.946	4.524.141
2	Significant Area 2: Int. Org./MDB/ECB		--	2.407.111	--	--	--	--	2.407.111
	Significant Area 3: Other Countries		150.116	699.493	98.163	--	2.454	14.611	751.446
3	Of Which: Germany		18	140.121	20	--	--	3	140.119
4	Of Which: United States		533	90.242	377	--	19	71	90.398
5	Of Which: Russia		20.407	59.805	10.481	--	161	859	69.731
6	Of Which: Greece		22.418	47.789	14.805	--	544	1.589	55.402
7	Of Which: Other		106.740	361.536	72.480	--	1.730	12.089	395.796
8	**Total**		**2.334.254**	**6.772.798**	**1.424.354**	**--**	**136.922**	**172.557**	**7.682.698**

The exposure to Cyprus has increased as a result of the acquisition of the ex-CCB portfolio and the investment to Cyprus Government Bonds. The exposure to “Int. Org./MDB/ECB” has increased mainly as a result of an increased placement to ECB due to the additional deposits assumed after the acquisition of the ex-CCB portfolio. Exposure to Russia has decreased due to an outflow of foreign currency deposits that were placed with Russian Institutions (classified as Corporates as per CRR Rules). Exposure to United Kingdom has increased mainly as a result of increased placements with British institutions. The additional credit risk charges of the period are attributable to the additional credit risk adjustments and write offs incurred in the loan book during the year and to the acquisition of the ex-CCB portfolio (particularly with Cyprus).

The tables below provide further analysis of impaired and past due exposures per geographical location of the debtor as at 31 December 2018 and 2017 respectively:

Impaired and Past Due Exposures by Geographical Location of Counterparty - 31 December 2018 (€000)			Past Due Exposures	Impaired Exposures
1	Cyprus		2.389.327	2.377.339
2	Int. Org./MDB/ECB		--	--
3	Germany		16	19
4	United States		671	582
5	United Kingdom		64.184	61.156
6	Greece		22.979	23.767
7	Other		64.823	63.576
8	**Total**		**2.542.000**	**2.526.440**

Impaired and Past Due Exposures by Geographical Location of Counterparty - 31 December 2017 (€000)			Past Due Exposures	Impaired Exposures
1	Cyprus		1.879.705	2.124.845
2	Int. Org./MDB/ECB		--	--
3	Germany		22	18
4	United States		556	533
5	Russia		21.253	20.407
6	Greece		22.532	22.418
7	Other		94.190	106.736
8	**Total**		**2.018.258**	**2.274.957**

Compared with last year, the increased past due and impaired exposure is mainly driven by the acquisition of the ex-CCB portfolio (effect on Cyprus portfolio).

6.1.13.8 Ageing of past-due exposures

The tables below provides an ageing analysis of accounting on-balance-sheet past-due exposures regardless of their impairment status as at 31 December 2017 and 31 December 2018 respectively.
(Ref: Template 14: EU CR1-D – Ageing of past-due exposures):

31 December 2018 - (€000)			Gross Carrying Values					
			≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans		337.070	143.391	71.192	90.606	215.169	1.684.573
2	Debt Securities		--	--	--	--	--	--
3	**Total exposures**		**337.070**	**143.391**	**71.192**	**90.606**	**215.169**	**1.684.573**

31 December 2017 - (€000)			Gross Carrying Values					
			≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans		72.079	32.458	34.656	49.346	95.234	1.734.485
2	Debt Securities		--	--	--	--	--	--
3	**Total exposures**		**72.079**	**32.458**	**34.656**	**49.346**	**95.234**	**1.734.485**

The increased past due exposure across most buckets is attributed to the acquisition of the ex-CCB portfolio.

6.1.13.9 Non-performing and forborne exposures

The tables below provide an analysis of the Non-Performing and Forborne exposures according to EBA definition as at 31 December 2018 and 2017 respectively *(Ref: Template 15: EU CR1-E – Non-performing and forborne exposures):*

31 December 2018 - (€000)		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Total	Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
010	Debt Securities*	4.526.157	--	--	--	--	--	--	528	--	--	--	--	--
020	Loans and Advances	12.170.844	123.778	547.494	2.474.386	2.474.386	2.474.386	1.064.964	55.335	11.231	1.297.460	387.835	1.116.843	1.162.196
030	Off-balance-sheet exposures	1.366.109	--	6.837	46.392	46.392	46.392	5.395	28.518	240	8.252	465	17.815	11.041

*Includes securitisation positions

31 December 2017 - (€000)		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Total	Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
010	Debt Securities*	1.018.092	--	--	--	--	--	--	--	--	--	--	--	--
020	Loans and Advances	6.629.758	46.814	231.191	2.161.772	2.161.772	2.121.870	849.381	16.214	4.899	1.271.967	395.222	236.633	212.564
030	Off-balance-sheet exposures	958.365	N/A	5.923	40.490	40.490	21.095	2.715	2.342	--	9.162	--	388	717

The increase of bucket “Debt Securities” is attributed to the increased investments of Cyprus Government Fixed Income Securities. Loans and advances have increased as a result of the acquisition of the ex-CCB portfolio and increased deposit base (placement with ECB).

6.1.13.10 Changes in the stock of general and specific credit risk adjustments

The table below identifies the changes in the stock of general and specific credit risk adjustments held against loans and debt securities that are impaired *(Ref: Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments).*

As at 31 December 2017, there were no impaired debt securities.

Individual impairment losses on individual and collective assessment basis are deducted from exposures in the process of calculating the Bank's credit risk capital requirements and considered as specific credit risk adjustments.

Changes in the stock of general and specific credit risk adjustments - 31 December 2018 (€000)			**a**	**b**
			Accumulated specific credit risk adjustments	**Accumulated general credit risk adjustments**
1	Opening balance		1.326.106	--
2	Increases/decrease due to amounts set aside for estimated loan losses during the period		65.943	--
	Of which:			
2a	Contractual interest on impaired loans		144.413	--
2b	Unwinding of discount		(40.642)	--
4	Decreases due to amounts taken against accumulated credit risk adjustments		(148.974)	--
5	Transfers between credit risk adjustments			--
6	Impact of exchange rate differences		5.243	--
7	Business combinations, including acquisitions and disposals of subsidiaries		--	--
8	Other adjustments			--
9	Closing balance		1.352.089	--
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss*		--	--
11	Specific credit risk adjustments directly recorded to the statement of profit or loss*		--	--

*All recoveries on credit risk adjustments and specific credit risk adjustments are made via the accumulated impairment losses on the value of loans and advances.

The table above does not include provisions to cover credit risk resulting from commitments and guarantees amounting to €36.747 thousand which are classified under other liabilities (refer to Note 33 of the Financial Statements for the year ended 31 December 2018).

For more information in relation to management of credit risk, refer to Note 51.3 of the Financial Statements for the year ended 31 December 2018.

6.1.13.11 Non-performing and forborne exposures

The tables below identify the changes of stock of defaulted exposures and debt securities as at 31 December 2018 and 2017 respectively *(Ref: Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities):*

31 December 2018 - (€000)			**Gross carrying value defaulted exposures***
1	**Opening balance**		**2.334.254**
2	Loans and debt securities that have defaulted or impaired since the last reporting period		50.921
3	Returned to non-defaulted status		-36.584
4	Amounts written off		-142.775
4A	Loans and debt securities that have been resolved through Debt For Asset / Foreclosures		-53.187
4B	On-Boarding of ex-CCB portfolio		482.975
4C	Sale of NPL Portfolio		-123.852
5	Other changes		14.689
6	**Closing balance**		**2.526.440**

31 December 2017 - (€000)			**Gross carrying value defaulted exposures***
1	**Opening balance**		**2.563.514**
2	Loans and debt securities that have defaulted or impaired since the last reporting period		60.679
3	Returned to non-defaulted status		-91.467
4	Amounts written off		-134.325
4A	Loans and debt securities that have been resolved through Debt For Asset		-96.760
5	Other changes		32.613
6	**Closing balance**		**2.334.254**

*Includes off-balance sheet exposures.

The main driver of the increased defaulted exposures in 2018 was the acquisition of the ex-CCB portfolio which has set-off the deleveraging actions performed on the rest legacy portfolio. If the on-boarding of the ex-CCB portfolio is excluded (which is largely secured with the APS scheme and as such its capital consumption is constrained), then defaulted exposure is reduced by €291m.

6.1.14 Securitisations

The Bank holds a portfolio of securitisation positions, which it classifies in the Banking Book. The Bank invests in bonds under the Bank Investment Framework (HBIF) which has been approved by the Board of Directors. The Framework provides for a diversified bonds portfolio and allows investments in securitisation positions. The BoD has approved (within the HBIF) a small proportion of the total bonds investments to be in high quality securitisations, as part of the efforts to maintain a well-diversified portfolio of bonds.

The Bank acts only as an investor in transactions involving securitisation issues and has not originated, issued or sponsored any securitisations.

The Bank controls credit risk for its investments in securitisations through the HBIF which sets a maximum concentration limit for exposures in securitisations, which is expressed as a percentage of the Group's CET1 Capital. "Issuer" concentration limits for securitisations are also set, which vary depending on the credit rating of the issue. These limits do not allow investments in securitisations with an issue rating lower than Moody's A3 (or equivalent rating). Investments in securitisations are performed only if an issue meets the requirements of Article 405 of CRR, and in specific that the originator, sponsor or original lender has explicitly disclosed to the institution that it will retain, on an ongoing basis, a material net economic interest which, shall not be less than 5%. Current investments in securitisations are all Senior Tranches with a prime rating by Moody's (Aaa). Moreover, the investments are unsecured with a residual contractual maturity exceeding 14 years.

The investments of the Bank in securitisations belong to the accounting category "Fair Value through Other Comprehensive Income" and follow the same accounting treatment as any other item in this category in accordance with IFRS 9, which is effective from 01 January 2018. As at year end, there were no off balance sheet and no outstanding securitisation exposures.

The Bank monitors possible deteriorations of the securitisations' risk metrics through "Early Warning Signals" embedded in the Framework such as specifying the actions to be taken in case the issues are downgraded by 1 notch or more. In addition, "Early Warning Signals" are in place for monitoring the price risk of these investments. Furthermore, the Trustee reports issued for the specific exposures are also examined by Treasury and the Risk Management Unit on regular intervals to monitor any potential deterioration of the risk metrics of the exposures such as a significant increase in the delinquency rates. Finally, the Bank has also subscribed with Moody's rating agency to receive industry analysis in relation to the specific sector and rating alerts, in case there is any deviation of the ratings of the securitisation exposures.

The risks of securitisation positions are monitored on a regular basis and reported to ALCO on a monthly basis. The positions do not have adequate liquidity in the market and are not considered liquid for the Bank's liquidity reports. The interest rate risk of the positions is monitored as part of the Bank's overall interest rate risk management. The institution calculates the risk-weighted exposure amount of a rated securitisation or re-securitisation position by applying the relevant risk-weight to the exposure value.

The exposure value of a securitisation position equals to its accounting value remaining after specific credit risk adjustments have been applied. The Bank uses the Standardised Approach in order to calculate the risk weighted assets for its securitisation positions, according to which the relevant risk weights are derived from the credit rating of the securitisation instrument as follows (as per Article 251 and subject to Articles 405-407 of CRR being met):

CQS		CQS1	CQS2	CQS3	CQS4	ALL OTHER
Securitisation Positions		20%	50%	100%	350%	1250%
Re-Securitisation Positions		40%	100%	225%	650%	1250%

The Group has selected to proceed with the 3 Ratings approach as this is prescribed under Article 138 of CRR for all asset classes (including securitisation exposures). The Bank does not use the Internal Assessment Approach for these positions.

Securitisation Activity of the Current Period (2018)

The Bank has not performed any additional securitisation activity within 2018 (either as investor or original lender). The total securitisation exposure has dropped by c. €4m (from €11m to €7m) as a result of the amortisation of positions existing as at December 2017.

The table below displays the aggregate amount of securitisation positions purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further analysed into risk-weight bands:

Items representing securitisation positions – 31 December 2018 (€'000)		**Total exposure value before credit risk mitigation**	**Minimum capital requirement**
Securitisation Positions		7.068	113
Risk Weight: 20%		*7.068*	*113*
Re-Securitisation Positions		--	--
Total		**7.068**	**113**

6.1.15 Exposures to Counterparty Credit Risk (CCR) and Credit Valuation adjustment Risk

Article 432 of CRR provides that Institutions have the right to omit one or more disclosure requirements if the information provided by such disclosures is not regarded as material. Information in disclosures shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Pursuant to EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of CRR, the BoD has decided that the disclosure requirements of Article 439 of CRR and information relating to Credit Valuation Adjustment Risk (CVA Risk) to be omitted from Pillar III disclosures since the information provided under this Article is not regarded as material for the Bank, as per the Provisions of the said guidelines.

The information requirements of the Article 439 relate to Derivative Exposures while the information on CVA risk relates specifically to Over-The-Counter Derivative Exposures of the Bank. This information has been assessed as non-material on the basis of:

- Business model of the Bank and its long-term strategy to which derivative positions are assessed as non-relevant.
- The size of the derivative exposures both in terms of gross exposure (4bps of total exposure) and in terms of Risk Weighted Asset Base (8bps of Credit RWA).
- The size of CVA Risk in terms of Risk Weighted Asset Base (8bps of Total RWA)
- Impact on the overall risk profile of the institution which is deemed as negligible based on the amount and nature of the exposure.
- The amplitude of changes in comparison with previous year which are assessed as negligible.

The materiality of the disclosure requirements included in Article 439 and information related to CVA Risk will be re-assessed each year.

6.2. MARKET AND LIQUIDITY RISKS MANAGEMENT

6.2.1 Definition of Market and Liquidity Risks

Liquidity risk is the risk that the Bank either does not have adequate funds to meet its payment obligations as they fall due, or can obtain such funds only at an unacceptably high cost. Liquidity risk arises because of a contractual or a behavioural tenor mismatch between the Bank's assets and liabilities and could be aggravated by adverse market conditions or perceptions about the Bank's creditworthiness.

Market risk is the risk associated with changes in market prices/rates, such as interest rate changes, changes in equity, bond or derivatives prices and changes in foreign exchange rates, which may impact the Group's net income or the value of the Group's balance sheet items.

Market risk is analysed into the following types of risks:

(i) Interest rate risk is the risk associated with losses or volatility in the value of balance sheet items, arising mainly from changes in the yield curve and resulting from the mismatch in the repricing of the Group's assets and liabilities.

(ii) Price risk is the risk associated with changes in the market prices of various financial instruments (bonds, derivatives, equities, etc.) owned by the Group.

(iii) Foreign exchange risk is the risk of losses or volatility in the value of balance sheet items, arising from foreign exchange movements.

6.2.2 Market and Liquidity Risk Unit (MLRU)

The Assets and Liabilities Management Committee (ALCO) is responsible for implementing the policy of the Bank's Board of Directors regarding the risks and profitability arising from the Group's assets and liabilities. MLRU is responsible for the identification, assessment, monitoring, controlling and reporting of Group market and liquidity risks within the framework of risk policies and limits defined by ALCO. It acts as a second line of defence for the aforementioned risks.

The Group's approach towards market and liquidity risk management is to concentrate these risks for all Group business units under the Treasury department. Treasury- which acts as the first line of defence- manages risks using a framework of activities and limits approved by ALCO. The Risk Management Unit is responsible for developing policies and processes for managing the risks and for their assessment and monitoring. Policies are reviewed at regular time intervals and are approved by ALCO, the Board Risk Management Committee and the Board of Directors itself.

6.2.3 Liquidity Risk Management Framework

Liquidity risk is the risk of decrease in profits or capital, arising from a weakness of the Bank to meet its immediate obligations, without incurring additional costs. The Group's approach in managing liquidity risk is to ensure, to the extent possible (considering that the main role of the Bank as an intermediary is to accept short term deposits and grant long term loans), that there is adequate liquidity in order to satisfy its obligations, when they arise, under "normal" circumstances as well as under stress conditions, without the Group incurring any additional costs.

In the Group's Risk Appetite Framework (RAF), the Board has defined the Bank's liquidity risk capacity to be limited by the condition that the Bank's Liquidity Coverage Ratio (LCR) remains above regulatory requirements and it states that the Bank will maintain an NSFR for all currencies of at least 110%. The overall risk appetite statement related to liquidity defines the objectives of the Bank as follows:

- The Bank will maintain sufficient liquidity to cover a combined idiosyncratic and market stress event of at least 90 days and will continue to maintain a liquidity buffer over regulatory required levels.
- The Bank will maintain its LCR at least at 120% for all currencies combined.
- The Bank will maintain an NSFR for all currencies of at least 110%.
- The Bank will maintain its longer-term liquidity stability at prudent levels through ensuring that the Bank's Strategic and Funding Plans are aligned with the RAS limits for Liquidity Risk.

The management of the liquidity is undertaken by the Treasury Department. Treasury acts as a first line of defence with regards to liquidity risk and is also responsible for the funding and cash management of the Bank.

All frameworks and policies concerning liquidity risk are reviewed and approved by ALCO, before being forwarded to the BoD, through the Board Risk Management Committee (BRMC), for final approval. Hellenic Bank has a robust internal liquidity risk reporting process in place which is used to monitor and manage the Bank's liquidity position.

The liquidity risk of the Bank is monitored on a daily basis by the Market and Liquidity Risk Unit, which produces and distributes on a regular basis a wide range of reports to various recipients including MLRU, Treasury, CRO, ALCO and BRMC. A monthly report is produced for ALCO which includes amongst others, the monitoring of regulatory and internal liquidity ratios, liquidity gaps, monitoring of funding risk and the evolution of the Bank's deposits. The report also includes possible measures that should be taken, as well as recommendations for enhanced monitoring.

The Bank has a sound escalation process for any actual or anticipated internal or regulatory liquidity limit breaches. Possible limit breaches are timely reported by the MLRU to ALCO and the CRO. Subsequently, the CRO informs the chairman of BRMC who decides whether to notify all BRMC members. MLRU also has the responsibility to highlight any drivers behind the breach. The CRO informs BRMC about any remediation action taken by ALCO in order to restore positions within limits. The BRMC receives on a monthly basis, a Risk Management Information Report which includes, among others, significant measures and developments for liquidity risk. The Board of Directors is also informed, on a monthly basis, on a number of liquidity measurements which have been identified as KPIs. The BRMC and the BoD also receive a quarterly risk report which presents liquidity ratios, funding risk information, analysis of the characteristics of the Bank's deposit structure and stress test scenarios on liquidity.

MLRU reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC and the ECB on a monthly basis and the Net Stable Funding Ratio (NSFR) on a quarterly basis. In addition, other liquidity reports are produced quarterly as part of the short term exercise to the SSM.

The Bank's liquidity and funding risk is governed by the following internal frameworks and policies, which also establish the relevant processes for managing and monitoring the Bank's liquidity and funding on an ongoing basis:

- Enterprise Risk Management Framework
- Risk Appetite Framework
- Liquidity and Funding Risk Management Framework
- Stress Test Framework
- Liquidity Risk Policy
- Funding Policy
- Funds Transfer Pricing Policy
- Stress Testing Policy

The key liquidity and funding risk mitigation tools at times of stress are included in the Bank's:

- Liquidity Contingency Plan (LCP)
- Recovery Plan

The liquidity risk management process is shown in the table below:

Business-as-usual	Early signs of liquidity stress	Severe liquidity stress	Recovery
• **Funding Plan** • **Monitoring liquidity limits (Liquidity Risk Policy)** • **Stress testing** • **ILAAP** • **Monitoring liquidity Key Performance Indicators (KPIs) and Early Warning Indicators (EWIs)**	• Increase vigilance • Increase monitoring and reporting frequency • Management Action Triggers (RAF MAT)	• Activate Liquidity Contingency Plan (LCP) • Execute appropriate LCP Management Actions	• Activate Recovery Plan • Execute appropriate liquidity recovery options

To assist the Bank in determining its liquidity tolerance and liquidity buffers, MLRU uses liquidity stress testing, including reverse stress testing, and conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) at least annually. The overall aim of ILAAP is to ensure that the Bank holds sufficient liquidity to support its current banking operations and Strategic Plan. ILAAP is used to support the BoD and senior management in the ongoing assessment, quantification and management of the Bank's liquidity risk. In the context of ILAAP, the Bank reviews how its liquidity position may evolve under a number of possible scenarios. Liquidity stress testing is a key tool used by the Bank in the process of determining its liquidity adequacy. It provides useful insights and gives an overview of the Bank's liquidity situation and profile for a period of 12 months. These are used by the Bank into developing liquidity and funding plans, and thus there is a direct link between liquidity stress testing and the determination of the Bank's required liquidity buffers and Strategic Plan. The Bank covers three different scenarios when performing liquidity stress testing. The scenarios used, according to regulatory guidance on liquidity stress testing, are the following:

- An idiosyncratic (or bank-specific) stress.
- A market-wide stress.
- A combined stress (combination of idiosyncratic and market-wide).

Additionally, the Bank uses reverse stress testing to examine the viability and sustainability of the business plan and strategy, by identifying a predefined outcome that will severely threaten its liquidity viability.

The Bank's LCP details how the Bank will respond to severe disruptions to its ability to timely fund its activities at a reasonable cost. It aims at safeguarding the Bank's reputation, depositor confidence and shareholder value, as well as preventing contagion effects, by decisively and promptly addressing liquidity shortfalls in emergency situations. It establishes clear lines of responsibilities, and includes escalation procedures and guidance on the communication plan that should be established in the event that the LCP is activated. LCP is reviewed at least annually and revised as required.

The Group must comply with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements CRR with regards to the liquidity coverage requirement for Credit Institutions). The LCR was in effect from 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018 when the full phase-in of the requirement was effected.

LCR ratio (%)		**2018**	**2017**
At 31 December		565	277
Average for the year		355	293
Maximum percentage for the year		565	310
Minimum percentage for the year		282	276

The table below shows a quantitative analysis of LCR which complements Article 435(1)(f) of Regulation No 575/2013 *(Ref: Template EU LIQ1: LCR disclosure template and the template on qualitative information on the LCR)*:

Scope of consolidation: Consolidated		Total unweighted value (average)				Total weighted value (average)			
€ million									
Quarter ending on:		Mar-18	Jun-18	Sep-18	Dec-18	Mar-18	Jun-18	Sep-18	Dec-18
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					3.132	3.215	4.814	8.235
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	1.938	2.056	4.838	8.290	156	164	330	537
3	*Stable deposits*	1.116	1.186	3.485	6.273	56	59	174	314
4	*Less stable deposits*	822	870	1.353	2.017	100	105	156	223
5	Unsecured wholesale funding	1.987	1.992	2.094	2.337	1.175	1.166	1.243	1.370
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	27	28	23	33	6	7	5	8
7	*Non-operational deposits (all counterparties)*	1.960	1.964	2.071	2.304	1.168	1.159	1.238	1.362
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	146	146	147	138	18	18	18	16
11	*Outflows related to derivative exposures and other collateral requirements*	5	6	5	5	5	6	5	5
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	141	140	142	134	12	12	12	12
14	Other contractual funding obligations	46	36	45	22	26	24	26	2
15	Other contingent funding obligations	809	894	991	1.243	66	71	82	105
16	**TOTAL CASH OUTFLOWS**					1.440	1.443	1.699	2.030
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	288	295	327	237	280	289	317	222
19	Other cash inflows	291	280	272	439	59	58	55	140
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	579	575	600	675	338	347	372	362
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows subject to 90% cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows subject to 75% cap***	579	575	600	675	338	347	372	362
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					3.132	3.215	4.814	8.235
22	**TOTAL NET CASH OUTFLOWS**					1.102	1.097	1.327	1.668
23	**LIQUIDITY COVERAGE RATIO (%)**					284%	293%	344%	496%

It is noted that according to the EBA guidelines, for the calculation of the values shown in the table above, each quarter is the monthly average of the months in that quarter.

It is apparent from the table that the LCR ratio has increased significantly in the fourth quarter of 2018. The increase in LCR was a result of the acquisition of the ex-CCB portfolio which increased the Bank's Liquidity Buffer by about €4,8bln (€4bln in CYGBs that are currently considered as ECB eligible and about €0,8bln in balances with the ECB), whereas Net Outflows only increased by about €0,6bln-€0,7bln, since the vast majority of the on-boarded liabilities were retail deposits with outflow rates ranging between 5% and 10%. The ratio is well above the regulatory minimum level of 100%. It is noted that for the USD which is the Bank's foreign currency with material positions, the Bank does not have a mismatch, meaning that it maintains a ratio well above 100%. The Bank has included LCR in its Risk Appetite Statement with a risk appetite limit set to 120%, higher than the regulatory limit.

Additionally, the Bank monitors the Net Stable Funding Ratio (NSFR) which also stems from CRR and which was expected to be officially introduced on 1 January 2018. NSFR has been developed to provide a sustainable maturity structure of assets and liabilities. It calculates the proportion of available stable funding via the liabilities over required stable funding for the assets. The components of stable funding are not equally weighted.

Even though the official introduction of this ratio as a regulatory limit is being delayed and is expected sometime later in 2019, the Bank calculated this as per the Basel III (CRR) requirements on a quarterly basis, with an expected minimum regulatory level of 100%. The Bank has included NSFR in its Risk Appetite statement with a RAS limit of 110%, higher than the expected regulatory limit.

NSFR ratio (%)		**2018**	**2017**
At 31 December		210	158
Average for the year		180	159
Maximum percentage for the year		210	160
Minimum percentage for the year		156	157

On 20 December 2017, CBC announced the abolition of its prudential liquidity limits from 1 January 2018, in accordance with CRR. A "national macroprudential liquidity measure" was introduced from 1 January 2018, which comprised of additional liquidity requirements in the form of "add-on" rates on some of the LCR parameters and additional requirements in the form of add-on rates on some other items which were not subject to any outflow rates according to the LCR regulation and these were imposed on top of the current LCR Regulation. This national macroprudential measure was still in force until 31 December 2018, with the add-ons being relaxed by 50% as from 1 July 2018. The Bank was in full compliance with this LCR add-on for 2018.

The Group places emphasis on the maintenance of stable customer deposits, as they represent one of its basic funding sources. This is mainly achieved through the maintenance of good and long standing relationships of trust with customers and through competitive and transparent pricing strategies, also taking into consideration the liquidity position of the Bank.

The Bank aims to maintain an adequate liquidity buffer, based on the abovementioned policies, which will allow it not only to meet its obligations as they fall due in a business-as-usual scenario, but also in order to be able to survive a combined market-wide and idiosyncratic scenario, as defined in ILAAP. In particular, to determine the minimum required level of liquid assets, the Bank considers the RAF Management Action Trigger levels of Liquidity Risk metrics.

The quality of the liquid assets held by the Bank is safeguarded by the Bank's Investment Framework (HBIF), which promotes a well-diversified, high credit quality investment portfolio, while placing a limit on non-ECB eligible securities.

6.2.4 Market Risk Management Framework

The Bank's approach in managing market risk is to gather, to the extent possible, all market related risks (interest rate, foreign exchange and price risk) from all Bank's business lines to Treasury for management. Treasury, which acts as a first line of defence with regards to market risks, is responsible for the day-to-day management of the Bank's market risks within the framework of activities and the limits approved by the ALCO. The Risk Management Unit (RMU) is responsible for developing all necessary frameworks and policies for the monitoring and management of risks. These frameworks and policies are regularly reviewed-at least annually- and approved by ALCO and forwarded to the BoD through the BRMC for approval. Additionally, in an effort to mitigate risks, quantitative as well as qualitative limits are imposed on various risk categories and/or activities (bonds, derivatives, etc.) and/or portfolios. The MLRU is responsible for the systematic monitoring of compliance with approved limits and the continuous effectiveness of hedging and risk mitigation techniques.

6.2.4.1 Market Risk Management – Trading Book

The Bank maintains relatively small positions in its trading portfolio and as a result market risk is not significant. Management of price risk, interest rate risk and foreign exchange risk is carried out through policies and procedures for the setting and monitoring of limits.

Based on the existing Bank's policy, the views of RMU are required before launching new activities or products. Final approval is provided by the Executive Risk Committee. Through this procedure, RMU expresses its views on all risks that may be encompassed by the new activity or product and sets qualitative restrictions and limits if necessary.

The MLRU monitors all trading portfolios on a daily basis to ensure that all qualitative and quantitative limits are being observed and complied with. Additionally, the MLRU regularly monitors risks with the use of other techniques, such as stress scenarios and sensitivity analysis, regarding changes in the economic value of portfolios that may take place under several interest rate change scenarios (including both parallel and non-parallel shifts of the yield curve).

Foreign exchange risk management, is carried out by Treasury, within a framework of limits approved by the ALCO. This framework consists of nominal limits (by currency, in total, intra-day, end-of-day, etc.), profit/loss limits, as well as Value-at-Risk (VaR) limits. Intra-day limits for open positions are greater than those allowed at the end-of-day. The nominal limits set by the Bank are lower than the limits set by the Central Bank. Foreign exchange risk management is carried out on a consolidated basis, both in the banking and in the trading books.

The VaR methodology is an important tool for monitoring foreign exchange risk. VaR estimates the maximum potential loss that may be incurred as a result of changes in market conditions, at a confidence level of 99% and over a one-day period (using the parametric method) based on historical data of foreign exchange rate parities over the period of one year.

The table below presents data regarding VaR for the Group's foreign exchange risk, which shows the estimation of the maximum potential loss over a one-day period at a confidence interval of 99%:

Value-at-Risk (VaR) for foreign exchange risk (€000)	**2018**	**2017**
As at 31 December	7	11
Average for the year	8	10
Maximum for the year	13	76
Minimum for the year	5	4

Besides foreign exchange limits, the Bank does not have limits for proprietary trading.

6.2.4.2 Market Risk Management – Banking Book

The Bank manages the price risk of its banking book through frameworks and policies for the setting and monitoring of limits, similar to those described above for the trading book. More specifically, an approved framework that the Bank maintains is the Investment Framework with various limits, such as a limit on Bonds and Syndicated loans, limit on total investments, limits per issuer group, limits on maturities and limits on Value-at-Risk.

Interest rate risk is the most significant type of market risk in the Bank's banking book, arising from the mismatch in the repricing of the Bank's assets and liabilities, which are sensitive to interest rate changes.

The ALCO is regularly informed about the magnitude/extent of interest rate risk and makes decisions for the management of risk based on this information. A monthly report that is prepared by the MLRU for ALCO includes the impact on Net Interest Income and on Economic Value from parallel and non-parallel shifts in the yield curve. In addition, the BRMC, the BoD and the regulatory authorities are kept informed of developments regarding interest rate risk through quarterly reporting. Reporting to the BRMC and the BoD includes the impact of shifts in the yield curve on Net Interest Income and on the Economic Value of the Bank and interest rate risk measurements for the Bank's investments in bonds.

In addition, interest rate risk in the Banking Book is assessed through the ICAAP on an annual basis, using stress testing scenarios which take into consideration both net interest income measurements, economic value of equity measurements, parallel and non-parallel shifts to interest rates and basis risk. The six scenarios defined in the BCBS standard on "Interest rate risk in the Banking Book" are included in the scenarios assessed in ICAAP.

Interest rate risk is measured at least on a monthly basis. The Group manages interest rate risk in the banking book with the use of three main methods as described below:

(a) Interest Rate Gap (IR Gap)
The Group manages interest rate risk through the monitoring of interest rate gaps, by currency, by time band and in total. Assets and liabilities in each currency are classified under time bands based on their repricing period. Interest rate gap by time band is the difference of assets and liabilities under each time band. This helps to identify time bands with significant interest repricing mismatch.

(b) Economic Value sensitivity analysis (EVE sensitivity)
In addition to gap analysis, interest rate risk management is carried out mainly by monitoring the sensitivity of the Group's economic value (assets, liabilities and off-balance sheet items), under various scenarios of interest rate changes. One of these scenarios is a standard shock of 2% change in interest rates on the economic value of the Group according to guidelines by CBC. EVE sensitivity from a 2% change in interest rates needs to be below 20% of total own funds according to CBC guidelines and EVE sensitivity from six prescribed interest rate shock scenarios needs to be below 15% of Tier 1 Capital according to the updated IRRBB EBA guidelines. The Bank has approved within its risk appetite framework, a limit of 12% of Tier 1 Capital from a parallel shift of 2%. It is noted that this limit was revised for 2019 to 10% of Tier 1 Capital based on EBA's six prescribed interest rate shock scenarios. The Economic Value sensitivity of the Bank for 31 December 2018 calculated as the sum of negative sensitivities per currency from an interest rate reduction of 2% was 0,9% of Total Own Funds, well within the regulatory limit and the risk appetite limit. The 2% interest rate reduction scenario was used for year-end since the losses calculated under this scenario were slightly higher compared to the scenario of interest rate increases.

In the calculation of EVE sensitivity, for the discounting needed to perform the calculations, the risk-free yield curve was used for each currency.

The table below presents the impact on the Group's Economic Value of a change of ±100 basis points in interest rates by currency as at 31 December 2018:

Change – 31 December 2018 (€000)		**Euro**	**US Dollars**	**Other currencies**	**Total of negative**
+100 basis points		(3.306)	2.660	957	**(3.306)**
-100 basis points		4.162	(2.784)	(992)	**(3.776)**

It is noted that under current conditions, the reduction in interest rates by 100 basis points is theoretical since market rates for the Euro and most foreign currencies for which the Bank holds positions, besides US dollar, are low.

(c) Net Interest Income sensitivity analysis (NII Sensitivity)
The Group also monitors interest rate risk by measuring the sensitivity of Net Interest Income, for a period of 12 months, under various interest rate change scenarios. Scenarios are similar to those applied for NPV sensitivity as described above.

The table below shows the impact on the Group's Net Interest Income (over the next 12 months) as a result of a change of ±100 basis points in interest rates by currency as at 31 December 2018:

Change – 31 December 2018 (€000)		**Euro**	**US Dollars**	**Other currencies**	**Total**
+100 basis points		39.201	4.710	1.445	**45.356**
-100 basis points		(39.201)	(4.710)	(1.445)	**(45.356)**

It is noted that under current conditions, the reduction in interest rates by 100 basis points is theoretical since market rates for the Euro and most foreign currencies for which the Bank holds positions, besides US dollar, are low. For the calculations of Net Interest Income sensitivity, for current accounts it is assumed that interest rates will change by only 15 basis points in the Euro and that they will remain unchanged in foreign currencies.

(d) Significant assumptions in Interest rate risk calculations
The Bank uses a static balance sheet for its interest rate risk calculations.

The most significant assumptions which affect the calculation results concern the treatment of non-maturity deposits (NMDs). These accounts do not have a contractual maturity. The interest rate could theoretically be reset immediately after a change in market interest rates. In reality, however, these accounts receive rates much lower than wholesale market levels which reach as low as 0%.

Thus, for the calculation of Interest rate risk for these deposit accounts and in order to reflect this behaviour of NMDs, these accounts need to be separated to core and non-core deposits and core deposits need to be slotted into time buckets. In this way, the Bank assesses how fast these balances might decay and have to be replaced with funding that is subject to a higher interest rate. The assumed maturity profile for NMDs is an average of three years, which is lower than the tenor limits provided in the BCBS standards 2016 on “Interest rate risk in the Banking Book”.

In relation to loans, prepayment models have not been used, mainly due to the fact that fixed rate loans are a very low proportion of the Bank’s loans.

Items considered as non-sensitive to interest rate movements, which include shareholder’s capital, reserves, fixed assets, goodwill, etc. are not inserted in time bands.

The banking portfolio includes investments in bonds. The Bank maintains an Investment Framework approved by the Board, which governs investments in bonds and syndicated loans in the banking book. The risk of bond investments classified in the accounting category FVOCI, although included in the interest rate risk measurement described above, is also evaluated separately (with the risk of bonds in the trading portfolio). The Bank assesses the market risk of these bonds by measuring the VaR, with a retention period of one month and a 99% confidence level. The Bank has set an internal limit to this risk measure.

6.2.4.2.1 Exposures in equity securities

The Bank has limited exposure in equities and does not have a risk appetite to increase this exposure. Most of the positions are of a strategic nature in unlisted equities. The exposure to listed equities in the FVOCI category is equal to €1,4m and they concern equity securities in a few companies which are listed in the Cyprus Stock Exchange. The only exposure in the FVPL category is a position in unlisted equities, equal to €4,5m, which represents shares in Visa. The most significant position in unlisted equities (€5,3m) is in an unlisted company held on business grounds (JCC Payment Systems Ltd) and is held in the FVOCI category. The Group has an additional exposure to collective investment units which are part of the investment policy of the insurance subsidiaries of the Group.

It is noted that all Investments in equity securities are currently held in the Banking Book.

The following information is disclosed in respect of exposures in equity securities not included in the trading book:

Equity securities not included in the trading book (€000)		**2018**
Quoted securities in the FVOCI category		1.387
Unquoted securities in the FVOCI category		5.583
Unquoted securities in the FVPL category		4.527
Total - Carrying amount/(fair value)		11.497
Gains on disposal of FVOCI equity securities		--
Cumulative unrealised gains included in the revaluation reserve in respect of FVOCI securities		13.264

6.2.4.2.2 Policy in relation to hedging market risks

Hedging is the practice of taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market or investment. The Group will usually use derivatives where it seeks to hedge risk and where the hedge is considered to be highly effective in accordance with its policy. Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The Group currently enters into the following contracts for hedging purposes: interest rate swaps, foreign exchange forward and swap contracts and interest rate options. The Bank may also use, if needed for hedging, interest rate futures, foreign exchange options and foreign exchange futures. Hedging transactions may be categorised as accounting hedges or as economic hedges. Economic Hedges arise when the Bank enters into derivative contracts for its own risk management purposes, but the contracts entered into, do not qualify or are not approved as an Accounting Hedge under IFRS. An accounting hedge may be a fair value hedge or a cash flow hedge. The treatment of these transactions is as per IFRS standards. The Bank regularly monitors the effectiveness of the hedging relationships both for Economic and Accounting Hedges.

6.2.5 Basel III Implementation for Market Risk – Pillar I

The Group has been in compliance with Regulation 275/2013 as of January 2014.

For calculating the minimum capital requirement, the Group uses the Standardised Approach. Based on this method, the capital requirement is calculated as the sum of the capital requirements on risk positions in interest rates, equities, debt securities, foreign exchange and derivatives, which are part of the trading book, based on predetermined models per risk category.

The table below shows the capital requirements for the trading book, by risk category (*Ref: Template 34: EU MR1 – Market risk under the standardised approach*)

(€000)			**RWAs**	**Capital Requirements**
	Outright products			
1	Interest rate risk (general and specific)		947	76
2	Equity risk (general and specific)		--	--
3	Foreign exchange risk		--	--
9	**Total**		**947**	**76**

It should be noted that under Article 351 of the CRR, the Bank is required to maintain capital for foreign exchange risk only if its overall net foreign exchange position exceeds 2% of its Own Funds. In the Bank's case, the overall net foreign exchange position was less than 2%, so there was no need to hold capital for foreign exchange risk.

For more information in relation to market and liquidity risk management, refer to Note 51 of the Financial Statements for the year ended 31 December 2018.

6.3 OPERATIONAL RISK MANAGEMENT

6.3.1 Definition of Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Group, this definition includes legal, conduct and reputational risks, but excludes strategic risk.

The Bank has adopted the principles and provisions set out in the guidelines of the Directives of the Central Bank of Cyprus, the Single Supervisory Mechanism, Basel III (CRR) as adopted by the EU and the Committee for European Banking Supervisors (CEBS).

6.3.2 The Three Lines of Defence - roles, responsibilities, obligations

The Board supports the development of a robust operational risk management culture where the roles of business and control functions under a Three Lines of Defence (LoD) model, are well understood and respected. The Board encourages open discussion, challenge and thorough analyses of operational risks identified, to ensure that they are managed within the risk appetite of the Bank.

The first LoD comprises of Business Line Management bearing ultimate ownership of risks taken. Business line management is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable.

The second LoD consists of an independent operational risk management function overseeing risk management, establishing and providing support in implementing and embedding relevant policies, responsibly aligning policies with risk and strategy. It provides support to internal audit to assure the adequate implementation of those policies. Information Security Function and Compliance Unit, also form part of the Bank's second LoD, albeit under their separate Charters where each Unit's second line role and responsibilities are respectively and explicitly stated. The following Units also perform some second LoD functions: Business Continuity, Health Safety & Security, Internal Legal Services, Human Resources, O&M, Tax, IT, etc.

The third LoD is the Internal Audit Unit, which represents the Independent review for objective verification and validation of the effectiveness of the Bank's Operational Risk Management Framework.

All three LoDs report to the Board of Directors, so in essence, the latter forms the Group's fourth LoD.

6.3.3 Operational & Emerging Risk Unit (O&ERU)

O&ERU is an independent Unit under the Chief Risk Officer, empowered to oversee operational risk management.

Under its second Line of Defence remit, the O&ERU's key responsibilities include:

- Suggesting the Bank's Operational Risk Management Framework.
- Establishing the control environment for operational risk, including policies and partly procedures.
- Designing operational risk management tools, used by business lines to identify, assess and manage risks.
- Suggesting delegated discretions and limits to empower risk taking by the first line.
- Applying a continuous and independent challenge to the use and output of the operational risk management tools used by the first line of defence.
- Designing and providing training and awareness on operational risk.
- Reporting on the effectiveness of the risk and control environment to executive management and relevant Board committees.
- Promoting a strong operational risk management culture.

O&ERU provides guidance and advice on operational risk matters to the Bank's business lines and Head Office departments and acts as a means of communication to and from the business lines and the Board of Directors.

O&ERU makes recommendations for the management of operational risks identified in all major products, services, procedures and systems of the Bank, before they are adopted or implemented.

O&ERU assesses identified operational risks and provides guidelines for the prevention and mitigation of potential consequences/losses. Operational risk management is viewed and treated by O&ERU as a dynamic process which ultimately aims to assist the Bank in achieving its objectives.

6.3.4 Operational Risk Management Procedures

The procedures adopted by the Bank include the identification and recording, assessment, reporting, control (mitigation) and monitoring of the operational risks undertaken or to be undertaken by the Bank (the Operational Risk Management Cycle).

In order to identify and manage their operational risk, Group Business Lines (supported by O&ERU) use:

- Own knowledge of their business.
- Annual Operational Risk Assessment (AORA).
- Risk & Control Self-Assessment (RCSA).
- Key Risk Indicators (KRIs).
- Internal Audit Reports.
- External Audit Reports.

O&ERU recommends improvements and assists first LoD stakeholders in implementing measures to mitigate operational risks identified in important procedures. Such measures include, but are not limited to, the establishment of clear lines of responsibility, segregation of duties, application of four eye principle and the utilisation of reports. These measures are in line with the principles adopted under the Group's Operational Risk Management Framework.

Over the course of 2018, the effective management of operational risk and hence, the implementation of a strong and effective control environment constituted one of the Bank's main priorities, mainly due to the acquisition of certain assets and liabilities of ex CCB, in September 2018.

Integration risk stands out first at the Bank's risk list and its effective handling and management is of utmost importance since it is expected to inherently impact, amongst others, almost all operational risk subcategories and consequently alter the Bank's overall risk profile. The concurrent integration of people, clients and information constitutes a material challenge for the Bank and necessitates significant resources to be committed to the project, where significant integration issues are identified, monitored and resolved.

Integration risks are getting more visible as the integration progresses. A number of issues are coming up confirming the difficult and challenging period the Bank is currently going through. Significant issues, even though expected to a great extent, are now becoming more tangible necessitating the Bank to take quick and appropriate, under the circumstances, actions/decisions for their adequate and timely resolution.

The challenge for the Bank is to identify all issues that need to be resolved prior to the data migration date and take adequate remedial actions ideally before the testing period begins. Issues which will not be resolved prior to the migration date are also material and will require significant resources and commitment to resolve in the future. To this end, a strong project management governance and clear communication channels have been set within the Bank for the identification, prioritisation and resolution of issues arising. O&ER devotes significant resources under the various integration work streams to become aware, provide support and ensure measures are taken to minimise relevant operational risks.

6.3.5 Reporting Systems

O&ERU, using information recorded in the Risk & Compliance Management System (RCMS), information in the Annual Operational Risk Assessments, and existing data included in ad-hoc assessments and reviews of the business lines, submits reports as necessary on the following topics:

- Operational Risk Losses/ Near Misses.
- Systems failures and business disruptions.
- Events affecting directly or indirectly the reputation of the Bank.

- Key Risk Indicators.
- Risk & Control Risk Assessments' results.
- Cases dealt with by Legal Services, where operational risk events have been identified.

The reports are submitted:
- Monthly to the Executive body (the Enterprise Risk Management, Compliance and Information Security Committee) whereby key operational risk issues are highlighted, any relevant requests are submitted for approval/escalation, important internal and external operational risk events are presented, and a selection of key operational risk indicators are reported.
- Quarterly to the Risk Management Committee of the Board of Directors referring to the major operational risks to which the Bank is exposed, the measures taken for their mitigation and relevant recommendations.
- Annually to the CBC through the Internal Capital Adequacy Assessment Process (ICAAP) under Pillar II requirements.

6.3.6 Risk Hedging and Mitigation Policies
As mentioned above, the Operational Risk Management Cycle is applied by O&ERU and the business lines, through the daily operations of the Bank, as well as through the recording of identified inherent or potential operational risks and operational risk events through the RCMS.

Identified operational risks are assessed to be either tolerated, treated, transferred or terminated, in line with the Risk Appetite Statement that it "will not take any risk that cannot be assessed, reported or controlled or that, in extremis, could jeopardise the viability of the Bank".

O&ERU monitors transaction and cashing limits, as allocated by the Board Risk Management Committee to the Chief Executive Officer and sub-allocated to General Managers and Line Managers.

Operational risk monitoring encompasses a range of relevant factors such as:
- The size of the potential maximum loss and estimated likelihood of occurrence.
- The nature, complexity and size of related activities, and relevant strategic objectives.
- The possible consequences on profitability from identified operational risks, capital adequacy implications including Pillar II, personnel matters and reputational implications.

Particular emphasis is also given to the management of procedures, personnel training, including the ongoing development of a 'Risk Champions' network, the setting of limits, design of contingency plans and in general promoting an operational risk management culture. To this end, an operational risk awareness program informing the organization of trainings, workshops and information sessions aim to build up a strong operational risk management culture and to inform staff about specific operational risk management tools and processes.

6.3.7 Internal Audit
The Internal Audit Department carries out audit assignments and advises the Board of Directors and the Chief Executive Officer on the appropriateness of the procedures used for the management of Operational Risk. Internal Audit monitors the implementation of the Bank strategy and policy for the management of operational risks.

6.3.8 External Audit
Audits are also being carried out by external auditors and the CBC for the appropriateness and suitability of the procedures used for the management of operational risks.

6.3.9 Capital Requirement
The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk. Under the Basic Indicator Approach (BIA), the own funds requirement for operational risk is equal to 15% of the average of three years of the relevant indicator as set out in Article 316 of the CRR. The relevant indicator is based on the sum of the Group's net interest income and its net non-interest income after certain qualification adjustments. Following the Acquisition, and after obtaining the approval of ECB, the Bank amended the calculation of the relevant indicator under the BIA approach to take into account the acquisition of the perimeter, pursuant to Article 315(3) of Regulation (EU) No 575/2013, by using the three-year forward-looking business estimates for the acquired

perimeter as no historical data of the combined entity is available. The Bank will progressively replace the forward-looking business estimates with historical data once available for the combined entity, in the calculation of the relevant indicator for the operational risk own fund requirements.

The table below presents the minimum capital requirement for the coverage of operational risk:

Operational Risk (€000)		**Minimum Capital Requirement**
Basic Indicator Method		62.807
Total Required Capital		**62.807**

For more information on the operational risk management refer to Note 51 of the Financial Statements for the year ended 31 December 2018.

7. ENCUMBERED AND UNENCUMBERED ASSETS

Encumbered asset is an asset which has been pledged as collateral against an existing liability and as a result is no longer available to the Group for further collateral or liquidity requirements. Unencumbered asset is an asset which has not been pledged against an existing liability.

The total assets which are encumbered are a small proportion of the Group's total assets. There was only one main asset type, cash accounts, which was encumbered at 31 December 2018. Encumbered cash accounts derive from two main sources. The first is due to the CSA agreements signed with counterparties when transacting in derivatives, which is a common practice in the market. The second source is due to a CLS (Continuous Linked Settlements) agreement that the Group has signed as a third party.

In general, the Group, as part of its policy, will not have significant proportions of encumbered assets. However, the Group may decide to pledge the pool of available eligible securities – if conditions change and the need arises – as a possible source of immediate funding for the Group.

The Group does not, in general, pledge the collateral provided by customers to secure additional funding.

The Bank's subsidiaries that fall under the prudential consolidation basis do not have any encumbered assets.

The following table presents the position of encumbered and unencumbered assets of the Bank at 31 December 2018:

Position of encumbered and unencumbered assets (€000)		**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Loans on demand		526	--	4.698.806	--
Equity instruments		--	--	34.638	34.638
Debt securities		38.271	38.980	4.488.157	4.536.765
Loans and advances other than loans on demand		118.814	--	6.164.624	--
Other assets		--	--	582.350	--
Assets of the reporting institution		**157.611**	**--**	**15.968.575**	**--**

The following table presents the position of collateral received in respect to encumbered and unencumbered assets at 31 December 2018:

Position of collateral received in respect to encumbered and unencumbered assets (€000)		**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution		--	14.087.340
Equity instruments		--	34.282
Debt securities		--	244
Other collateral received		--	14.052.714
Own debt securities issued other than own covered bonds or ABSs		--	-

The table below presents the position of encumbered assets and collateral received and associated liabilities at 31 December 2018:

Position of encumbered assets and collateral received and associated liabilities (€000)		**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities		7.725	58.396

8. LEVERAGE RATIO

According to CRR, Article 429, the leverage ratio is calculated as an institution's capital measure divided by the institution's total exposure measure expressed as a percentage.

The leverage ratio of the Group is calculated using two capital measures:
(a) Tier 1 capital: fully phased-in definition.
(b) Tier 1 capital: transitional definition.

According to the Regulation No. 2015/62 of the European Parliament and Council dated 10 October 2014, as at 31 December 2018 the Leverage Ratio[7] for the Group was 5,42% (Bank: 5,40%) compared to 8,57% as at 31 December 2017[8]. The Leverage Ratio[7] on a fully loaded basis for the Group was formed at 5,20% (Bank: 5,19%) compared to 8,09% as at 31 December 2017[8] (fully loaded basis under IAS 39 Group: 8,56%, Bank: 8,54%).

Summary reconciliation of accounting assets and leverage ratio exposures (€000)		**31 December 2018**
Total Assets as per Financial Statements		**16.126.186**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		(61.308)
Adjustments for derivative financial instruments		6.897
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		373.673
Other adjustments		(28.724)
Total leverage ratio exposure		**16.416.724**

Leverage ratio common disclosure (€000)		**CRR Leverage Ratio Exposure 31 December 2018**
Exposure Values		
Derivatives: Current replacement cost		1
Derivatives: Add-on under the mark-to-market method		7.463
Off-balance sheet items with a 10% CCF - in accordance with Article 429 (10) of the CRR		78.582
Off-balance sheet items with a 20% CCF - in accordance with Article 429 (10) of the CRR		46.320
Off-balance sheet items with a 50% CCF - in accordance with Article 429 (10) of the CRR		99.797
Off-balance sheet items with a 100% CCF - in accordance with Article 429 (10) of the CRR		148.974
Other assets		16.104.199
(-) Asset amount deducted - Tier 1 capital - fully phased-in definition		(69.430)
(-) Asset amount deducted - Tier 1 capital - transitional definition		(68.611)
Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital		16.415.905
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital		16.416.724
Capital		
Tier 1 capital - fully phased-in definition		852.542
Tier 1 capital - transitional definition		889.184
Leverage Ratio		
Leverage Ratio - using a fully phased-in definition of Tier 1 capital		5,19%
Leverage Ratio - using a transitional definition of Tier 1 capital		5,42%

Split-up of on balance sheet exposures (excluding derivatives and repurchase transactions) (€000)		**31 December 2018**
Trading Book Exposures		0
Banking book exposures, of which:		16.104.199

Covered bonds		46.592
Exposures treated as sovereigns		8.783.317
Central governments and central banks		8.481.342
Regional governments and local authorities treated as sovereigns		62.868
MDBs and International organisations treated as sovereigns		239.107
PSEs treated as sovereigns		0
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns		9.742
Regional governments and local authorities NOT treated as sovereigns		4.296
MDBs NOT treated as sovereigns		5.395
PSEs NOT treated as sovereigns		51
Institutions		249.176
Secured by mortgages on immovable properties; of which		1.373.751
Secured by mortgages of residential properties		1.007.598
Retail exposures		2.604.902
Retail SME		332.161
Corporate		1.015.303
Financial		27.860
Non-financial		987.443
SME exposures		733.382
Corporate exposures other than SME		254.061
Exposures in default		1.011.132
Other exposures; of which:		1.010.284
Securitisation exposures		7.068
Total on-balance sheet exposures (excluding derivatives and repurchase transactions)		**16.104.199**

The regulatory transitional leverage ratio of the Group has decreased in 2018 as a result of increased exposure due to the ex-CCB acquisition.

8.1 RISK OF EXCESSIVE LEVERAGE

The risk of the excessive leverage is the risk resulting from the Bank's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The Bank employs a traffic light approach for monitoring and managing the risk of excessive leverage by establishing the following thresholds:

- Target Operating Level that amounts to 5% which is 200 bps greater than the expected absolute regulatory minimum.
- Risk Appetite Limit that amounts to 4,75% which is 100 bps greater than the expected absolute regulatory minimum.

The above thresholds are defined in the Bank Risk Appetite Statement and are used for the formulation of the Bank Recovery Plan.

Upon the breach of the Target Operating Level, the Bank will start considering whether the early activation of the relevant recovery options is deemed as appropriate to bring the Leverage Ratio back to the green zone. Upon the breach of the Risk Appetite Limit, the Bank will initiate the procedures that will enable a smooth activation of the Recovery Plan in case it is needed.

It is noted that the leverage ratio is calculated on a quarterly basis and is being reported through the production of the Recovery dashboard that is submitted to the ExCo and BoD.

The table below summarizes the traffic light approach as implemented by the Bank:

Light	Threshold	Actions Required
Green	>5%	None
Amber	≤4.75% AND <5%	Consider the early activation of specific recovery options
Red	≤ 4.75%	Initiate the procedures that will enable a smooth activation of the Recovery Plan

9. ECONOMIC ENVIRONMENT

Economic Environment and Group operations in Cyprus

Cyprus has achieved an impressive turnaround following the 2013 economic crisis as the recovery continued strengthening for sixteen consecutive quarters. The broad-based economic recovery gained considerable momentum in 2017, with real GDP increasing by 4,5%, accompanied by an additional 4,8% increase in 2016. Real GDP in Cyprus increased by 3,9% year-on-year in 2018.

The economy's robust performance can be attributed to private consumption and strong gross fixed capital formation, particularly for large construction and infrastructure projects, as well as to a lesser extent to public consumption. Private consumption benefitted from continued expanding employment across all sectors (which led to a marked decline in unemployment, including long-term unemployment) and rising compensation per employee. Private consumption was also supported by the flourishing tourism sector with positive spillover effects in other sectors of the economy.

From a sectoral point of view, growth in 2018 was mainly attributed to the sectors: Hotels and Restaurants, Retail and Wholesale Trade, Construction, Manufacturing, Professional, Scientific and Technical Activities and Administrative and Support Service Activities. Negative growth rate was recorded by the sector Financial and Insurance Activities. For the period of January – December 2018 revenue from tourism is estimated at €2,7 billion compared to €2,6 billion in the corresponding period of 2017, recording an increase of 2,7%. For 2018, tourist arrivals amounted to 3,9 million compared to 3,7 million in 2017, recording an increase of 7,8% but also exceeding the arrivals that have been previously recorded in Cyprus in one year.

The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. The gradual de-escalation of the unemployment rate in Cyprus is mainly due to the increased employment rate of the last year. In 2017, the unemployment rate stood at 11,3% recording a decrease from 13,0% in the previous year. During 2018, the unemployment rate declined further to 8,4% of the labor force, recording a decrease compared to the same period of the previous year (10,1%). For the period January – December 2018, the inflation increased by 0,8% compared to the same period last year.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The fiscal balance recorded a surplus of €344 million (1,8% of GDP) for 2017 compared with a surplus of €59 million (0,3% of GDP) in the corresponding period in 2016. The preliminary General Government fiscal results for 2018, include the fiscal burden of €1,7 billion, that was the result of the sale of the former CCB to Hellenic Bank, and indicate a deficit of €1,1 billion (-5,1% of GDP) for 2018, as compared to a surplus of €344 million for 2017 (1,8% of GDP). Excluding the fiscal burden of CCB, the fiscal balance would register a surplus of €611 million (+2,9% of GDP).

The Cypriot banking sector downsized significantly during 2018 as a result of Hellenic Bank's acquisition of certain assets and liabilities of former CCB, the carve out of former CCB's non-performing portfolio and the recent sales of loan portfolios by Hellenic Bank and Bank of Cyprus. At the same time, the banking regulatory and supervisory framework have been significantly strengthened. Banks are making progress in restructuring their non-performing loan portfolios. In November 2018, problem loans have been reduced by 60% to €11 billion from a peak of €27 billion, a €16 billion decrease, equivalent to around 80% of the country's GDP.

The housing market continued its adjustment during the third quarter of 2018 bringing the cumulative fall in prices since mid-2008 to approximately 30% (Central Bank of Cyprus's Residential Property Price Index (PPI)). In the third quarter of 2018, the PPI recorded a positive growth rate of 1,6%. According to data from the Department of Land and Surveys, property sales recorded a new increase during 2018. Specifically, sales contracts submitted increased to 9.242 versus 8.734 in the previous year, an annual increase of 6%.

The economic recovery along with the improved domestic financial conditions have created and maintained an environment of improved confidence in the Cypriot banking industry. International credit rating agencies have recently provided higher credit ratings for Cyprus and the country's largest domestic banks. In September 2018, Standard and Poor's upgraded Cyprus' long-term credit rating "BBB-", placing the economy on an investment grade after six years. Subsequently, in October 2018, Fitch upgraded the rating for the Cyprus sovereign to "BBB-" from "BB+". In July 2018, Moody's Ratings upgraded the rating for Cyprus sovereign to "Ba2" from "Ba3", two notches below investment grade. Taking advantage of the stable market backdrop and the recent rating upgrades, in February 2019, the Republic of Cyprus tapped the international capital markets, with an issue of a fifteen-year bond of €1 billion at a yield of 2,75%.

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product during 2018, robust employment growth and further improvement in key domestic indicators. Growth is expected to be supported by private consumption and investment and by an improving and robust labour market. Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high level of NPEs, high unemployment and the high private and public debt, which are however on a steady declining trend. The high level of NPEs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy.

From an exogenous perspective, the economic outlook may be negatively influenced due to the uncertainty surrounding the developments in Italy, a slower than expected growth in Europe, the uncertainty effects of Brexit and a weaker pound, including economic developments in Russia and fluctuations of the rouble against the euro. Also, increased geopolitical tensions in the Middle East and Eastern Mediterranean, could trigger adverse spillovers to economic confidence, tourism and consequently to the aggregate economic activity. At the same time, geopolitical tensions in neighbouring countries render Cyprus a safer tourist destination and could therefore counterbalance, to a significant extent, any potential reduction in tourist traffic from the UK. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored to assess potential prospects and risks as they are evolving.

Cyprus' macroeconomic outlook is positive, with GDP expected to continue growing. According to the baseline macroeconomic scenario, growth is expected to be 3,5% in 2019 and 3,2% in 2020. The pick-up in domestic demand is expected to be reflected in improved labor market conditions with unemployment decreasing to 7,2% in 2019. Inflation in 2019 is expected to remain at relatively low levels, at around 1,2%.

Consequences of the recent developments

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Its size has been reduced to a moderate 2,8 times the GDP or about the EU average. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of NPEs continues to impact banks' balance sheets. The Bank has managed to navigate successfully through the banking crisis. It has retained throughout the crisis its reputation for stability and confidence and is now focusing on strengthening and improving its market position within the Group's strategy of reorganizing and reforming its business model.

On 25 June 2018, the Bank announced that it had entered into an agreement to acquire a business comprising certain assets and liabilities from Cyprus Cooperative Bank Ltd. The Acquisition is a strategic transaction intended to act as a catalyst for the sustainable profitability of the Bank, further enhancing its market position as a primary bank for its clients, while at the same time enhancing the stability of the financial system in Cyprus.

The main pillars of the strategy are the reduction of NPEs, the expansion of new lending, thus increasing the Bank's market share, and the increase of its revenues through other banking activities. Through the creation of the first debt servicing platform in the Cypriot market, the Bank is continuing the efforts for effectively resolving its NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, proven expertise and technical experience of APS Holding. Furthermore, the debt servicing platform allows the Bank to better allocate its resources on managing and growing the performing loan portfolio, by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

The Bank maintains sufficient liquidity which allows the exploitation of opportunities, maintaining its focus on organic growth. The focus of new loans will be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, education, health, manufacturing, tourism and shipping by targeting specific customer profiles. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current customers who are deemed viable.

10. BANK RECOVERY AND RESOLUTION DIRECTIVE (BRRD)

The Bank within the framework of the Bank Recovery and Resolution Directive (BRRD) is subject to the minimum requirement for own funds and eligible liabilities (MREL). The framework, which entered into effect on 1 January 2016, provides authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution’s critical financial and economic functions, while minimising the impact of an institution’s failure on the economy and financial system. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure (that is: “bailed-in”). Such liabilities, in combination with equity, are known as MREL.

The Bank’s MREL requirement, as well as the time framework for compliance, have not been finalised. Nevertheless, the Bank is closely monitoring the developments on this front.

The BRRD, also provides for the Member States to be prepared to handle situations involving both systemic crises and failures of individual institutions, with significant funding implications for credit institutions, which include the establishment of pre-funded resolution funds of 1% of deposits covered under the EU Deposit Guarantee Schemes Directive (DGSD) 2014/49 to be built up by 31 December 2024.

11. 2018 EU-WIDE STRESS TEST

The European Banking Authority (EBA) launched the 2018 EU wide stress test exercise, designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. For the first time, it incorporates IFRS 9 accounting standards. No pass-fail threshold has been included as the results of the exercise are designed to serve as an input to the Supervisory Review and Evaluation Process (SREP) under which decisions are made on appropriate capital resources. The EU-wide stress test is conducted on a sample of 48 EU banks covering roughly 70% of the banking sector in the EU and is run at the highest level of consolidation. The stress test involves the economic conditions under a baseline and an adverse scenario and were published by EBA on 31 January 2018. The EBA published the results of the EU-wide stress test exercise in November 2018.

Appendix 1 – Flow of Risk Information to Management Body for Pillar III

Report Name	Report Description	Responsible Department	Recipient	Frequency
Quarterly Risk Report	Quarterly assessment and measurement of all risks and outlook covering, but not limited to specific CBC requirements. This report includes the Quarterly RAS breaches and/or dashboard.	RMU	BoD, BRMC, CBC	Quarterly
Annual Risk Report	Annual assessment and measurement of all risks and outlook covering, but not limited to specific CBC requirements. This report includes the Annual RAS breaches and/or dashboard.	RMU	BoD, BRMC, CBC	Annually
Annual Information Security Report	Annual summary of important information security risks, security incidents, corrective actions taken as well as outstanding issues which jeopardize the institution's information security	ISF	BoD, BRMC, CBC	Annually
ICAAP	Internal Capital Adequacy Assessment Process	RMU /Finance	BoD, BRMC, ExCo, ECB	Annually
ILAAP	Internal Liquidity Adequacy Assessment Process	MLRU/Finance	BoD, BRMC, ExCo, ECB	Annually
RISK Management Information Report (RISK MIR)	Monthly reports which inform BRMC of key risk-related developments by risk type	RMU	BRMC	Monthly
Customer Watchlist Report	Report with updates on key problematic, pre-arrears and arrears clients captured by the Bank's Credit Monitoring & Control process	CM&C	BRMC	Quarterly to BRMC Monthly to ERM&C
Monthly Report to ALCO	Monthly assessment and measurement of market and liquidity risk	MLRU	ALCO	Monthly
HB Investment Framework monitoring	Monthly monitoring of positions, profitability and risk of bonds portfolio, international lending under the HB Investment Framework	CAEU, MLRU, Treasury, Corporate Development & Products	ALCO	Monthly
Risk metrics within Board of Directors KPI dashboard	Monthly monitoring of the Bank's key performance indicators	RMU/Finance	BoD, ExCo	Monthly
Monthly Customer Credit Risk Portfolio Analysis	Monthly loan portfolio risk assessment of the quality of loan portfolio	CRMU	ERMC	Monthly
Quarterly Impairments	Quarterly detailed presentation of the impairment results	RMU	ImCo/BAC	Quarterly
OER update	Operational Risk issues, events, losses, RCSAs, etc.	OER	ERMC	Monthly
Supplementary Key Risk Indicator Dashboard	Quarterly monitoring of the Bank's loan and investment portfolio	RMU	BRMC	Quarterly
Recovery Dashboard	Report on the Risk Related Recovery and Early warning Indicators	RMU/Finance	ExCo, BoD	Monthly

Report Name	Report Description	Responsible Department	Recipient	Frequency
Review of policies, frameworks and charters		All Managers	Relevant Executive Body Committee, BRMC, BoD	Annually for policies and charters. Every three years for frameworks or more frequent, if this is deemed necessary

BAC	Board Audit Committee
BoD	Board of Directors
BRMC	Board Risk Management Committee
RMU	Risk Management Unit
CAEU	Credit Analysis & Evaluation Unit
CM&C	Credit Monitoring & Control
CRMU	Credit Risk Management Unit
ExCo	Executive Committee
ALCO	Assets & Liabilities Committee
MLRU	Market & Liquidity Risk Unit
CBC	Central Bank of Cyprus
ISF	Information Security Function
OER	Operational and Emerging Risk
ECB	European Central Bank
ERMC	Enterprise Risk Management Compliance & Information Security Committee
ImCo	Impairment Committee

Appendix 2 – References to EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11, version 2)

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