GROUP OF ALPHA BANK CYPRUS LIMITED

PILLAR III Disclosures of the year 2018

(In accordance with Regulation (EU) 575/2013)

ALPHA BANK

1. General Information

Alpha Bank Cyprus Ltd (the "Bank") is indirectly a 100% subsidiary of the Greek bank Alpha Bank AE and member of Group Alpha Bank AE. It operates in Cyprus since 1960, offering a wide range of high-quality financial products and services, for Retail, SME, Corporate and International customers.

The corporate events of strategic importance for the Bank in 2018 were the following:

- The transfer of Eur381 mil. of Non Performing Exposures to a company of the Group.
- The incorporation of wholly owned subsidiaries to support the process of repossessing assets against customers debts (Debt for Assets - DFAS)
- The redemption of a ten year bond of Eur 100 mil.
- The issue of Eur 45 mil. CET 1 capital which was allotted to Alpha Bank AE.

2. Pillar III Disclosures overview

Alpha Bank Cyprus' Pillar III Report is prepared in accordance with disclosure requirements as laid down in Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (Capital Requirements Regulation, or "CRR") and the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (Capital Requirements Directive 4, or "CRD 4") as adopted by Cypriot legislation.

The Bank has been assessed by the competent authority (Central Bank of Cyprus) on 25.10.2018 as Other Systemically Important Institution (O-SII). Due to its classification, the Bank is required to disclose the information of EBA Guidelines paragraph 7 and 8 regarding articles 437,438,440,442,450,451 and 453 thus covering part 8 of EU Regulation 575/2013 (the CRR).

The report was approved by the Board's Risk Committee.

3. Supervision and Regulatory Framework

The Single Supervisory Mechanism (SSM) is a system of financial supervision composed of the ECB and national competent authorities (NCAs). Since November 2014, Alpha Bank Cyprus is supervised through its parent by the SSM. Supervision is overseen along with the support of local supervisory authorities. The Central Bank of Cyprus within the context of its supervisory role, has adopted the European Guidelines for banking supervision.

The European banking regulatory framework, applicable to financial institutions in the European Market, covers areas such as capital adequacy, recovery and resolution, internal governance, internal control system and supervisory reporting. The framework on prudential requirements and prudential supervision is effective from 1st January

2014 and includes EU directive 2013/36 (CRD), and the EU Regulation 575/2013 (CRR).

Based on the Macroprudential Oversight Institutions Law of 2015 the Central Bank of Cyprus as the competent authority responsible for macro-prudential oversight of the financial system, determines on a quarterly basis the levels of countercyclical capital buffer, according to the methodology described in the Law.

According to the framework the minimum own funds requirements are as follows:
On top of the minimum own funds requirements, capital buffers will be gradually implemented from 1.1.2016.
In particular:

- Capital Conservation buffer up to 2,5%
- O-SII buffer from 1% up to 3%
- Countercyclical buffer from 0% up to 2,5%

Regarding O-SII buffer, Central Bank of Cyprus conducts a scoring process, yearly, based on the consolidated FINREP/COREP data. According to this process, the Bank should comply with a buffer of 0,5% by 2022, applying 0,125% phase-in percentages starting from 2019.

For 2018 and 2019 the Central Bank of Cyprus, set the countercyclical buffer at zero per cent (0%).

4. Capital Management

The Bank's capital strategy commits to maintain sound capital adequacy levels, both from economic and regulatory perspective. It aims at monitoring and adjusting Bank's capital levels, in an effort to achieve the optimal balance between the economic and regulatory considerations.

The overall Bank's Risk and Capital Strategy sets specific risk limits, based on management's risk appetite, as well as thresholds to monitor whether actual risk exposure deviates from the limits set.

Main elements impacting Asset Quality, Capital and Liquidity

Amounts due to customers on 31 December 2018 amounted to Euro 2.212,8 million, compared to Euro 2.204,9 million on 31 December 2017, presenting an increase of 0,4%. The net loans to deposits ratio was improved to 69,6% on 31 December 2018, from 78,7% on 31 December 2017.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood at Euro 1.285,9 million and accounted for 57,0% of gross loans, compared to 65,6% in 2017. On 31 December 2018, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 55,5% compared to 51,8% on 31 December 2017.

Net Interest income in 2018 amounted to Euro 50,2 million, presenting a decrease of 21,6% compared to Euro 64,0 million in 2017. The decrease is mainly attributed to the decrease of the loan portfolio and the decrease of the loans interest rates.

Total income of the Group amounted to Euro 63,6 million in 2018, compared to Euro 77,1 million in 2017. The total decrease of income during 2018 of 24,1% is mainly attributed to the decrease of the loan portfolio and the decrease of the loans interest rates.

Total expenses of the Group for 2018, amounted to Euro 55,7 million, compared to Euro 54,5 million for the previous year. The increase of total expenses is mainly due to the increase of staff costs driven from the collective agreements with the Union. Cost to income ratio, is 87,5% for 2018 compared to 70,7% in 2017.

Impairment loss and provisions to cover credit risk were decreased in 2018 by 78,4%, to Euro 23,2, compared to Eur107,3 million in 2017. The decrease is the result of the efforts to improve the Balance Sheet structure.

Accumulated impairments to cover credit risk for on balance sheet balances amounted to Euro 714,0 million on 31 December 2018, covering 31,7% of gross loans, representing a decrease of 20,1% compared to 31 December 2017. Accumulated impairments include the fair value adjustment of the loan portfolio acquired at fair value, as well as exposures that were initially designated as Purchased or Originated Credit Impaired (POCI).

Net loans and advances to customers on 31 December 2018 amounted to Euro 1.540,8 million, down 11,2% compared to Euro 1.734,8 million at December 31, 2017. The main reason relates to the transfer of net loans of Euro 202 million within 2018 to a company of Alpha Bank SA.

On 18.7.2018 the Bank issued Euro 45 million share capital which was subscribed by Alpha Bank S.A

4.1 Capital Ratios

The Capital Adequacy Ratio is calculated as the result of the Bank's regulatory capital (own funds) to its risk-weighted assets. Regulatory capital includes CET1 capital (share capital and reserves), additional Tier 1 capital (hybrid securities) and Tier 2 capital (subordinated debt). Risk-weighted assets include the credit risk of the banking book, the market risk of the trading book, the operational risk, the counterparty credit risk/CCR and credit valuation adjustment/CVA. The Bank has no market risk or CCR for the year 2018.

At the end of December 2018, Alpha Bank Cyprus 's CET1 stood at approx. Euro 277 million; RWAs amounted to Euro 1.672 million resulting in a CET1 ratio of 16,6%, and Capital Adequacy Ratio of 20,6% up by 216 bps y-o-y, positively affected by the transfer of loans and the issue of capital.

The Bank operates well above regulatory ratios set for the year 2019.

Table 1. Capital Adequacy Ratios	(in Euro million)	
Capital Type	**31.12.2018**	**31.12.2017**
CET1	277	252
Additional Tier 1 Capital	64	64
Additional Tier 2 Capital	3	14
Total Regulatory Capital	344	330
Risk Weighted Assets	1.672	1.822
Capital Ratios		
CET1 Ratio	16,56%	13,8%
Tier 1 Ratio	20,38%	17,3%
Capital Adequacy Ratio (Tier 1 + Tier 2)	20,59%	18,1%

On December 2017, the ECB informed Alpha Bank Cyprus that according to its Supervisory review and Evaluation Process (SREP) the minimum limit for the Overall Capital Requirement (OCR) for 2018 is 12,875%, increased by 0,625% compared to 2017, due to the gradual increase of the capital conservation buffer.

On February 2019, the ECB informed Alpha Bank Cyprus that according to its Supervisory review and Evaluation Process (SREP) since 1st March 2019 the minimum limit for the Overall Capital Requirement (OCR) is 13,625% increased by 0,75% compared to 2018, due to the fully phased-in capital conservation buffer (0,625%) and the O-SII gradual implementation of 0,125%.

The OCR is composed by the minimum own funds requirements (8%), according to article 92(1) of the CRR, the additional Pillar II own funds requirements (P2R), according to article 16(2) (a) of the Regulation 1024/2013/ EU, and the combined buffer requirements (CBR), according to article 128(6) of the Directive 2013/36/EU.

The above minimum ratios should be maintained on a phase-in basis under applicable transitional rules under CRR/CRD IV, at all times.

4.2 IFRS9 Capital Impact

On December 12, 2017 the EU adopted Regulation No 2395/2017of the European Parliament and of the Council amending EU Regulation 575/2013, as regards transitional arrangements to mitigate the impact of the introduction of IFRS 9 on regulatory capital and leverage ratios. The new Regulation inserts a new article 473a in CRR 575/2013 which introduces a 5-year transitional period which allows banks to add to the CET1 ratio the post-tax amount of the difference in provisions that resulted from the transition to the IFRS 9 in relation to the provisions that have been recognized at 31.12.2017 in accordance with IAS 39 ("Static" amount). The weighting factors were set per year at 0.95 in 2018, 0.85 in 2nd, 0.7 in 3rd, 0.5 in 4th and 0.25 in the last year

The Bank has decided to make use of Article 473a of the of the above Regulation and applies the transitional provisions.

The table below shows a comparison of own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9.

Table 2.: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs	(in Euro million)
Available capital (amounts)	**31.12.2018**
CET1 capital	277
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	228
Tier 1 capital	341
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	292
Total capital	344
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	295
Risk-weighted assets (amounts)	
Total Risk-weighted assets	1.672
Total Risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1.624
Capital ratios	
CET 1 ratio (%)	16,56%
CET1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.02%
Tier 1 ratio (%)	20,38%
Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,96%
Total ratio (%)	20,59%
Total ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18,17%
Leverage ratio	
Leverage ratio total exposure measure	2.710
Leverage ratio	12.58%
leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,83%

A detailed description of IFRS 9 implementation as well as the effect from its adoption is included in note 41 of 2018 Financial Statements.

4.3 Capital Buffers

The countercyclical capital buffer (CCyB) is a CRD IV requirement, designed to help counter pro-cyclicality in the financial system. Credit institutions are required to set aside additional common equity tier 1 capital during periods of excessive credit growth. This will help maintain the supply of credit and dampen the downswing of the financial cycle. The main purpose of the CCyB is to increase the banks' resilience in good times to absorb potential losses that could arise in a downturn and to support the continued supply of credit to the real economy. According to Central Bank of Cyprus, as National Competent Authority, during 2018, the countercyclical buffer was set at 0%. CCyB is also currently 0% in most other countries in which Alpha Bank has significant exposures. The total CCyB for Alpha Bank Cyprus is approximately zero.

4.4 Own Funds

On 31.12.2018 the Bank’s share capital amounts to Euro 180.694.153 divided to 212.581.357 ordinary shares with voting rights with nominal value of Euro 0,85 and a share premium of Euro 102.661.420. During 2018 the Bank issued 38.107.179 new ordinary shares of nominal value Eur0,85 with a premium, at the price of Eur1,17. All shares were allotted to Alpha Bank AE, thus increasing its participation from 98,7% to 98,9%. The Bank recognized additional premium of Eur12 mil. Further analysis of the share capital and share premium is provided in notes 27 and 29 of 2018 Financial Statements.

Additional Tier I capital mainly consists of hybrid securities. The amount included as part of Tier I for 2018 stands at Euro 64 million

Tier II capital amounting to Euro 3.4 million consists of Bonds issued by the Bank and are held by Alpha Bank Group companies.

Subordinated issued Bonds are amortised according to the provisions of CRR575/2013

The Bank's total capital adequacy on 31 December 2018 stands at 16,6% which exceeds the minimum capital requirements of Pillar I and Pillar II, providing the Bank with significant capital buffer. It is noted that the Pillar II capital requirement assessment is performed annually by the supervisory authority, with a specific supervisory process that is dynamic as it is subject to change over time.

The following table presents the analysis of Own Funds structure, as defined in CRR575/2013:

Table 3. Own Funds Structure	(in Euro million)	
Type	**31.12.2018**	**31.12.2017**
Share capital	181	148
Share premium	103	91
Accumulated other comprehensive income (and other reserves)	-30	112
Reserves & Retained Earnings	-35	107
AFS reserves	5	5
Adjustments due to IFRS 9 transitional adjustments	**53**	
PVA	**-**	**-**
Common equity tier 1 capital before regulatory adjustments	**307**	**351**
Loss for the year	-19	-87
Intangible Assets	-2	-1
DTA	-9	-12
Other transitional adjustments	-	-
Total regulatory adjustments to common equity tier 1	**-11**	**-13**
Common equity tier 1 capital (CET1)	**277**	**251**
Hybrid instruments	64	64
Additional Tier I before regulatory adjustments	**64**	**64**
Hybrid instruments transitional adjustments	-	-
Total regulatory adjustments to additional Tier I	-	-
Additional Tier I (AT1)	**64**	**64**
Tier I Capital (CET1 + AT1)	**341**	**315**
Subordinated loan	3	14
Tier II capital before regulatory adjustments	3	14
Total regulatory adjustments to Tier II	0	0
Tier II capital	**3**	**14**
Total Capital (TC = Tier I + Tier II)	**344**	**329**
Total RWA	**1.672**	**1.822**
Common equity tier 1 Ratio	**16,6%**	**13,8%**
Tier I Ratio	**20,4%**	**17,3%**
Capital Adequacy Ratio (Tier I + Tier II)	**20,6%**	**18,1%**

The following table shows the capital instruments issued by the Bank and are held by Alpha Bank Group companies through private placement and are presented with their basic characteristics.

Table 4. Other capital instruments held by Alpha Bank Group		2018		
1	Issuer	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd
2	Unique identifier	N/A	N/A	N/A
3	Governing law(s) of the instrument	Cyprus	Cyprus	Cyprus
	Regulatory treatment			
4	Transitional CRR rules	N/A	Tier II	Tier II
5	Post transitional CRR rules	Additional Tier I	Tier II	Tier II
6	Eligible at solo/(sub-) consolidated/solo & (sub) consolidated	Solo / Cons	Solo / Cons	Solo / Cons
7	Instrument type (types to be specified by each jurisdiction)	Tier I	Tier II	Tier II
8	Amount recognised in regulatory capital (currency in million, as at 31.12.2018	€64	€0,2	€3,2
9	Nominal amount of instrument	€64mil	€3,9mil	€16,0mil
9a	Issue price	100%	100%	100%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost
11	Original date of issuance	1.11.2013	18.12.2009	3.3.2011
12	Perpetual or dated	Perpertual	Liability – Amortised cost	Liability – Amortised cost
13	Original maturity date	-	18.12.2019	3.3.2021

4.5 Capital Requirements

The Bank calculates and reports to the designated authorities its capital requirements (Pillar I RWAs) according to the provisions of the CRR and implementing the Technical Standards developed by the EBA.

For the capital requirements of Pillar I, the bank applies the standardized approach for credit risk and operational risk. The Bank does not have any capital for market risk.

The total risk-weighted assets of the Bank amounted to Euro 1.672 million on 31.12.2018. Out of this amount, Euro 1.536 million is related to Credit risk and Euro 136 million to operational risk.

The objectives of the Bank's capital management policy is to ensure that the Bank has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements.

The capital adequacy requirements set by the SSM / ECB, are used by the Bank as the basis for its capital management. The Bank seeks to maintain sufficient capital to ensure that these requirements are met.

On 4.7.2018 the Bank transferred the receivables (risks and rewards) of Non Performing Exposures of gross value Euro381 million to an Alpha Bank Group Company.

On 18.7.2018 the Bank issued Euro44.6 million share capital which was subscribed by Alpha Bank S.A

Both above actions have positively impacted the Bank's Capital Adequacy.

The Bank on 30.05.2018 has redeemed Euro100 millions of Tier II bond as per the Bond terms of issue.

The following table summarises Risk Weighted Assets (RWA) and minimum capital requirement by risk type. Minimum capital requirement is calculated at 8% of RWA

Table 5. EU OV1 – Overview of RWAs 2018	**(In Euro million)**	
Risk Category	RWAs	Minimum capital requirements
Credit Risk (excluding CCR)	1.536	123
Of which standardized approach	1.536	123
Operational risk	136	11
Of which standardised approach	136	11
Total	1.672	134

Table 5. EU OV1 – Overview of RWAs 2017	(In Euro million)	
Risk Category		
	RWAs	Minimum capital requirements
Credit Risk (excluding CCR)	1.661	133
Of which standardized approach	1.661	133
Operational risk	161	13
Of which standardised approach	161	13
Total	1.822	146

5. Leverage

The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and it is a binding requirement from the beginning of 2018. The 'risk of excessive leverage' means the risk that results from an institution'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 level of the leverage ratio with reference date 31.12.2018 was 12,6%, (31.12.2017: 11,4%) according to the transitional definition of Tier 1 capital significantly over the 3% minimum threshold applied by the competent authorities, implying that the Bank is not taking on excessive leverage risk.

In the table below, the Bank's leverage ratio is presented:

Table 6. Summary reconciliation of accounting assets and leverage ratio exposures (in Euro million)		
	2018	2017
Total assets as per published financial statements	2.614	2.745
Transitional adjustments due to IFRS 9	53	-
Adjustments for derivative financial instruments	4	(2)
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	49	38
Other	-10	-
Leverage ratio total exposure measure	**2.710**	**2.781**

Table 7. Leverage ratio common disclosure

(in Euro million)

	2018	2017
On-balance sheet exposures (excluding derivatives and SFTs)	**CRR leverage ratio exposures**	**CRR leverage ratio exposures**
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2.609	2.318
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**2.609**	**2.318**
Derivative exposures		
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	4	5
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		-7
Total derivatives exposures (sum of lines 4 to 10)	**4**	**5**
SFT exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		
Counterparty credit risk exposure for SFT assets	48	427
Total securities financing transaction exposures		
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	189	168
(Adjustments for conversion to credit equivalent amounts)	-140	-130
Other off-balance sheet exposures	**49**	**38**
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
Capital and total exposure measure		
Tier 1 capital	341	316
Leverage ratio total exposure measure	2.710	2.781
Leverage ratio		
Leverage ratio	**12,6%**	**11,4%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013		

Table 8. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		(in Euro million)
	31.12.2018	31.12.2017
On-balance sheet exposures (excluding derivatives and SFTs)	**CRR leverage ratio exposures**	**CRR leverage ratio exposures**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**2.609**	**2.318**
Banking book exposures, of which:	2.609	2.318
Exposures treated as sovereigns	771	363
Institutions	143	144
Secured by mortgages of immovable properties	333	281
Retail exposures	170	220
Corporate	471	361
Exposures in default	546	746
Other exposures	175	203

The bank submits to the regulatory authorities the leverage ratio on a quarterly basis and monitors the level and the factors that affect the ratio.

ALPHA BANK

6. General Information on Risk Management

Alpha Bank Cyprus is fully committed to applying the best practices and achieving the highest standards of corporate governance in every aspect of its business, including risk management.

Risk management is essential to promoting the Bank's and Group's strategic, business and financial objectives and forms an integral part of the business strategy-setting process, including the business planning process and the risk appetite policy, as it defines the maximum acceptable risk appetite regarding each type of risk.

Risk management comprises a broad framework of policies and procedures on the undertaking, assessment, monitoring and treatment of the various risks affecting the activities of the Bank. Particular emphasis is placed on the continuous monitoring of the framework and the overall management of the various risk types, as well as on the determination of the acceptable risk appetite during the process of business decision-making and target setting.

ABC commits to achieving a robust control environment and a distinctive risk management capability that enables business units to meet their performance objectives and to achieve continuous improvement in the area of risk management. ABC undertakes regular risk assessments for the different risk types and particularly as part of the strategic planning process.

The key risk categories for ABC include credit risk liquidity risk, country risk and operational risk. In order to ensure that the impact of the said risks on the Bank's and the Group's financial results, long-term strategic goals and reputation is minimized, the Bank and the Group apply identification, forecasting, measurement, monitoring, control and mitigation practices for the highest as well as for emerging risks, through an internal governance process based on the use of credit tools and risk management processes.

The Bank's strategy in line with Alpha Bank Group's strategy for risk management and risk undertaking is strictly aligned with the best international practices, as well as with the current legislation and the regulatory and supervisory rules, while it evolves continuously through the development of a single risk management culture, which is shared across the Bank and the Group.

Effective risk management maximizes the opportunities for the Bank in the markets it operates and enhances its competitive position by building trust. Integrating sound risk management practices into the daily management of business and strategic planning gives the Bank a strategic competitive advantage.

6.1 Risk Management Framework and Principles

The Bank has established a thorough and prudent risk management framework which is built on best supervisory practices and which, based on the common European legislation and banking system rules, principles and standards, is evolved over time in order to be implemented on the Bank's conduct of the day-to-day business and to ensure the effectiveness of its corporate governance.

The Bank's main focus in 2018 was to maintain high standards of corporate governance and compliance with regulatory risk rules and retain confidence in the conduct of its business activities through sound and robust provision of financial services

The main objective of the risk management framework in place is to ensure that the outcomes of risk-taking activities are consistent with the Group and Bank strategy and risk appetite, and that there is an appropriate balance between risk and reward.

Through its risk management framework, the Bank aims to:

- Support its business strategy by ensuring that business objectives are pursued in a risk controlled manner in order to achieve earning stability by protecting against unforeseen losses
- Establish a management model that ensures a global and interrelated view of all risks, through an environment of control and robust monitoring of risks
- Support the decision making processes, by providing the necessary risk related perspective
- Ensure an adequate and sufficient availability of staff, systems and tools that guarantee maintaining a risk profile compatible with the established risk appetite.

The Bank's risk management framework comprises of:

- A risk management strategy that:
    - Sets ABC's risk management objectives, key risk management principles, overall risk appetite and assignment of responsibilities for risk across all the activities of the Bank
    - Is consistent with the Bank's overall business strategy
- Adequate written policies that:
    - Include a definition and categorization of the material risks faced by the Bank, by type, and the levels of acceptable risk limits for each risk type
    - Implement the Bank's risk strategy
    - Facilitate control mechanisms
    - Take into account the nature, scope and time horizon of the business and the risks associated with it
- Appropriate processes and procedures which enable Bank to identify, assess, manage, monitor and report the risks it is or might be exposed to.

ABC's risk management framework, including the risk governance in place, is subject to constant evaluation in order to ensure that it meets the challenges of the environment in which the Bank operates as well as that it complies with current regulatory requirements and industry good practices / standards.

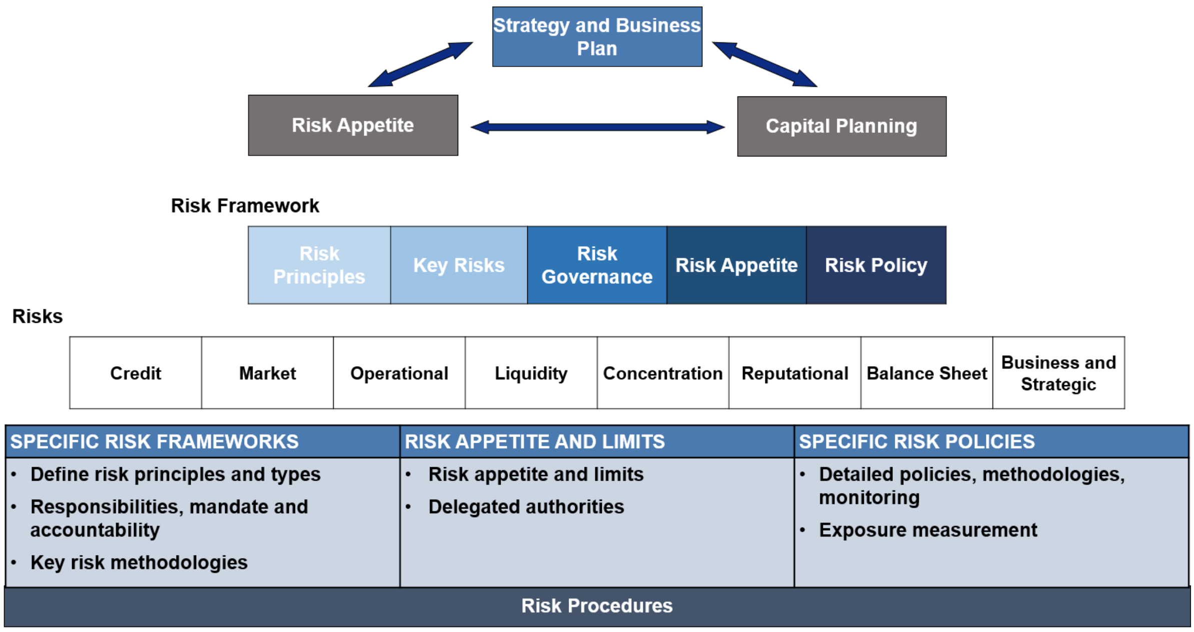

Figure 1: Risk Management Framework

6.2 Risk Appetite Framework

The Risk Appetite Framework (RAF) constitutes a major component in the Bank's overall approach to the risk and capital strategy, including policies, processes, controls and systems through which risk appetite is established, communicated throughout the Bank and monitored. The RAF includes the risk appetite statement (RAS), risk limits and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF, ensuring the alignment of the Bank's corporate and business strategy, the financial and capital planning and the risk management framework.

For the formulation of the RAF, the Bank follows a top-down approach which ensures that:

- top management is engaged in the process and gives the "tone at the top", in order to integrate risk appetite into risk culture
- risk appetite reflects a "forward looking" view, allowing top management to incorporate the Bank's business strategy into risk taking business activities;
- the Bank's top management adheres to the principles of RAF;
- Different stakeholder perspectives and various risk types are considered
- the Bank's RAF is aligned with the Group strategic targets

The primary responsibility for establishing the Bank's RAF lies with the BoD and Board Risk Committee while the overseeing development of respective framework can be considered as a joint engagement among the Managing Director, the General Manager

Risk, the Head of Financial Services, the Head of MIS and Planning and Heads of Business Units within the Bank.

These distinct roles convert the BoD's appetite into specific risk appetite limits of RAF pertinent to the Bank and the Group. The effective collaboration among all involved parties is the cornerstone in establishing and maintaining a robust RAF. In that sense, relative roles and responsibilities are distinctively determined.

Breaching a risk appetite limit serves as an alert for Management, which should take action to remedy a breach and reconsider its risk position. The Bank has set processes and mechanisms to monitor and take action when needed in order to ensure the Bank's business model and risk profile's sustainability, according to the Management's perception. If override is needed, upon any breach of risk limits, final approval is provided by upper hierarchical level as appropriate.

The effective expression of Risk Appetite aids the Bank in running businesses by providing guidance on acceptable levels of risk while pursuing strategic objectives, thus providing a significant link in achieving the most efficient balance between risk and return.

6.2.1 Risk appetite statement (RAS)

The purpose of the RAS is to identify and quantify risks in a structured way that relates them to the Bank's strategy and business objectives. In this respect, the RAS provides the level of a particular risk that the Bank may undertake in pursue of its strategic objectives.

Alpha Bank Cyprus RAS is based on four pillars:

- Pillar I: Capital Adequacy Risks
- Pillar II: Liquidity and Market Risks
- Pillar III: Asset Quality Risks
- Pillar IV: Profitability Risks

The objectives of each pillar are supported by a set of indicators which provide Management and the Board of Directors with information in relation to potential shifts in risk conditions or new emerging risks which may affect these objectives and enable better monitoring. Such shifts in risk conditions or new emerging risks may signal issues developing internally within the operations of the Bank or potential risks emerging from external events, such as macroeconomic shifts that affect the performance of the loan portfolio, thereby enabling Management and the Board to be in a better position to manage events that may arise in the future on a more timely and strategic basis.

The RAS is formulated through:

- Qualitative statements which translate strategy into risk management objectives; these statements aim to bring out the underlying risk appetite for each risk appetite pillar (please refer to Figure below);
- Ratios and indicators that facilitate adherence to and monitoring of goals set. Indicators are derived taking into account a) thresholds set by Regulators, b) the Restructuring Plan, c) industry best practices and standards, d) internal Key Performance Indicators ("KPIs"), preferences and safeguards;
- Risks to which the Bank has a low or no tolerance against.

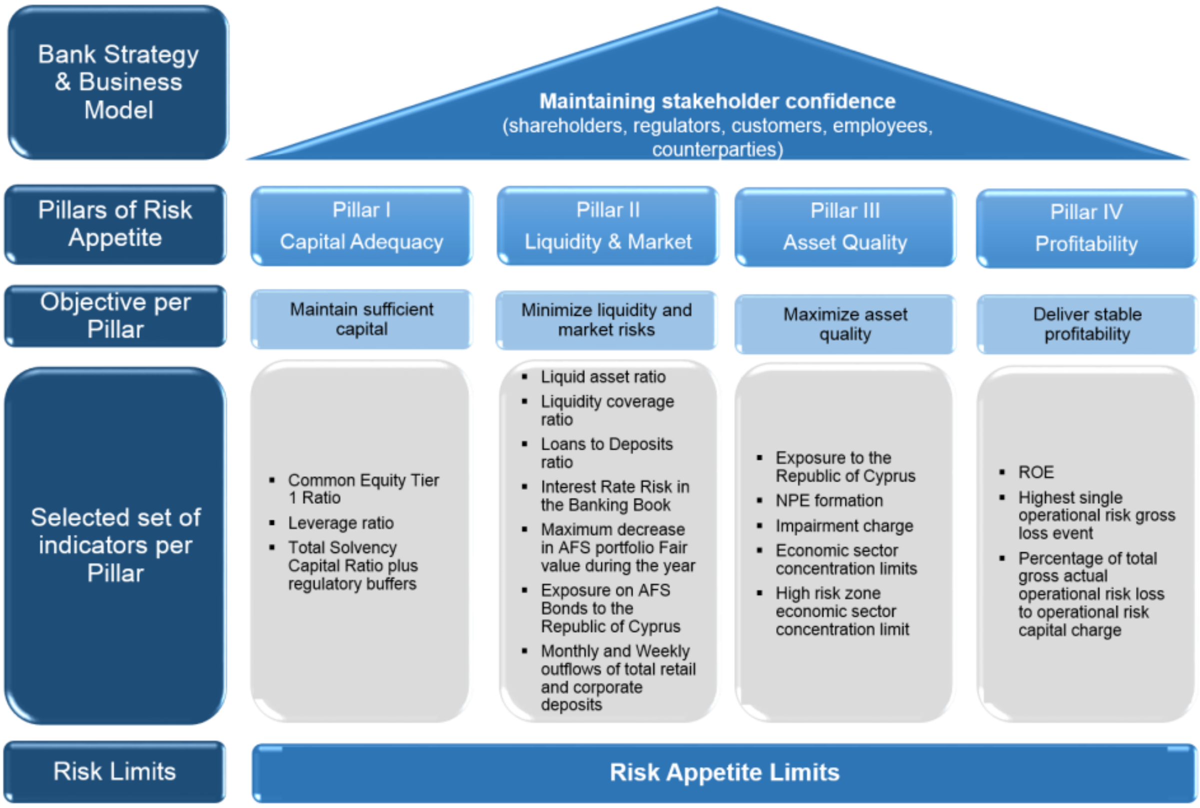

Figure 2: RAS pillars

6.3 Risk Governance and Culture

The Bank, in alignment with Alpha Bank Group, has set a robust internal governance framework which includes a transparent organizational structure, a management body that is responsible for proper risk management processes and for strong internal control system and ensures that the Bank holds sufficient capital to meet both its own funds requirements and its internal capital targets.

The risk governance of the Bank forms an integral part of the Risk Management and Appetite Framework and is organized in a way that ensures the establishment of clear responsibility boundaries, the proper segregation of duties and the avoidance of conflicts of interest at all levels, including the BoD, Senior Management, Risk Divisions and Business Units.

The Bank's risk governance framework is organised according to the "Three Line of Defence Model" as this is illustrated in the diagram below. It also follows the principles of the consultative document regarding "Guidelines on Corporate Governance Principles for Banks" published by BCBS in July 2015 and the Central Bank of Cyprus's Directive on Governance and Management Arrangements in Credit Institutions of 2014.

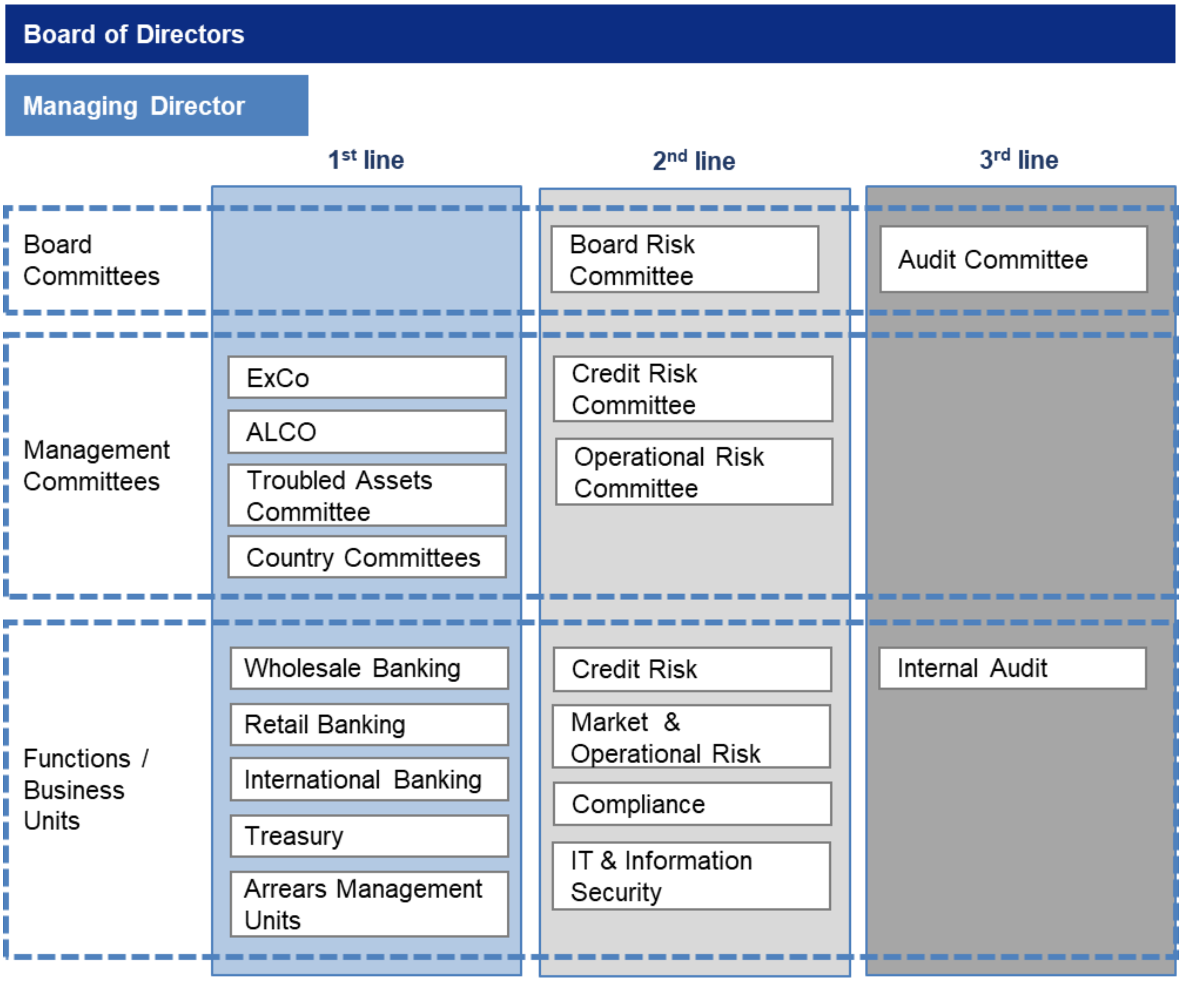

Figure 3: Three lines of defence model

The First Line of Defence consists of the revenue-generating business units (Retail, Wholesale and International Banking Divisions, Treasury and the Arrears Divisions), who have ownership of the risks inherent in the activities they conduct. These units are assigned basic control and risk management responsibilities, maintaining a dual role of generating business for the Bank, while remaining cognisant of the associated risks and controls. The front line undertakes risks and is responsible and accountable for the ongoing management of such risks. For the front line, controls are very granular and based on individual transactions, thus allowing them to be in a better position to identify, assess and report risks, taking into account the Bank's risk appetite, relevant policies, procedures and controls.

The second line of defence consists of the various control functions - Risk Division (Credit Risk Division, Market and Operational Risk Division), the Compliance Division and the IT & Information Security Division, whose key duties are to monitor and report risk related practices and information, and to oversee compliance and financial controlling issues.

Given the second line's independence from the first line, the aforementioned functions are responsible, amongst others, for overseeing the Bank's risk-taking activities and assessing risks. They take a preventive and detective role, ensuring that controls, risk identification, assessment, reporting and mitigation are embedded in the policies and procedures of the first line.

The second line of defence also refers to the risk management activities performed by the second line risk committees at the Management and Board level; their responsibilities include the approval and oversight of the implementation of risk policies and the establishment of systems and controls so that the overall level of risks and the relationship between risk and reward remain within acceptable levels.

Finally, the Third Line of Defence which represents the next level of control is comprised of the internal audit function. Amongst other things, it provides independent review and objective assurance on the quality and effectiveness of the risk management framework, including links to organisational culture, as well as strategic and business planning, compensation and the decision-making processes.

The Internal Audit Division conducts regular internal audits of the processes and procedures applied for managing risks in order to assess their effectiveness. The results of these audits are summarized in reports submitted to Senior Management and the BoD, through the Audit Committee.

The three lines of defence are supported by critical units, such as MIS and Planning, the Financial Services Division, Legal and Operations.

Moreover, Group oversight and support from the corresponding Group functions is provided through effective communication and the Group's implementation of the three lines of defence framework.

The Board of Directors of the Bank as well as the Executive Management and the Committees of the Bank have separate and distinct roles in providing the final and ultimate levels of defence, ensuring the effective implementation of the group-wide risk management Framework and policies within the Group.

Board of Directors

The Bank is headed by the Board of Directors and managed by the Chief Executive Officer (CEO) who is also an executive member of the Board. The main tasks of the BoD include the following:

- Pursue the strengthening of Bank's long-term economic value and the protection of the Bank's interests;
- Develop an appropriate system of internal controls to ensure that the Bank's Management understands the nature of risks associated with its operations as well as the need for effective management of such risks and the importance of audit procedures;
- Formulate and review (at least on an annual basis), the strategy and targets of the Bank to ensure that they remain comprehensive and proportional to the nature size and complexity of the Bank as well as the broader economic environment;
- Review and approval of the strategic Business Plan;
- Ensure the efficiency of the risk management strategy, internal audit and continuous compliance with the regulatory framework;
- Determine and oversee the implementation of governance arrangements to ensure the effective management of the Bank, including segregation of duties and prevention of conflicts of interest;

Board Risk Committee (BRC)

The Committee consists of three (3) board members: the Chairman and two non-executive members appointed by the Board of Directors, one of which is independent. The Board may appoint alternate members from the same category of membership.

The BRC recommends to BoD the risk taking and capital management strategy which corresponds to the business objectives of the Bank and is responsible to monitor its implementation. The main duties of the BRC are summarised below:

- Oversees and monitors the strategy for all types of risks, in accordance to the Bank's strategy and policies;
- Assists the management body in overseeing the effective implementation of an internal risk management framework;
- Advises the management body on principles governing risk management;
- Evaluates the adequacy and effectiveness of the Bank's risk management framework, in terms of undertaking, monitoring and management of risks per category of transaction and customer as well as per risk level (i.e. country, profession, and activity);
- Advises the management body on the applicable risk appetite on an aggregate basis for each type of risk and further allocates each of these limits per country, sector, currency, business unit;
- Oversees the execution of periodic stress tests (at least on an annual basis) for credit, market and liquidity risk, as well as reviews the equivalent measures for the operational risk.

Audit Committee

The Committee consists of three (3) board members: the Chairman and two members (non-executive) appointed by the Board of Directors. The majority of the members, as well as the Chairman, need to be independent. Meetings are held at least on a quarterly basis. Audit Committee's duties and responsibilities are set to comply with the Central Bank of Cyprus' respective Directive regarding internal governance framework, and include the following:

- In cooperation with the Directors of the Audit and Compliance Divisions, and the external auditors, the Committee examines of the control programs, audit reports, framework required reports and the adequacy of the Bank's internal control system as a whole. Relevant recommendations are forwarded to the Board of Directors;
- Examination and recommendation to the Board for issues related with appointment, tenure, remuneration, or termination of service of external Auditors;
- Review of the Bank's Financial Statements (along with the Board's Report), prior to submitting it to the Board for approval.

Committees at the Executive Management Level

The Executive Committee (ExCo)

The ExCo is mandated by the BoD to review and approve the risk management policies and credit policies and ensures that along with the risk management strategy and appetite are incorporated in the Bank's business decision making process and to assign responsibilities arising from the Risk Management Framework.

The Bank's ExCo in its capacity as the senior management of the Bank is responsible primarily to recommend to the BoD, through the Managing Director, the risk appetite framework, which should be consistent with the business and risk strategy of the Bank

Assets and Liabilities Committee ("ALCO")

The ALCO of the Bank is responsible for managing the asset and liability portfolio structure in order to ensure prudent balance sheet management in accordance with the Bank's business strategy. Within this context, ALCO examines and decides on issues related to Treasury and Balance Sheet Management and monitors the evolution of the results, the budget, the funding plan, the capital adequacy and the overall financial volumes of the Bank approving the respective actions and policies. In addition, ALCO approves the interest rate policy, the structure of the investment portfolios and the total market, interest rate and liquidity risk limits.

ALCO is responsible for monitoring and approving key market and liquidity risk indicator limits. It is also responsible to review relevant market and liquidity limit breaches that are escalated to by the Market and Operational Risk Division and approve proposed mitigating action.

Credit Risk Committee

The Credit Risk Committee (CRC) has the primary responsibility for assessing the adequacy and effectiveness of the Bank's credit risk management framework and taking decisions for the determination and implementation of actions that aim towards the mitigation of the exposure of the Bank to credit risk.

The CRC is responsible for approving key credit risk indicators / limits and for their regular monitoring. It is also responsible to review credit risk limit breaches that are escalated by the Credit Risk Division and approve mitigating actions proposed by the risk owners.

The Committee also approves the Credit, Impairment and Write-off policies for Wholesale, Retail and International Banking.

Operational Risk Committee

The Operational Risk Committee of the Bank has an oversight role in operational risk management. It approves the Bank operational risk management policy and ensures that the appropriate operational risk governance structure (including existence of a formal

Operational Risk Management Department), as well as operational risk management procedures, methodologies, infrastructure and limits are in place.

The Operational Risk Committee is responsible for approving key operational risk indicators and limits, monitoring operational risk profile against limits set and review breaches escalated towards the Committee by the Market and Operational Risk Division

The Troubled Assets Committee ("TAC")

The Troubled Assets Committee addresses issues related to the portfolios managed by the Retail Banking Arrears Division and the Wholesale Banking Workout Division in order to achieve the business objectives set by the Bank and the Group.

The Committee is also responsible for the formulation, evaluation and initial approval of the Arrears Management Strategy both for Retail and Wholesale Arrears Division, the initial approval of the annual Budget, Business Plans and targets set in the Retail Banking Arrears Division and the Wholesale Banking Workout Division as well as for the monitoring, control and evaluation of the level of achievement of the approved Budget, Business Plan and targets set for both the Arrears Divisions.

Risk Divisions

The Risk Divisions are headed by the General Manager Risk who reports directly to the Risk Committee of the Board and organizationally to the Managing Director. The two divisions are independent and are audited by the Internal Audit Division as to the adequacy and effectiveness of risk management procedures. Risk Divisions have a direct reporting line and are in close cooperation with the respective Divisions of the Group.

The duties and responsibilities of the General Manager Risk include:

- Oversight of all activities in relation to risk management;
- Overall responsibility of the structure, management and operational effectiveness of Risk Divisions;
- Assignment of responsibilities and duties to each Risk Division and coordination of risk related activities;
- Evaluation of processes and procedures followed by the Risk Divisions ;
- Communication of all significant events and developments regarding the risk profile and risk management of the Bank to the Board of Directors through regular and ad-hoc reports.

Market and Operational Risk Division

The Market and Operational Risk Division, is responsible to provide analyses and expert judgment on market, liquidity and operational risk exposures in order to enable and assist the Board of Directors to determine the Bank's strategy at its areas of expertise. The Division supports the Board throughout the setting of market and operational risk appetite limits and tolerances and in the development and implementation of the relevant risk management framework, RAF and risk strategy.

Credit Risk Division

The Credit Risk Division, , provides analysis and expert judgment on credit risk issues, in order to enable and assist the Board of Directors determine the Bank's credit strategy. The Division supports the Board throughout the setting of risk appetite limits and tolerances and in the development and implementation of the risk management framework, RAF and risk strategy across the credit sector.

Credit Risk Model Validation Department

Credit Risk Model Validation Department was established, with the perspective to reinforce Bank's Second "line of defence" The Department is under the Chief Risk Officer and is responsible for the statistical validation of the Bank's credit risk models, ensuring their robustness and reliability. In particular, it undertakes the validation of the models used for the measurement and evaluation of the Bank's credit risk, in accordance with the supervisory framework and best practices.

6.4 Risk Management Policies

The Risk strategy of the Bank incorporates all the risk management processes, policies, procedures and methodologies adopted and implemented throughout the institution. The Bank Risk Strategy objective is to provide a coherent and structured approach towards identifying, assessing and managing risk.

- Risk Policies & Procedures include all central rules of conduct for handling risks and are set out in specific Manuals for each risk. These are reviewed regularly and adapted whenever necessary and approved by the BoD Risk Committee. The Bank Policies are the following:
    - Group Credit Risk Management Policy
    - Market Risk Management Policy
    - Operational Risk Management Policy and
    - Assets-Liability Risk Management Policy
- The guiding principles are effectively communicated to all organizational levels in order to build a uniform understanding of risk management objectives.
- Internal Audit is responsible for providing an independent review of the integrity of the overall risk management processes and ensuring the appropriateness and effectiveness of the controls applied.

In the pursuit of the Bank's strategic business goals, the risk management framework and the relevant policies, procedure and systems are reviewed at least annually, to ensure that risk management and regulatory risk reporting are always compliant with the relevant regulatory guidelines as well as with the principles of corporate governance.

6.5 Stress Testing

Performing stress tests constitutes a key risk management tool, fully integrated into core risk reporting and capital and liquidity planning at the Bank level, which provides indications of the capital required to absorb losses under the assumption of specific extreme hypothetical scenarios. Stress tests are conducted according to the requirements of the regulatory framework and constitute a fundamental part of the Bank's Risk Management Strategy.

7. Credit Risk

7.1 General Information

Credit risk arises from the potential weakness of borrowers' or counterparties' to repay their debts as they arise from their loan obligations to the Bank. The primary objective of the Bank's strategy for the credit risk management in order to achieve the maximization of the adjusted return relative to the performance risk is the continuous, timely and systematic monitoring of the loan portfolio and the maintenance of the credit risks within the framework of acceptable overall risk limits. At the same time, the conduct of daily business within a clearly defined framework of granting credit is ensured. The framework of the Bank's credit risk management is developed based on a series of credit policy procedures, systems and measurement models by monitoring and auditing models of credit risk which are subject to an ongoing review process. This happens in order to ensure full compliance with the new institutional and regulatory framework as well as the international best practices and their adaptation to the requirements of respective economic conditions and to the nature and extent of the Bank's business.

The Credit Risk Appetite expresses the level of credit risk that the Bank is willing to assume in order to achieve the business objectives and the expected risk-adjusted return, as defined by a set of minimum quantitative metrics and qualitative standards.

The Credit Risk Appetite is amongst the key contributors in the business planning process, promoting the appropriate alignment of corporate strategy, capital allocation and risk. Top-down risk appetite serves as the limit for risk-taking for the bottom-up planning from the business functions.

The Bank identifies and assesses existing and potential risks inherent in any product or activity as the basis for effective credit risk management. The identification, analysis and control of credit risk are achieved through a safety net of internal procedures, policies and controls. The Bank uses internal rating / scoring systems for its portfolios, in order to evaluate and classify both performing and non-performing relationships. Furthermore, there are in place sets of reporting tools and frameworks which are used on regular intervals (daily, weekly, fortnight, monthly, quarterly and yearly), assisting the management to identify early in some cases, or in due time in some other, potential threats, risky portfolio sections and problematic relationships.

Alpha Bank has prepared its operational and system infrastructure in line with the International Financial Reporting Standard (IFRS) 9. Alpha Bank's current credit risk management framework consists of a set of governance rules, policies and procedures, as well as rating / scoring systems, covering the whole range of the Bank's portfolio, and is under continuous review and enhancement so as to:

- Include any updates issued by the regulatory authorities;
- Take into consideration the macroeconomic and political environment
- Facilitate the portfolio management and the decision making processes;
- Contribute to preventing any potential negative effects in the Bank's financial results.

With main scope to further strengthen and improve the credit risk management framework in 2018, the following actions have been performed:

- The Credit Risk Model Validation Department completed the first round of qualitative and quantitative validations of all credit risk statistical models, implemented by the Methodologies Department, in accordance with the Group Model Validation Policy.
- Based on the findings of the Credit Risk Model Validation Department, the Methodologies Department, commenced the reviewing of credit risk models, where necessary
- The Individual and Collective Impairment Assesment Departments undertook a series of actions, such as the redesign of the impairment assessment methodology, the development of procedures manuals, the update and enhancement of software systems, etc. for the purposes of impairment calculation on a quarterly basis.
- Development and adoption of the Country Risk Policy for the purposes of managing Country Risk in the Loan Portfolio.
- Development and adoption of a Stress Testing Framework, which records the procedures, policies, governance framework and methodologies applied by the Bank in relation to stress testing exercises, based on the relevant EBA guidelines.
- Enhancement of the Internal Capital Adequacy Assessment Process ("ICAAP") through the development and adoption of the (a) ICAAP Manual which sets out the procedures implemented by the Bank for the purposes of assessing its capital adequacy, and (b) Risk Register Manual which sets out the risk identification and assessment process.
- Development and adoption of the manual and supporting mechanism for the implementation of the Early Warning Policy.
- Development and implementation of a Credit Control Framework and annual plan.
- Development and adoption of the Collateral Policy which sets out the framework, principles, rules and criteria governing the initial collateral valuation and re-valuation process.
- Development and adoption of a policy which describes the process of determining the value attached to the different types of collaterals in the Bank's loan portfolio.

7.2 Credit Quality of Exposures

Definitions

The following definitions of exposures are provided:

1. Performing Exposures

An exposure is considered as performing when the following criteria are cumulatively met:

- The exposure is less than 90 days past due;
- No legal actions have been undertaken against the exposure;
- No unlikeliness to pay is reported on itd credit obligation.
- The exposure is not classified as impaired;

or

- The exposure is classified as forborne performing exposure, as defined in the aforementioned commission Implementing Regulation (EU) 2015/227 of 9 January 2015.

2. Past Due Exposures

An Exposure is past due if the counterparty's credit obligation is materially more than one day past due. The amount due is considered as the sum of the principal, interests and charges/commissions that is over one day due at the account level.

3. Non Performing Exposures

An exposure is considered as non-performing when one of the following criteria is satisfied:

- The exposure is more than 90 days past due, based on the «EBA RTS on the materiality threshold», released on September 2016, namely the amount due exceeds:
    - Euro 100 - for retail exposures - or Euro 500 - for wholesale exposures and
    - 1% of the total - on balance sheet - debt.
- Legal actions have been undertaken by the Bank – Legal (NPL).;
- The debtor is assessed as unlikely to pay its credit obligations in full;
- The exposure is classified as forborne non-performing exposure,.

When a Wholesale Banking borrower has exposures that are more than 90 days past due and the amount of these exposures exceeds 20% of the Total Exposures of the borrower, then all exposures of the borrower are considered as Non-Performing (Pulling Effect).

Exposures satisfying the above conditions are classified as “defaulted” exposures. This definition of default is consistent with the one used for internal credit risk management purposes. Furthermore, the definition of Non-Performing Exposures is consistently used to develop models for estimating credit risk parameters (Probability of Default, Loss Given Default, and Exposure at Default).

4. Forborne Exposures

An exposure is considered as Forborne if there is a significant modification of initial contractual terms by granting more favorable terms (Concession) or partial or total refinancing of current outstanding debts (Refinancing) to Borrowers with Financial Difficulty. Financial Difficulty is defined as the situation where the borrowers are unable to comply or are about to face difficulties in servicing their credit obligations as per the current loan repayment schedule due to the worsening of their financial status.

5. Unlikeliness to Pay

An exposure is flagged as ‘Unlikely To Pay’ (UTP) when it is less than 90 days past due and the Bank assesses that the borrower is unlikely to fully meet his credit obligations, without the liquidation of collateral, regardless the existence of any past due amount or the number of days past due, with the exception of the cases of collaterals that are part of the production and trade chain of the borrower (e.g. properties for Real Estate companies, corporate shares for Holding companies).

For Wholesale Banking, the procedure is distinguished in two pillars:

a) Events are determined which when occur the exposure is identified as Non-Performing (Hard UTP Triggers) without any assessment needed by any Credit Committee,

b) Triggers are determined which when occur, the borrower should be assessed by the relative Wholesale Banking Credit Committee to decide if the borrower’s exposures should be identified as Non-Performing or not (Soft UTP Triggers).

This assessment takes place at the date of revision of the borrower’s credit limits based on the credit risk rating, as defined in Wholesale Banking Credit Manual. If finally a borrower is flagged as UTP, then his credit risk rating should be D in the Bank systems or Slotting category 5 for Borrowers assessed using Slotting Models. It is noted that if a borrower flagged as UTP belongs to a Group of companies, then the Group should also be assessed as a whole by the relevant Credit Committee for the existence or not of UTP.

The following Hard UTP Triggers apply for Wholesale Banking Division:

- Denouncement of loan agreement
- Liquidation of collaterals and initiation of foreclosure measures by the Bank when the borrower does not have operational cash flows for the repayment of his debt obligations (excluding e.g. checks).
- Legal actions, sale or judicial sale in order to collect the claim (e.g. foreclosure instead of debt collection).
- Withdrawal of a license of particular importance in companies that require public authorization to carry out their activities such as banks and insurance companies. The same applies for technical and construction companies, telecommunications

companies, pharmaceutical, mining, transport, food, chemical, petroleum, recycle, media etc.

- Refinancing / Extensions of loans whose lifetime exceeds the economic lifetime of the funded investment.
- There are strong indications that the borrower is unable to meet his debt obligations (e.g. termination of business).
- Fraud cases
- Excess of the minimum acceptable Loan to Value (LTV) as depicted conventionally for asset-based loans (asset-based financing).
- Companies that are unable to raise liquidity without bank financing (e.g. share capital increase failure, bond issues).
- Write-off because of default
- Debt Forgiveness with or without forbearance (conditional or not) at least for the first 12 months since the debt forgiveness.
- The credit institution or the leader of consortium starts bankruptcy/insolvency proceedings (application for insolvency).
- A credit event is declared under the International Swaps and Derivatives Association - ISDA).
- Out-of-court settlement/negotiation between Banks and Borrower for settlement / debt repayment of borrowers that are under bankruptcy proceedings (application for the bankruptcy).
- The borrower has requested to enter into bankruptcy or insolvency status (application for bankruptcy).
- A Bank has initiated bankruptcy or insolvency proceedings (application for bankruptcy).

Moreover, the following Soft UTP Triggers apply for Wholesale Banking Division:

- Exposures that were modified by providing a ‘balloon’ payment while the initial terms of the loan agreement did not include this repayment method, as well as exposures that the initial terms of the loan agreement included the ‘balloon’ payment and were modified by including an increase of the amount of "balloon" and simultaneously by reducing the current installment.
- Multiple modifications in the same exposure
- Deterioration of the leverage ratio (Debt to Equity)
- An exposure was purchased or sold with deep discount that reflects the low credit quality of the borrower.
- The debt service coverage ratio indicates that debt is not viable
- 5 Years Credit Default Swaps (CDS) above 1.000 bps in the last 12 months.
- Loss of an important customer or lessee A turnover decrease resulting in a cash flows reduction.
- An affiliated customer, representing representing decrease in turnover, has applied for bankruptcy.

- An external auditor report with restrictions or reservations that results to significant deterioration of key financial ratios of the borrower and to worsened estimated future cash flows of the borrower.
- It is expected that an exposure with repayment at maturity or a due installment cannot be refinanced under current market conditions.
- There are no refinancing options
- The borrower has exceeded the financial terms of the loan agreement
- There is significant deterioration of the borrower's sector activity prospects.
- Adverse changes in the ownership structure or the management of the company or serious administrative problems.
- A third party (excluding Banks) has started bankruptcy or insolvency proceedings (application for Bankruptcy).
- Due payments to Tax Authorities and Social Security Funds.

For Retail Banking, the procedure is distinguished in two pillars:

(a) Events are determined which when occur the exposure is identified as Non-Performing (**Hard UTP Triggers**) without any assessment needed by any Retail Banking Credit Committee,

(b) Triggers are determined which when occur, the borrower should be assessed by the relative Retail Banking Non-Performing Unit to decide if the borrower's exposures should be assessed as Non-Performing or not (**Soft UTP Triggers**).

This assessment takes place at the date of a forbearance request. If finally an exposure is flagged as UTP, then it should be assigned as Non-Performing in the systems of the Bank.

The following Hard UTP Triggers apply for Retail Banking Division:

- A trial day is set for registration under Bankruptcy Law.
- Fraud has been confirmed at the expense of the Bank.
- The borrower has passed away.
- Multiple forbearances for the same exposure within a 12 months' time period.
- An out-of-court settlement / negotiation is underway between banks and borrower for settlement / repayment of debts of borrowers who are under bankruptcy proceedings (application for bankruptcy).
- Denouncement of loan agreement.
- Collaterals liquidation and foreclosure procedures have been initiated by the Bank when the borrower does not have operational cash flows to repay debt obligations (excluding e.g. checks).
- Legal actions, alienation or judicial sale in order to collect the debt have been initiated (e.g. foreclosure measures against debt collection).
- Debt Forgiveness with or without forbearance (conditional or not), at least for the first 12 months since the debt forgiveness.

Moreover, the following Soft UTP Triggers apply for Retail Banking Division:

- Multiple forbearances in the same exposure

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

Curing of Non-Performing Exposures

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

Expected Credit Loss Estimation Methodology

The Loan Impairment Methodology is common and applicable for both the Wholesale and Retail Banking Portfolios. The Bank carries out the impairment recognition and measurement procedure per calendar quarter and recognizes a loss allowance for expected credit losses on loans and advances to customers not measured at fair value through profit or loss as well as for off-balance sheet exposures.

Portfolio Classification in Stages based on the Credit Risk (Staging)

Following an exposure's initial recognition, classification to Stages based on its credit risk follows. The classification of loans in stages is based on the changes of the credit quality compared to the initial recognition.

Upon initial recognition of an exposure, the Bank must determine whether this exposure is considered as credit impaired (Credit Impaired at Initial Recognition).

The Purchased or Originated Credit Impaired category ("POCI") includes the following:

- Exposures that at the time of purchase ("Purchased") meet the criteria of non-performing exposures.
- Exposures that as per accounting rules are derecognised and a new exposure is recognized and for which the following apply ("Originated"): if the exposure was classified as impaired (hence NPE) prior to derecognition, the new exposure will continue to maintain this classification and it will be classified as POCI.

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

- Stage 1 includes performing credit exposures that have no significant increase in credit risk since the initial recognition date. The expected credit losses calculated are the twelve months losses from the date of the assessment and the assessment is carried out on a collective basis with the exception of borrowers assessed on an individual basis
- Stage 2 includes credit exposures with significant increase in credit risk since the initial recognition date but which are not non-performing. The expected credit losses calculated are the lifetime losses and the assessment is carried out on a collective basis with the exception of borrowers assessed on an individual basis
- Stage 3 includes the non-performing / default exposures. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective or individual basis.

With regards to the POCI exposures, the expected credit losses calculated are the lifetime losses.

Significant Increase in Credit Risk

For the timely identification of significant increase in credit risk for an exposure after the initial recognition ("SICR") and the calculation of the lifetime credit loss of the exposure instead of the twelve months credit loss, the default risk at the reference date is compared to the default risk at the initial recognition date for all the performing exposures, including exposures with no days past due (Delinquencies).

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

- Quantitative Indicators: They refer to the use of quantitative information and specifically to the comparison between the probability of default ("PD") at the reference date and the probability of default at the initial recognition date. The assessment of significant increase in credit risk takes into account the absolute increase of PD between the reporting and the initial recognition date (4 percentage points increase), as well as the relative increase of PD between the reporting and the initial recognition date (doubling of PD). Absolute and relative thresholds determining the significant increase between reporting and initial recognition date are validated on an annual basis, in order to ensure a robust statistical discriminatory power.

- Qualitative Indicators: They refer to the use of qualitative information which is not necessarily depicted in the probability of default, such as the assessment of an exposure as performing forborne (FPL according to EBA ITS). Additional qualitative indicators for the Wholesale Banking portfolios and the Retail Banking portfolios are included in the Early Warning Policy. According to the abovementioned policy and as per the assessment performed, an exposure may be considered to show significant increase in credit risk.

- Backstop Indicators: In addition to the above, and with a view to addressing cases where there is no evidence of significant credit risk deterioration based on the quantitative and qualitative indicators, exposures over 30 days past due are considered by definition to show a significant increase in credit risk.

Expected Credit Loss estimation

Exposures assessed on individual basis (Individual Assessment)

The Expected Credit Loss calculation is carried out either on an individual basis, taking into account the significance of the exposure, the fact that certain exposures do not share common credit risk characteristics and that there are not sufficient historical data, or on a collective basis.

For companies where there is a corporate guarantee from the parent company for the 100% of the outstanding amount of loan / credit, or for other important interdependencies between group companies, the assessment may be performed at a group level.

The following criteria apply for assessing exposures to Companies on an individual basis:

- Borrowers with at least one Non-Performing Exposure whose Customer General Limit in the Bank exceeds the amount of Euro 0,75 million.

The following criteria apply for assessing exposures to Individuals on an individual basis:

- Borrowers with at least one Non-Performing Exposure and with total debit outstanding balances over Euro 1,5 million.

Exposures assessed on a collective basis (Collective Assessment)

The Collective Assessment applies to credit exposures which are not assessed individually after having been categorized based on similar characteristics of the credit risk group and the portfolio that the borrower or the credit facility belong to.

For the classification of credit facilities into groups with similar credit risk characteristics, the following are considered:

- Staging according to Credit Risk
- Type of product
- Currency of product
- Nationality of the account owner
- Time in default status
- Collateral existence taking into account the percentage rate of coverage (Loan to Value)
- Credit risk rating
- Activity sector

Calculation of expected credit loss

The amount of expected credit losses is updated on a calendar quarterly basis so as to reflect the changes in the credit risk since initial recognition and thus provide timely information on expected credit losses.

The measurement of expected credit losses is performed as follows:

- For financial assets, a credit loss is the present value of the difference between:
  a. the contractual cash flows and
  b. the cash flows that the Bank expects to receive
- For undrawn loan commitments, a credit loss is the present value of the difference between:
  a. the contractual cash flows that are due if the holder of the loan commitment draws down the loan; and
  b. the cash flows that the Bank expects to receive if the loan is drawn down.
- For letters of guarantee and letters of credit, the loss is equal to the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder.

Incorporation of forward looking information

The Bank calculates expected credit losses based on the weighted probability of three scenarios. More specifically, subject to the availability of adequate historical data, the Economic Research Division of Alpha Bank S.A. produces forecasts for the possible evolution of macroeconomic variables that affect the level of expected credit losses of the loan portfolio under a baseline and two alternative macroeconomic scenarios (an adverse scenario and an upside scenario) and also generates the cumulative probabilities associated with these scenarios.

The macroeconomic variables affecting the level of expected credit losses are the Real Gross Domestic product ("GDP"), the unemployment rate, the inflation rate, as well as forward looking prices of residential and commercial real estate.

The annual average for the period 2019 - 2022 for each of the macroeconomic variables affecting the estimation of the Probability of Default and expected Loss Given Default is presented in the following table:

	Adverse Scenario	Base Scenario	Upside Scenario
Change in Real GDP	1,1%	3,4%	5,7%
Unemployment rate	8,2%	6,0%	3,8%
Change in the Harmonised Index of Consumer Prices ("HICP")	0,2%	1,5%	2,7%
Change in Residential Real Estate prices ("RRE")	-0,9%	2,9%	6,8%
Change in Commercial Real Estate prices ("CRE")	-1,2%	2,6%	6,4%

The production of the baseline scenario, supported by a consistent economic description, constitutes the most likely scenario according to the current economic conditions and the Bank's basic assessment of the course of the economy.

The cumulative probabilities associated with the macroeconomic scenarios for the Cyprus economy indicate that the economy performs better or worse than forecasts based on the baseline scenario and the alternative scenarios, i.e. the upside and downside scenarios. For each of the alternative scenarios, the expected credit loss is calculated and weighted against the probability of each scenario in order to calculate the weighted expected credit loss.

The cumulative probability assigned to the baseline scenario is 70%, while the cumulative probability assigned to the adverse and upside scenarios is 15% for each of the aforementioned scenarios.

If the assigned cumulative probability of the adverse scenario was increased from 15% to 30%, then the Expected Credit Losses would increase by Euro 15.2 million. If the assigned cumulative probability of the upside scenario was increased from 15% to 30%, then the Expected Credit Losses would decrease by Euro 15,1 million.

Credit risk parameters

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

- **Probability of Default (PD):** It is an estimate of the probability of default over a specific time horizon.
- **Exposure at default (EAD):** Exposure at Default is an estimate of the amount of the exposure at the time of the default. The approved credit limits that have not been fully disbursed represent a potential credit exposure and are converted into a credit exposure equal to the approved undrawn credit limit multiplied by a Credit Conversion Factor (CCF).
- **Loss given default (LGD):** Loss given default is an estimate of the loss that will occur if the default occurs at a given time. It is based on the difference between the contractual cash flows due and those expected to be received, including the liquidation of collaterals and the cure rate, taking into consideration the management actions in connection with the NPE perimeter.

To determine the amount of the required provisions, the Bank needs to assess the amount and timing of future cash flows. Such assessments are based on assumptions on a number of factors. The assumptions include future changes in the value of the assets/recoverable amount, as well as the time horizon for liquidity purposes.

Total and average amount of exposures net of impairments and before any credit risk mitigation (CRM) and any credit conversion factor (CCF) (on and off-Balance-Sheet) by regulatory exposure class are displayed in the following table:

Table 9. EU CRB-B - Total and average net amount of exposures as of 31.12.2018
(in Euro million)

Exposure Class	Net Value of Exposures at the end of the period	Average Net Value of Exposures over the period
Central governments or central banks	771	567
Institutions	195	388
Corporates	591	634
of which SMEs	376	359
Retail	232	519
of which SMEs	45	51
Secured by mortgages on immovable property	346	318
of which SMEs	49	44
Exposures in default	546	646
Other exposures	175	189
Total	**2.856**	**3.261**

Table 9. EU CRB-B - Total and average net amount of exposures as of 31.12.2017
(in Euro million)

Exposure Class	Net Value of Exposures at the end of the period	Average Net Value of Exposures over the period
Central governments or central banks	363	330
Institutions	581	442
Corporates	452	461
of which SMEs	342	461
Retail	285	290
of which SMEs	58	63
Secured by mortgages on immovable property	290	314
of which SMEs	39	45
Exposures in defaullt	746	786
Other exposures	203	210
Total	**2.920**	**2.833**

Under CRD IV a geographical analysis of credit exposures is required which is presented below. The Bank's primary market is Cyprus.

Table 10. EU CRB-C - Geographical breakdown of exposures as of 31.12.218
(in Euro million)

Net Exposure values					
Exposure Class	**Cyprus**	**Greece**	**EU countries**	**Other countries**	**Total**
Central governments or central banks	771	0	0	0	771
Institutions	4	179	4	8	195
Corporates	361	126	24	80	591
Retail	157	2	63	10	232
Secured by mortgages on immovable property	259	0	55	32	346
Exposures in default	403	4	121	18	546
Other exposures	170	0	0	5	175
Total	**2.125**	**311**	**267**	**153**	**2.856**

Table 10. EU CRB-C - Geographical breakdown of exposures as of 31.12.217
(in Euro million)

Net Exposure values					
Exposure Class	**Cyprus**	**Greece**	**EU countries**	**Other countries**	**Total**
Central governments or central banks	363	0	0	0	363
Institutions	4	540	4	33	581
Corporates	388	26	2	36	452
Retail	175	4	94	12	285
Secured by mortgages on immovable property	230	0	49	11	290
Exposures in default	515	1	204	26	746
Other exposures	202	0	1	0	203
Total	**1.877**	**571**	**354**	**118**	**2.920**

The industry classification in the below table is based on the activity of the immediate counterparty. Exposures include on and off-Balance-Sheet exposures less allowances/impairments.

Table 11. EU CRB-D - Concentration of exposures by industry or counterparty type as of 31.12.2018 (in Euro million)

Net Exposure values

Exposure Class	Manufacturing	Electricity, gas,steam and air conditioning	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Real Estate Activities	Other Sectors (1)	Not stated (1)	Total
Central governments or central banks	-	-	-	-	-	-	-	-	771	771
Institutions	-	-	-	-	-	-	-	-	195	195
Corporates	40	-	138	51	94	78	23	167	-	591
Retail	3	-	6	12	2	3	1	205	-	232
Secured by mortgages on immovable property	4	1	1	15	1	7	21	296	-	346
Exposures in default	15	0	34	45	3	11	20	418	-	546
Other exposures	-	-	97	-	-	-	11	5	62	175
Total	**62**	**1**	**276**	**123**	**100**	**99**	**76**	**1.091**	**1.028**	**2.856**

Table 11. EU CRB-D - Concentration of exposures by industry or counterparty type as of 31.12.2017 (in Euro million)

Net Exposure values

Exposure Class	**Manufacturing**	**Electricity, gas,steam and air conditioning**	**Construction**	**Wholesale and retail trade**	**Transport and storage**	**Accommodation and food service activities**	**Real Estate Activities**	**Other Sectors (1)**	**Not stated (1)**	**Total**
Central governments or central banks	-	-	-	-	-	-	-	-	363	363
Institutions	-	-	-	-	-	-	-	-	581	581
Corporates	22	11	163	71	57	30	34	63	1	452
Retail	10	-	7	18	1	3	1	245	-	285
Secured by mortgages on immovable property	1	-	1	10	-	6	3	269	-	290
Exposures in default	18		40	37	2	32	20	597		746
Other exposures	-	-	137	-	-	0	10	1	55	203
Total	**51**	**11**	**348**	**136**	**60**	**71**	**68**	**1.175**	**1.000**	**2.920**

(1) Other sectors/ counterparties includes Agriculture, Forestry and fishing, Mining and quarrying, water supply, Information and Communication, Professional, scientific and technical activities, Administrative and support service activities, Public administration and defence, compulsory social security, Education, Human health services and social work activities, Arts, entertainment and recreation as well as Mortgages, Consumer Loans & Cards.

The following table presents the Credit risk exposures by contractual residual maturity, including on Balance Sheet exposures less allowances/impairments.

Table 12. EU CRB-E - Maturity of exposures as of 31.12.2018

(in Euro million)

	Net Exposure values					
Exposure Class	**On Demand**	**<=1 year**	**>1 year <=5 years**	**>5 years**	**Not stated maturity (1)**	**Total**
Central governments or central banks	541	230	0	0	0	771
Institutions	18	177	0	0	0	195
Corporates	47	37	133	254	0	471
Retail	23	2	38	107	0	170
Secured by mortgages on immovable property	17	1	54	261	0	333
Exposures in default	320	20	43	163	0	546
Other exposures	80	15	27	10	43	175
Total	**1.046**	**482**	**295**	**795**	**43**	**2.661**

(1)The category "No stated maturity" includes exposures included in Other Assets (Premises , Equity etc).

Table 12. EU CRB-E - Maturity of exposures as of 31.12.2017

(in Euro million)

	Net Exposure values					
Exposure Class	**On Demand**	**<=1 year**	**>1 year <=5 years**	**>5 years**	**Not stated maturity (1)**	**Total**
Central governments or central banks	363	0	0	0	0	363
Institutions	28	544	0	0	4	576
Corporates	48	17	50	244	2	361
Retail	26	4	38	152	0	220
Secured by mortgages on immovable property	13	1	27	240	0	281
Exposures in default	426	14	50	256	0	746
Other exposures	90	7	12	39	55	203
Total	**994**	**587**	**177**	**931**	**61**	**2.750**

The table below presents gross carrying values of credit risk exposures and specific credit risk adjustments and accumulated write-offs.

Table 13. EU CR1-A - Credit quality of exposures by exposure class as of 31.12.2018

(in Euro million)

	Gross carrying amount of		Specific credit risk adjustment	Accumulated impairment and write offs	Net values
Exposure Class	**Defaulted exposures**	**Non-defaulted exposures**			
Central governments or central banks	0	771	0	0	771
Institutions	0	195	0	0	195
Corporates	-	595	4	-	591
Retail	-	237	5	-	232
of which SMEs					
Secured by mortgages on immovable property	0	357	11	-	346
of which SMEs					
Exposures in default	1.071		525	319	546
Other exposures	216	85	126	16	175
Total	**1.287**	**2.240**	**671**	**-**	**2.856**
of which: Loans and advances	1.287	1.713	669	335	2.331
of which: Debt Securities		271	-	-	271
of which: Off-balance sheet exposures		197	2		195

Table 13. EU CR1-A - Credit quality of exposures by exposure class as of 31.12.2017

(in Euro million)

	Gross carrying amount of		Specific credit risk adjustment	Accumulated impairment and write offs	Net values
Exposure Class	**Defaulted exposures**	**Non-defaulted exposures**			
Central governments or central banks	0	363	0	0	363
Institutions	0	581	0	0	581
Corporates	-	456	5	116	451
Retail	-	301	16	115	285
of which SMEs					
Secured by mortgages on immovable property	0	290	0	6	290
of which SMEs					
Exposures in default	1382		635	237	747
Other exposures	343	78	218	13	203
Total	**1.725**	**2.069**	**874**	**250**	**2.920**
of which: Loans and advances	1.725	1.702	874	250	2.553
of which: Debt Securities		132			132
of which: Off-balance sheet exposures		170			170

The following table shows the total exposure amounts broken down by significant industry or counterparty type of Non Financial Corporations

Table 14: Credit quality of loans and advances of Non Financial Corporations by industry as of 31.12.2018 (in Euro million)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	10	8	8	10	6	
Mining and quarrying	5	1	1	5	1	
Manufacturing	72	34	34	72	23	
Electricity, gas, steam and air conditioning supply	1	1	1	1	1	
Water supply	0	0	0	0	0	
Construction	423	264	264	423	168	
Wholesale and retail trade	115	63	63	115	36	
Transport and storage	99	3	3	99	2	
Accommodation and food service activities	99	15	15	99	9	
Information and communication	4	3	3	4	1	
Financial and insurance activities	0	0	0	0	0	
Real estate activities	91	47	47	91	21	
Professional, scientific and technical activities	15	4	4	15	2	
Administrative and support service activities	14	8	8	14	4	
Public administration and defence, compulsory social security	0	0	0	0	0	
Education	0	0	0	0	0	
Human health services and social work activities	1	0	0	1	0	
Arts, entertainment and recreation	1	0	0	1	0	
Other services	18	18	18	18	8	
Total	968	469	469	968	282	0

Table 14. EU CR1-B - Credit quality of loans and advances of Non Financial Corporations by industry as of 31.12.2017

(in Euro million)

31.12.2017	**Gross carrying values of**		**Total Provisions**	**Accumulated write offs**	**Net Values**
	Defaulted Exposures	**Non-defaulted exposures**			
Agriculture, Forestry And Fishing	8	2	5	11	5
Mining And Quarrying	1	1	1	1	1
Manufacturing	39	33	21	18	51
Electricity, Gas, Steam And Air Conditioning Supply	2	10	1	0	11
Water Supply; Sewerage, Waste Management And Remediation Activities	0	1	0	0	1
Construction	417	188	257	34	348
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	85	103	52	23	136
Transportation And Storage	4	59	3	2	60
Accommodation And Food Service Activities	45	40	14	3	71
Information And Communication	8	3	4	1	7
Real Estate Activities	47	45	24	1	68
Professional, Scientific And Technical Activities	4	10	2	2	12
Administrative And Support Service Activities	13	13	7	6	19
Education	0	0	0	0	0
Human Health And Social Work Activities	0	1	0	0	1
Arts, Entertainment And Recreation	1	0	0	1	1
Other Service Activities	26	0	13	5	13
Total	700	509	404	108	805

The following table presents the credit quality of the Bank's exposures broken down by significant geographical area.

Table 15: Quality of non-performing exposures by geography as of 31.12.2018

(in Euro million)

	Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures	3.248	1.286	1.286	3.248	714		0
Cyprus	2.375	970	970	2.375	529		
Greece	285	4	4	285	1		
Other EU countries	431	275	275	431	166		
Other countries	157	37	37	157	18		
Off-balance-sheet exposures	197	9	9			3	
Cyprus	171	9	9			2	
Greece	24	0	0			1	
Other EU countries	1	0	0			0	
Other countries	1	0	0			0	
Total	3.445	1.295	1.295	3.248	714	3	0

Table 15. EU CR1-C - Credit quality of exposures by geography as of 31.12.2017

(in Euro million)

31.12.2017	Gross carrying values of		Total Provisions	Accumulated write offs	Net Values
	Defaulted Exposures	Non-defaulted exposures			
Cyprus	1.260	1.192	662	198	1.790
Greece	2	567	3	0	566
Other EU countries	423	160	215	51	368
Other countries	40	85	14	1	111
Total	**1.725**	**2.004**	**894**	**250**	**2.835**

The following template provides an ageing analysis of past due exposures broken down by past-due bands.

Table 16. EU CR1-D - Ageing of past due exposures as of 31.12.2018

(in Euro million)

31.12.2018	Gross carrying values					
	≥1 ≤30 days	>30 days ≤60 days	>60 days ≤90 days	> 90 days ≤ 180 days	>180 days ≤ 1 year	>1 year
Loans and advances	56	39	49	34	47	1.037

Table 16. EU CR1-D - Ageing of past due exposures as of 31.12.2017

(in Euro million)

31.12.2017	Gross carrying values					
	≥1 ≤30 days	>30 days ≤60 days	>60 days ≤90 days	> 90 days ≤ 180 days	>180 days ≤ 1 year	>1 year
Loans and advances	92	48	61	34	49	1.363

The following table provides an overview of non-performing and forborne exposures.

Table 17. EU CR1-E - Non performing and forborne exposures as of 31.12.2018

(in Euro million)

31.12.2018	Gross carrying values of performing and non performing exposures							Accumulated impairment and provisions due to credit risk				Collaterals and fianncial guarantees received	
				of which Non Performing				on Performing exposures		on Non Performing exposures			
		of which Performing but past due >30 days and <=90 days	of which Performing Forborne		of which Defaulted	of which Impaired	of which Forborne		of which Forborne		of which Forborne	On Non Performing exposures	of which Forborne exposures
Debt securities	271	0	0	0	0	0	0	0	0	0	0	0	0
Loan & advances	2.977	38	134	1.286	1.286	1.286	463	14	7	700	189	488	336
Off-balance sheet exposures	197			9	9		**1**	2		1		0	
Total	**3.445**	**38**	**134**	**1.295**	**1.295**	**1.286**	**464**	**16**	**7**	**701**	**189**	**488**	**336**

Table 17. EU CR1-E - Non performing and forborne exposures as of 31.12.2017

(in Euro million)

31.12.2017	Gross carrying values of performing and non performing exposures							Accumulated impairment and provisions due to credit risk				Collaterals and fianncial guarantees received	
				of which Non Performing				on Performing exposures		on Non Performing exposures			
		of which Performing but past due >30 days and <=90 days	of which Performing Forborne		of which Defaulted	of which Impaired	of which Forborne		of which Forborne		of which Forborne	On Non Performing exposures	of which Forborne exposures
Debt securities	132	0	0	0	0	0	0	0	0	0	0	0	0
Loan & advances	3.427	25	185	1.725	1.725	1.678	571	21	6	873	179	720	315
Off-balance sheet exposures	170			0	0			0		0		0	
Total	**3.729**	**25**	**185**	**1.725**	**1.725**	**1.678**	**571**	**21**	**6**	**873**	**179**	**720**	**315**

The table below shows the movement in the provision on loans and advances to customers.

Table 18. EU CR2-A - Changes in the stock of general and specific risk adjustments as of 31.12.2018

(in Euro million)

	Accumulated specific credit risk adjustment
Opening balance 31.12.2017	**894**
Fair Value adjusting loan balances	-12
IFRS9 impact	55
Opening balance 1.1.2018	937
Increase due to amounts set aside for estimated loan losses during the period	99
Decrease due to amounts set aside for estimated loan losses during the period	(78)
Decreases due to amounts taken against accumulated credit risk adjustment	(125)
Impact of exchange rate differences	6
Change of present value of the impairment losses	49
Other adjustments	(172)
Closing balance 31.12.2018	**716**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	2

Table 18. EU CR2-A - Changes in the stock of general and specific risk adjustments as of 31.12.2017

(in Euro million)

	Accumulated specific credit risk adjustment
Opening balance	**667**
Increase due to amounts set aside for estimated loan losses during the period	293
Decrease due to amounts set aside for estimated loan losses during the period	-181
Decreases due to amounts taken against accumulated credit risk adjustment	-88
Impact of exchange rate differences	-22
Change of present value of the impairment losses	41
Other adjustments	15
Closing balance 31.12.2017	**725**
Fair Value adjustments	**169**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4

The following table shows the changes in stock of defaulted and impaired loans.

Table 19. EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities as of 31.12.2018

(in Euro million)

	Gross carrying value defaulted and impaired exposures [1]
Opening balance 01.01.2018	**1.678**
Loans and debt securities that have defaulted or impaired since the last reporting period	50
Returned to non-defaulted status	-31
Amounts written off	-120
Other changes	-291
Closing balance 31.12.2018	**1.286**

Table 19. EU CR2-B - Changes in the stock of defaulted and impaired loans and debt securities as of 31.12.2017

(in Euro million)

	Gross carrying value defaulted and impaired exposures [1]
Opening balance 01.01.2017	**1.728**
Loans and debt securities that have defaulted or impaired since the last reporting period	155
Returned to non-defaulted status	-57
Amounts written off	-87
Other changes	-61
Closing balance 31.12.2017	**1.678**

(1) Includes the on balance sheet amounts of defaulted and impaired loans and debt securities

7.3 Credit Risk Mitigation

Credit risk mitigation techniques reduce exposure value and expected loss. According to CRR 575/2013, only specific types of credit risk mitigation are eligible for capital adequacy calculation purposes.

7.3.1 Collateral valuation and management policies and procedures

Collateral can be used in order to mitigate the Credit Risk in cases where a customer or counterparty to a financial instrument fails to meet their contractual obligations.

Collaterals are holdings or rights of every type provided to the Bank by its debtors or third parties to be used as additional funding sources in case of claim liquidation.

The main collateral types held for retail customers are mortgages, cash and guarantees. Additionally, in case of real estate loans maximum Loan to Value (LTV: loan amount to property commercial value) limits have been set, depending upon loan purpose and collateral. The amount the customer contributes to the asset being financed is a very important factor during the loan approval process since it directly affects customer's repayment ability.

As far as wholesale customers are concerned, loan repayment depends upon the viability and growth perspectives of the company, the servicing ability of the company and its owners, the circumstances prevailing at the sectors and markets they are active in, as well as unexpected factors, positively or negatively affecting their operation.

In case the debtor is a private individual, the bank seeks to have her/him insured against death and severe injuries.

The Bank estimates collateral value based upon the potential cash flows which will be received in case of liquidation.

During the estimation process the following are taken into consideration:

- Asset quality.
- Commercial / market value.
- Potential difficulties in liquidation.
- Time required for liquidation.
- Liquidation associated costs.
- Existing weights on real estate properties (mortgages, foreclosures).
- Potential senior claims which might occur during the liquidations of corporate assets (government, state organizations, and employees).

The above parameters are taken into consideration while estimating collateral value factors, expressed as a percentage of the market, nominal or weighted collateral value, depending upon collateral type.

7.3.2 Description of the main collateral types

Collateral used to mitigate risk, both for mortgage and other lending is diversified. The main types of guarantors are corporates, individuals, financial institutions and sovereigns. Their creditworthiness is assessed on a case by-case basis.

There are two broad categories of collateral: guarantees / and physical collaterals.

Guarantees are the most common collateral type of the first category. A guarantee is a legally enforceable relationship between the Bank and the borrower, through which the guarantor assumes the responsibility of paying the debt. It is documented and presupposes the existence of another legally enforceable relationship between the Bank and the borrower (loan).

The most common types of guarantors are: private individuals, companies, financial institutions and the Cyprus Government.

The most common types of physical collateral are mortgages on real estate properties. Physical collateral value is estimated on a regular basis; in case of exceptional/unforeseen events, additional valuation can take place. In case of significant negative changes at collateral values, the Bank seeks to restore the loan to collateral value ratio to the desired levels.

To further improve the effect of credit risk mitigation, the Bank requests that all mortgages are insured and the insurance rights are assigned to the Bank. The same might apply, on a case by case basis, on other physical collaterals as well.

The following table presents the exposure value covered through eligible financial collateral and guarantees / credit derivatives for each asset class, based on regulatory standards. The table below shows the volume of unsecured and secured exposures.

Secured exposures are limited to those exposures against which eligible collateral which meets CRR definitions is held and has been used in the calculation of the Group's capital requirements. Haircuts are applied consistent with CRR requirements.

Table 20: EU CR3 – CRM techniques – Overview as of 31.12.2018

(In Euro million)

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total Loans	1.619	966	717	0	0
Total debt securities	271	0	0	0	0
Total exposures	**1.890**	**966**	**717**	**0**	**0**
of which defaulted	276	362	283	0	0

Table 20: EU CR3 – CRM techniques – Overview as of 31.12.2017 (In Euro million)					
	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total Loans	1.313	1.475	1.180	0	0
Total debt securities	132	0	0	0	0
Total exposures	**1.445**	**1.475**	**1.180**	**0**	**0**
of which defaulted	379	493	380	0	0

The table below presents Standardised exposures on two different basis (before CCF and CRM and after CCF and CRM) excluding exposures with counterparties.

Table 21: EU CR4 - Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects as of 31.12.2018 (in Euro million)						
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-Balance-sheet amount	Off-Balance-Sheet amount	On-Balance-Sheet amount	Off-Balance-Sheet amount	RWAs	RWA density
Central governments or central banks	771	-	771	-	-	0,00%
Regional government or local authorities	-	-	-	-	-	0,00%
Public sector entities	-	-	-	-	-	0,00%
Multilateral development banks	-	-	-	-	-	0,00%
International organisations	-	-	-	-	-	0,00%
Institutions	195	0	195	0	64	33,04%
Corporates	471	120	413	28	441	99,89%
Retail	170	62	150	3	111	72,75%
Secured by mortgages on immovable property	333	13	331	7	144	42,55%
Exposures in default	546	-	544	-	565	103,90%
Collective investment undertakings	-	-	-	-	-	0,00%
Equity	-	-	-	-	-	0,00%
Other items	175	-	175	-	211	120,32%
Total	**2.661**	**195**	**2.579**	**38**	**1.536**	**58,71%**

Table 21. EU CR4 - Standardized approach - Credit risk exposure and credit risk mitigation effects (CRM) as of 31.12.2017

(in Euro million)

	Exposures before CCF and CRM		**Exposures after CCF and CRM**		**RWAs and RWA density**	
Exposure Class	**On Balance sheet amount**	**Off Balance sheet amount**	**On Balance sheet amount**	**Off Balance sheet amount**	**RWAs**	**RWA density**
Central governments or central banks	363	0	363	0	0	0,00%
Institutions	576	5	156	2	53	33,54%
Corporates	361	92	296	17	312	99,68%
Retail	220	65	204	3	151	72,94%
Secured by mortgages on immovable property	281	8	281	5	101	35,44%
Exposures in default	746		739		788	106,63%
Other items and Items associated with high risk	203	0	201	0	256	127,86%
Total	**2.750**	**170**	**2.240**	**27**	**1.661**	**73,27%**

7.4 Concentration risk

Concentration Risk is a specific form of credit risk and arises due to the low degree of diversification between counterparties, products or group of counterparties, sectors, geographic regions, products or collaterals.

The Bank monitors on a regular basis concentration risk through detailed reporting to senior management and the Board of Directors. According to the supervisory framework, the Bank adopts and complies with the regulatory directives regarding large exposures, while the capital requirements for single name and sector concentration risks are estimated in the context of Pillar 2 of Basel II.

Additionally, the Bank's risk appetite framework includes relevant concentration risk limits that are regularly monitored by the relevant Bank Committees in order to take corrective actions where deemed necessary.

8. Operational risk

The Bank acknowledges the need for managing the operational risk that stems from its business activities, as well as the need for holding adequate capital, in order to absorb potential losses related with this type of risk.

Operational risk is defined as the risk of direct or indirect losses arising either from internal inadequate procedures and systems, human behaviour, or other external factors, including legal risk.

Further analysis regarding the Operational Risk Framework of the Bank is presented in note 35.4 of the Financial Statements of 2018

9. Encumbered and Unencumbered assets

The Group is funded through unsecured and secured funding lines. Secured funding lines may involve encumbrance of (a) the assets of the Group, (b) any collateral received by the Group and (c) own debt instruments issued and held by the Group.

The Group adopts and applies the following definition for asset encumbrance, in line with EBA regulatory guidelines:

"An asset is encumbered if it has been pledged or subject to any form of arrangement to secure, collateralise or credit enhance any on-Balance Sheet or off-Balance Sheet transactions from which they cannot be freely withdrawn. Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered".

Asset encumbrance is an integral part of Group's liquidity, funding and collateral management process. In this context, asset encumbrance risk management framework incorporates and adopts the overarching principles of the Group's Risk Management Framework as well as the Group's RAF.
Given the nature and source of funding or transaction that require Group's assets to be encumbered, the Group utilises collateral agreements with the respective counterparties, where the terms and conditions clearly stipulate the Group's and the counterparty's rights and obligations on collateral posted. Where relevant, widely accepted market standardised agreements are utilized, such as ISDAs in the relevant transactions that these apply.

The table below presents the encumbered and unencumbered assets of the Bank to the extent that these assets are pledged for the financial needs of the bank.

Table 22 – Encumbered and Unencumbered Assets as of 31.12.2018 (in Euro million)

A. Assets	Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair Value of unencumbered assets
Assets	159	-	2.178	
Equity Instruments	-	-	7	7
Debt Instruments	-	-	271	271

B. Collateral Received	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	-	-
Debt Instruments	-	-

Table 22 – Encumbered and Unencumbered Assets as of 31.12.2017

(in Euro million)

A. Assets	Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair Value of unencumbered assets
Assets	198	198	2.654	2.741
Equity Instruments	-	-	6	6
Debt Instruments	-	-	132	132
B. Collateral Received	**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	-	-		
Debt Instruments	-	-		

10. Remuneration Policy

Alpha Bank Cyprus Ltd is applying a Remuneration policy, coherent with Group guidelines, and aligned with local and European regulatory framework, as well as the applicable collective labour agreement.

The Remuneration policy:

- is in accordance with the values, business strategy, goals and, generally, the long-term interests of the Bank;
- aligns personal and corporate goals in a long-term perspective and incorporates measures for the avoidance of conflicting interests;
- promotes effective risk management, discourages excessive risk taking thereof, and prevents or minimises the appearance of conflict-of-interest situations which are detrimental to correct, prudent and sound risk management. It is noted, that the risk-taking is decided by Committees / Approving Bodies that operate on the basis of specific terms of reference;
- correlates remunerations of the Bank's Human Resources with the risks undertaken and managed there from;
- is based on evaluation criteria of performance and of degree of risk-taking, pursuant to which the amount of variable remuneration is determined;

Legal Framework

The regulatory framework, as well as the applicable collective labour agreement, on the basis of which remuneration policy is required and effected, comprises, inter alia, of the Governance and Management Arrangements Directive of 2014 of the Central Bank of Cyprus, as well as of the relevant guidelines of the European Banking Authority i.e. European Directives 2013/36/EU – CRD IV and 604/2014, as these are amended or replaced from time to time.

The Proportionality principle

The policy complies with the regulatory framework and is designed taking into account each unit's size, internal structure, nature and complexity of activities. In particular, the Bank aims to match the Remuneration Policy and practices with the individual risk profile and the strategy of the Bank and the Group.

The application of the proportionality principle, is based on the following indicative criteria and the criteria provided in the EBA/GL/2015/22 guidelines:

1. The size of the Bank e.g. value of assets and liabilities, exposure to risk, level of its regulatory own funds, number of staff and branches of the Bank.
2. The internal organization of the Bank, the use of internal methods for the measurement of capital requirements and its corporate goals.
3. The nature, scope and complexity of its business activities and the associated risks.

Principles of Remuneration Structuring

The Remuneration policy covers all forms of remuneration either arising from the applicable Collective Labour Agreement or provided voluntarily by the Bank, meaning:

- Fixed remuneration, salaries;

- Variable remuneration; The variable component of the total compensation is optional and refers to bonus or other reward schemes that may vary per year. In order for variable remuneration to be paid, the achievement of the Bank's goals as well as personal performance in accordance with the evaluation criteria in force are taken into account. The balance between fixed and variable remuneration is of major priority in order to assure market competitiveness in connection with minimisation of risk assumption.

- Benefits associated with work position / role;

- Benefits associated with employees leaving the Bank, given voluntarily and at the absolute discretion of the Bank, where appropriate.

The proportion between the components of the total remunerations is sought to be:

- Incentivizing to the attainment of goals;

- Flexible and adaptable to the current applicable conditions of the market;

- Risk adjusted, taking into account present and future risks;

- Proactive, predicting potential deferral adjustment, future non-payment and/or recall of variable remuneration.

Risk alignment of Remuneration

Remuneration policy also applies to, as provided for, Executive and Non-Executive Members of the Board of Directors of the Bank, Members of General Management of the Bank, Senior Management, as well as other Personnel whose professional activities have a material impact on the risk profile of the Bank.

Personnel that has been entrusted with control duties and the Personnel of Control Units (Risk Management Division, Internal Audit Division, Compliance Division, Company Information Security Officer), is independent from the business units it supervises, has the appropriate powers and is remunerated, as regards voluntary remunerations, according to the attainment of goals connected to its duties, irrespective of performance of the business Units it controls.

It is pointed out that non-executive members of the Board of Directors are remunerated only by fixed remuneration.

Variable Remuneration

The variable component of the total compensation is optional and refers to bonus or other reward schemes that may vary per year. In order for variable remuneration to be paid, the achievement of the Bank's goals as well as personal performance in accordance with the evaluation criteria in force are taken into account. The balance between fixed and variable remuneration is a major priority in order to assure market competitiveness in connection with minimisation of risk assumption. The principle of non-assumption of excessive risk, in particular, is assured through the existing Committees / Approving Bodies which are legislated bodies that operate on the basis of specific procedures.

Correct and selective application of variable remuneration policy is considered a necessary tool for administering human resources, as well as attracting and/or retaining senior officers.

Variable remuneration contains a deferred part on the basis of the business cycle, the nature of business activity, the risks it entails and the activities of the members of Personnel it concerns.

Indicative forms of variable remuneration:
- Cash;
- Other means;
- Guaranteed variable remuneration is inconsistent with healthy risk management or the principle of performance reward and are not included in the future remuneration schemes. Exceptionally, they may be granted to newly-hired Personnel for the first year of its employment, provided that the Bank possesses a healthy and strong capital base.

Pay – out process / ex post risk adjustment of variable remuneration

The Bank's Remuneration Policy foresees that the payment of 40% of annual variable remuneration component may be deferred for a period of 3-5 years and such remuneration is paid as long as the beneficiary continues to be in the service of the Bank, and the beneficiary is eligible to variable remuneration on the year of payment. Thus, the deferral element constitutes a core characteristic of granting bonuses, which acts as deterrent for assuming excessive risks and contributes to the maintenance of long-term business relationship. In case where the annual bonus is deemed to be particularly high, then the payment of 60% of the amount may be deferred and not only of 40%.

The Bank has the option, at its absolute discretion, of non-payment up to 100% of the variable remuneration at any stage of the payment period (malus), or to require the recall of variable remuneration (clawback) where the member of Personnel: (i) participated in or was responsible for behaviour which caused significant damages to the Bank; (ii) did not fulfill the appropriate standards of competence and decency.

Total variable remuneration shall generally shrink significantly when the Bank presents subdued or negative financial performance, taking into account both current remuneration and reductions to remunerations already collected, including through malus or reimbursement arrangements.

Remuneration Committee (RemCo)

The Central Bank of Cyprus has approved an exemption, so that the duties of the remuneration committee will be performed by the Remuneration Committee of Alpha Bank Group. Based on this arrangement, the decisions of the Remuneration Committee and the Board of Directors of Alpha Bank S.A., are referred to the Board of Directors of Alpha Bank Cyprus Ltd for ratification.

Other relevant Stakeholders / Parties

Human Resources Division, Internal Audit Division, Compliance Division and Risk Management Division are involved in the design, review and implementation of remuneration policy.

Implementation of Remuneration Policy is subject, at least annually, to central and independent internal control as to comply with the remuneration policies and procedures adopted by the Boards of Directors during the exercising of their supervisory duties. Particularly, Internal Audit Division ensures through the control program, the evaluation, at least on an annual basis, of the implementation of the remuneration policy by the senior management officers and of the compliance thereof, with the relevant policies and procedures adopted by the Board of Directors.

Quantitative – Qualitative Remuneration data

All necessary data are submitted to the competent authorities according to the regulatory reporting requirements.

ALPHA BANK

Tables