ALPHA BANK CYPRUS LIMITED

PILLAR III Disclosures of the year 2017

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

ALPHA BANK

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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.

2. Pillar III Disclosures overview

The Pillar III report is prepared in accordance with the Capital Requirement Regulation and the Capital Requirements Directive IV (as adopted by Cypriot legislation) and the EBA guidelines on Pillar III disclosure requirements.

The Bank has been assessed by the competent authority (Central Bank of Cyprus) on 4.8.2017 as Other Systemically Important Institution (O-SII) and is supervised through its parent by the Single Supervisory Mechanism (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.

Due to its classification as O – SII, 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 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.

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

3. 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.

3.1 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 Common Equity Tier 1 (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 2017.

At the end of December 2017, Alpha Bank's CET1 stood at approx. Euro 252 million; RWAs amounted to Euro 1.822 million resulting in a CET1 ratio of 13.8%, and an Overall Capital Adequacy Ratio of 18.1%. The Bank operates well above regulatory ratios set for the year 2018.

Table 1. Capital Adequacy Ratios	(in Euro million)
Capital Type	**31.12.2017**
CET1	252
Tier 1 Capital	64
Tier 2 Capital	14
Total Regulatory Capital for C.A.R	330
Risk Weighted Assets	1.822
Capital Ratios	
CET1 Ratio	13,8%
Tier 1 Ratio	17,3%
Capital Adequacy Ratio (Tier 1 + Tier 2)	18,1%

According to the framework the minimum own funds requirements are as follows:

- 4.5% for the Common Equity Tier I ratio (CET 1)
- 6% for the Tier I ratio
- 8% for the Total Capital Adequacy ratio

On top of the minimum own funds requirements, capital buffers will be gradually implemented from 1.1.2016 until 31.12.2019.
In particular:

- Capital Conservation buffer up to 2,5%
- O-SII buffer up to 3%
- Countercyclical buffer 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 2017 and 2018 the Central Bank of Cyprus, set the countercyclical buffer at zero per cent (0%).

In December 2017, the ECB informed Alpha Bank Cyprus that according to its Supervisory review and Evaluation Process (SREP) assessment the Overall Capital Requirement (OCR) for 2018 is set at 12,875% increased by 0,625% compared to 2017, due to the gradual increase of the capital conservation buffer. OCR includes, in addition to the Total SREP Capital Requirements (TSCR), the combined buffers requirements (CBR) defined in point (6) of Article 128 of Directive 2013/36/EU as applicable.

The TSCR is composed of the minimum total own fund requirements (8%) and the additional Pillar 2 Requirement (P2R), according to article 16(2) (a) of the Regulation 1024/2013/EU.

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

IFRS9 Impact

The Bank has decided to make use of Article 473a of the EU Regulation (2017/2395) and apply the transitional provisions for the calculation of Capital Adequacy, under which the impact from the application of the new standard will be absorbed within a period of five years. As a result, based on 31.12.2017 results, Common Equity Tier I ratio is estimated to be affected approximately by 10bps for the first year, while the impact from the full implementation is estimated at approximately 270bps.

A detailed description of IFRS 9 implementation as well as the effect from its adoption is included in note 41 of 2017 Financial Statements.

3.2 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 2017, the countercyclical buffer was set at 0%. CCyB is also currently 0% in all other countries in which Alpha Bank has significant exposures. The total CCyB for Alpha Bank Cyprus is zero.

The capital conservation buffer is a capital buffer of 2.5% of a bank’s total exposures that needs to be met with an additional amount of Common Equity Tier 1 capital. The buffer sits on top of the 4.5% minimum requirement for Common Equity Tier 1 capital. Its objective is to conserve a bank’s capital.

O-SII’s shall maintain additional capital due to their systemic importance since they are more likely to create risks to financial stability. The Bank should comply with a buffer of 0,5% by 2022, applying 0,125% phase-in percentages starting from 2019.

3.3 Own Funds

On 31.12.2017 the Bank's share capital amounts to Euro 174.474.178 divided to 148.303.051 ordinary with voting rights shares with nominal value of Euro 0,85 and a share premium of Euro 90.467.123. Further analysis on the share capital and share premium is provided in notes 27 and 29 of 2017 Financial Statements.

Additional Tier I capital mainly consists of hybrid securities. The amount included as part of Tier I for 2017 stands at Euro 63.892 thousand

Tier II capital amounting to Euro 13.980 consists of Bonds issued by the Bank and are held by Alpha Bank Group companies.

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

The Bank's total capital adequacy on 31 December 2017 stands at 18,1% 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 2. Own Funds Structure	(in Euro million)
Type	**31.12.2017**
Share capital	148
Share premium	91
Accumulated other comprehensive income (and other reserves)	112
Reserves & Retained Earnings	107
AFS reserves	5
PVA	**-**
Common equity tier 1 capital before regulatory adjustments	**351**
Loss for the year	-87
Intangible Assets	-1
DTA	-12
Other transitional adjustments	-
Total regulatory adjustments to common equity tier 1	**-13**
Common equity tier 1 capital (CET1)	**252**
Hybrid instruments	64
Additional Tier I before regulatory adjustments	**64**
Hybrid instruments transitional adjustments	-
Total regulatory adjustments to additional Tier I	-
Additional Tier I (AT1)	**64**
Tier I Capital (CET1 + AT1)	**316**
Subordinated loan	14
Tier II capital before regulatory adjustments	**14**
Total regulatory adjustments to Tier II	0
Tier II capital	**14**
Total Capital (TC = Tier I + Tier II)	**330**
Total RWA	**1.822**
Common equity tier 1 Ratio	**13,8%**
Tier I Ratio	**17,3%**
Capital Adequacy Ratio (Tier I + Tier II)	**18,1%**

The below tables include additional tier I and tier II amounts of all capital instruments (traded and non traded) carrying a unique identifier on not.

Table 3. Capital instruments carrying a unique identifier		2017
1	Issuer	Alpha Bank Cyprus Ltd
2	Unique identifier	CY0140830114
3	Governing law(s) of the instrument	Cyprus
	Regulatory treatment	
4	Transitional CRR rules	Tier II
5	Post transitional CRR rules	Tier II
6	Eligible at solo/(sub-) consolidated/solo & (sub) consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Tier II
8	Amount recognised in regulatory capital (currency in million, as at 31.12.2017	€7mil
9	Nominal amount of instrument	€100 mil.
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	Liability – Amortised cost
11	Original date of issuance	30.5.2008
12	Perpetual or dated	Dated
13	Original maturity date	30.5.2018
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	First call date 30.5.2013
16	Subsequent call dates, if applicable	Quarterly
	Coupons/ dividends	
17	Fixed or floating dividend/ coupon	Floating
18	Coupon rate and any related index	3M Euribor + 1,8% for first 5 years and 3M Euribor + 2,8% for the remaining period.
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timings)	Partially discretionary
21b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Cumulative subject to Capital Adequacy conditions
23	Convertible or non-convertible	No
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down triggers(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A

35	Position in subordinated hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier II
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

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		2017				
1	Issuer	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd
2	Unique identifier	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	Cyprus	Cyprus	Cyprus	Cyprus	Cyprus
	Regulatory treatment					
4	Transitional CRR rules	N/A	Tier II	Tier II	Tier II	Tier II
5	Post transitional CRR rules	Additional Tier I	Tier II	Tier II	Tier II	Tier II
6	Eligible at solo/(sub-) consolidated/solo & (sub) consolidated	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Tier I	Tier II	Tier II	Tier II	Tier II
8	Amount recognised in regulatory capital (currency in million, as at 31.12.2017	€64mil	-	-	0,7	6,4
9	Nominal amount of instrument	€64mil	€2mil	€1,4mil	€3,9mil	€16,0mil
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost
11	Original date of issuance	1.11.2013	17.3.2008	12.12.2008	18.12.2009	3.3.2011
12	Perpetual or dated	Perpertual	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost	Liability – Amortised cost
13	Original maturity date	-	17.3.2018	12.12.2018	18.12.2019	3.3.2021

3.4 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 calculate capital for market risk.

The total risk-weighted assets of the Bank amounted to Euro 1.821.713 thous. on 31.12.2017. Out of this amount, Euro 1.661.175 thous. is related to Credit risk and Euro 160.538 thous. 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 sold the receivables (risks and rewards) of Non Performing Exposures of gross value Euro372 million to an Alpha Bank Group Company.

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

Both above actions post December 2017 have positively impacted the Bank's Capital Adequacy.

The Bank on 30.05.2018 has repaid Euro100 million of Tier II bond as per the Bond terms of issue. The aforementioned Bond, due to amortization, it counted for Euro 7 million in regulatory capital as at 31.12.2017

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	**(In Euro million)**	
Risk Category	2017	
	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

4. 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 31.12.2017 was 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 with reference date 31.12.2017 is presented:

Table 6. Summary reconciliation of accounting assets and leverage ratio exposures	(in Euro million)
Total assets as per published financial statements	2.745
Adjustments for derivative financial instruments	(2)
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	38
Leverage ratio total exposure measure	**2.781**

Table 7. Leverage ratio common disclosure	(in Euro million)
On-balance sheet exposures (excluding derivatives and SFTs)	**CRR leverage ratio exposures**
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2.311
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**2.311**
Derivative exposures	
Replacement cost associated with all derivatives transactions (i.e.: net of eligible cash variation margin)	7
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	5
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-7
Total derivatives exposures (sum of lines 4 to 10)	**5**
SFT exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
Counterparty credit risk exposure for SFT assets	427
Total securities financing transaction exposures	
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	168
(Adjustments for conversion to credit equivalent amounts)	-130
Other off-balance sheet exposures	**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	316
Leverage ratio total exposure measure	2.781
Leverage ratio	
Leverage ratio	**11,4%**
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	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)
On-balance sheet exposures (excluding derivatives and SFTs)	**CRR leverage ratio exposures**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**2.318**
Banking book exposures, of which:	2.318
Exposures treated as sovereigns	363
Institutions	144
Secured by mortgages of immovable properties	281
Retail exposures	742
Corporate	585
Other exposures	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.

5. 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 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, counterparty and 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.

5.1 Risk Management Framework and Principles

Risk is inherent in the Bank's business activities and is linked to strategic and capital decisions. The Bank aims through appropriate risk management, to achieve the Bank's business and financial strategic targets without exceeding set risk tolerances and by considering internal constraints (capital, liquidity) and external constraints set by regulators and other stakeholders.

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 preserve 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.

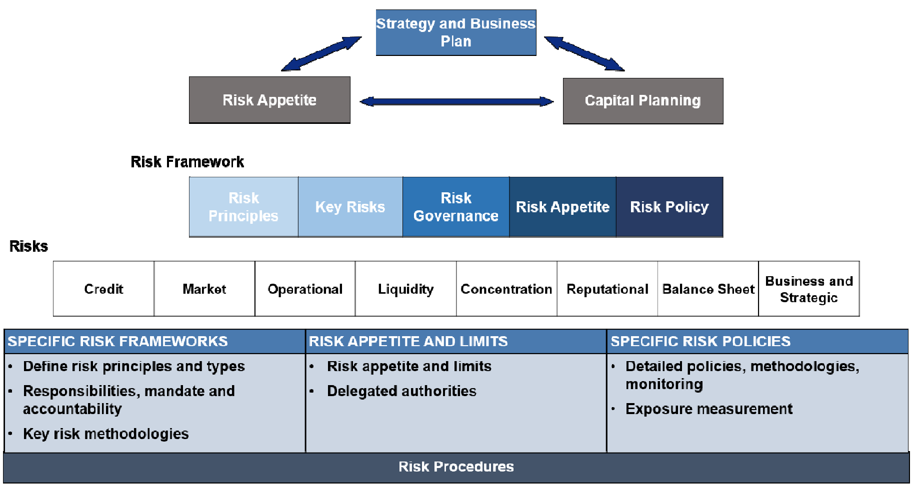

Figure 1: Risk Management Framework

5.2 Risk Appetite Framework

The Risk Appetite Framework (RAF) constitutes a major component in the Bank's overall approach of 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 targets and constraints of RAF pertinent to the Bank and the Group. The Bank's risk appetite governance is adjusted to meet solo specific governance structure while being monitored by the Bank RAF governance. If override needed, upon any breach of risk limits, final approval is provided by upper hierarchical level as appropriate.

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.

5.2.1 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.

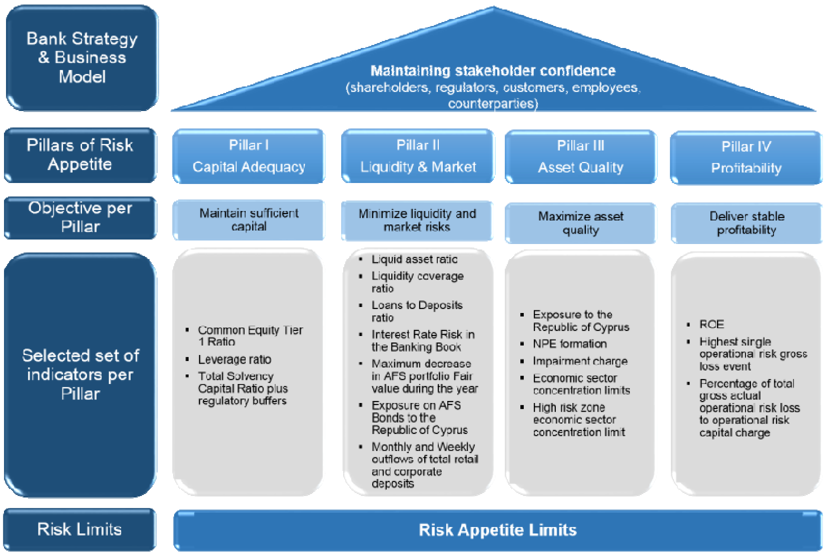

Figure 2: RAS pillars

5.3 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 a strong internal control system.

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 Management Divisions and Business Units.

The Bank's risk governance framework is based on the "Three Line of Defense Model" as this is illustrated in the diagram below. It also follows the principals of the consultative document regarding "Guidelines on Corporate Governance Principals for Banks" published by BCBS in October 2014 and the Central Bank of Cyprus's Directive on Governance and Management Arrangements in Credit Institutions of 2014.

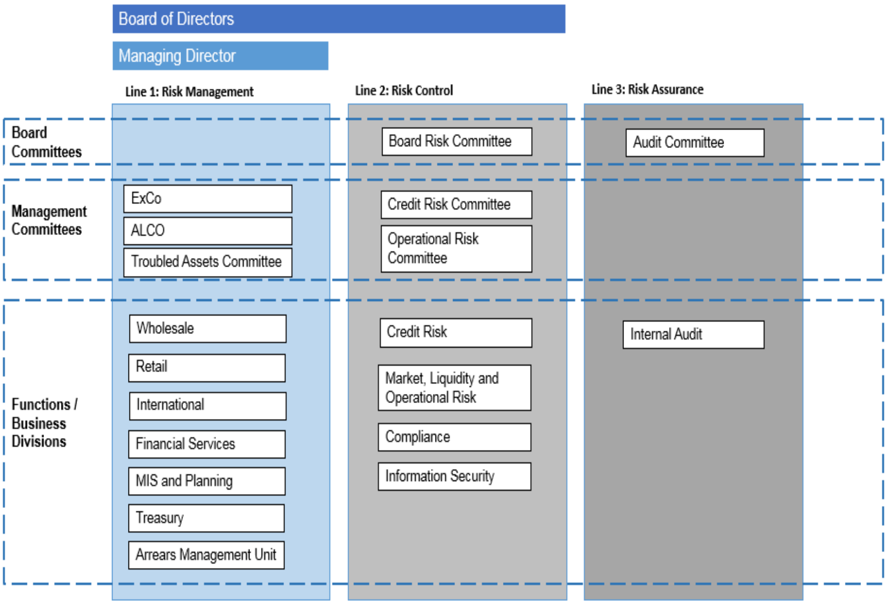

Figure 3: Three lines of defense model

The first line of defense consists of front office business units of retail, wholesale and international banking. The business units have ownership of the risks that arise from their daily activities and are responsible and accountable for the ongoing management of the risks they undertake. This includes identifying, assessing, monitoring and reporting of their exposures to the relevant risks, taking into account the approved risk appetite, as well as relevant policies, procedures, controls and limits.

The second line of defense consists of functions, independent from the first line of defense. It covers the risk management activities that are carried out by Risk Divisions (Credit Risk Division and Market and Operational Risk Division), Compliance and Information Security Functions. These functions are responsible for overseeing the bank's risk-taking activities for the individual risk assessment and the aggregation of risk. The independent compliance function, among other things, monitors compliance with laws, corporate governance rules, regulations, codes and policies of the Bank. The BoD approves compliance policies that are communicated internally. The function ensures compliance with the policies and report to the senior management and the BoD on how the Bank manages its compliance risk. The Information Security Function ensures compliance with IS and IT policies procedures of the Bank.

The second line of defense also refers to the risk management activities performed by the second line risk management committees at the Management and Board Level and includes 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.

The third line of defense consists of the independent internal audit function. Among other things, it provides independent review and assurance on the quality and effectiveness of the Group risk governance framework including links to organizational culture, as well as strategic and business planning, compensation and decision-making processes. The Internal Audit conducts regular internal audits of the procedures applied for managing all types of risks and their effectiveness, the results of these audits are summarized in reports submitted to the BoD, through the Audit Committee, and to the Senior Management.

Regardless of the specific structure, the responsibilities of each line of defense are well defined and communicated throughout the organization.

The three lines of defense are supported by critical units of the Bank, such as Finance, Legal, IT 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 defense 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 defense, 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 Managing Director 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:

- Development and monitoring of the strategy for all types of risks, in accordance to the Group's strategy and policies;
- Development of an internal risk management framework;
- Definition of principles governing the risk management;
- Evaluation of the adequacy and effectiveness of the risk management policy and procedures of the Bank, 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);
- Determine the applicable risk appetite on an aggregate basis for each type of risk and further allocate each of these limits per country, sector, currency, business unit;
- Schedule the conduct of periodic stress tests (at least on an annual basis) for market, credit and liquidity risk, as well as review the equivalent measures for the operational risk;
- Remain informed on issues raised in External Auditor's report for risk management related issues;

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, have 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, reports required by the framework 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;
- Reviews the Bank's Financial Statements (along with the Board's Report), prior to submitting it to the Board for approval.

The Executive Committee (ExCo)

In relation to the Risk Management Framework of the Bank, the ExCo is mandated by the BoD to review and approve the risk management policies and credit policies and ensure that along with the risk management strategy and appetite, these are incorporated in the Bank's business decision making process. The ExCo assigns authorities and responsibilities to specific General Management committees, i.e. the Asset and Liability Committee (ALCO), the Credit Risk Committee and the Operational Risk Committee.

Committees at the Executive Management Level

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 propose mitigating action.

Credit Risk Committee

The Credit Risk Committee of the Bank has an oversight of the credit risk activities and the implementation of relevant strategy. The Committee is responsible for the evaluation of the adequacy and the effectiveness of policies and procedures of Bank credit risk management regarding credit risk taking, monitoring and management by business line, geographic area, product activity, sector etc., as well as approving necessary structural mitigating actions. The Committee 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 Troubled Assets Committee ("TAC")

The TAC of the Bank is responsible to monitor the implementation of the Board approved Arrears Management Strategy and relevant policies and procedures related to the Bank's Troubled Assets (Arrears Management and NPE framework of the Bank) across the Bank and provide a forum of discussion of new of alternative types of forbearance measures and closure solutions and of the criteria for the assessment of the performance of modifications regarding the Troubled Assets Loans.

Bank Risk Divisions

The Risk Management 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 Management Divisions have a direct reporting line and is 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, under the leadership of the General Manager Risk 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 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, under the leadership of the General Manager Risk, provides analysis and expert judgment on credit risk issues, to enable and assist the Board of Directors to 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

The Department is responsible for the continuous monitoring, statistical checks and validation of the risk measurement models.

The Credit Risk and Market and Operational Risk Divisions and the Credit Risk Model Validation Department implement the Bank's policies and procedures as they relate to the specific risk areas, including risk monitoring, reporting, the preparation of the ICAAP and stress tests.

5.4 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. In broad terms, the 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 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 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.

5.5 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 Risk Management Strategy.

6. Credit Risk

6.1 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.

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;
- Reflect the risk that is embedded during current economic recession;
- Facilitate the portfolio management and the decision making processes;
- Contribute to preventing any potential negative effects in the Bank's financial results.

In this respect, the previous year is considered as a cornerstone for Alpha Bank since the following actions have been completed:

- Validation of credit risk models: Wholesale rating models and Retail credit scoring models have been reviewed against recent regulatory requirements
- Amendment of the necessary policies, procedures and models for the adoption of the International Financial Reporting Standards (IFRS) 9 at Bank level
- Significant changes in the methodologies used for the calculation of the risk parameters used in the calculation of collective provisions through the implementation of new and upgrading of existing models
- Revision of the Impairment Calculation System, according to the new International Financial Reporting Standards (IFRS 9).

The key priorities for the current year include the following:

- Operationalization of the International Financial Reporting Standard (IFRS) 9

- Continued efforts for the development and improvement of the necessary data infrastructure
- Review and enhancement of the credit risk management framework in line with the abovementioned changes and updates

6.2 Credit Quality of Exposures

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

- The exposure is less than 90 days past due;
- No legal actions have been undertaken against the exposure;
- The situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made;
- 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.

Past due exposures are defined as exposures that are more than one (1) day past due. An exposure is considered as non-performing when one of the following criteria is satisfied:

- The exposure is more than 90 days past due;
- An exposure against which legal actions have been undertaken by the Bank;
- The debtor is assessed as unlikely to pay its credit obligations in full;
- The exposure is classified as impaired (as defined below);
- The exposure is classified as forborne non-performing exposure, as defined in the commission Implementing Regulation (EU) 2015/227 of January 9, 2015.

Non-performing exposures with forbearance measures include the following:

- Exposures which were non-performing prior to the extension of forbearance measures; and
- Forborne exposures which have been reclassified from the performing exposures category, including exposures under probation (forborne performing having been reclassified out of the Forborne Non Performing Loan (FNPL) status) having been re-forborne or that are more than 30 days past-due.

According to the CRR 575/2013 definition, any of the following events triggers a default status:

- The institution considers that the obligor is unlikely to pay its credit obligations to the institution
- The obligor is past due more than 90 days on any material credit obligation to the institution

Impaired exposures are defined as follows:

- Exposures for which an impairment amount has been allocated following the individual assessment for impairment;
- Exposures in arrears more than 90 days or under legal workout status, for which an impairment amount has been allocated following the collective assessment for impairment;
- Unlikely to pay exposures; and
- Forborne Non Performing Exposures that are up to 89 days past due.

The Bank establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book.

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.

Impairment policy

The Bank reviews loans and advances to customers in order to assess whether there is a need for impairment which is recognized in comprehensive income. The Bank assesses whether there is objective evidence of impairment in order to proceed with customers' individual assessment for impairment. The loan portfolio is assessed either on an individual or on a collective basis.

Individual Impairment Assessment

The Bank has defined as 'significant for individual assessment' customers loans that are managed by the Wholesale Banking sector with facilities exceeding €300 thousands, including associated companies and connected persons with facilities over €1 mil. In addition, for Retail Banking customers it has defined as 'significant for individual assessment' loans to customers with facilities over €1 mil. and connected with them persons with facilities over €1 mil.

In addition to the above, the Bank examines on an individual basis credit facilities to groups of connected counterparties, which exceed 3% of its share capital and reserves, as defined in the CBC "Directive Issued to Credit Institutions on Loan Impairment and Provisioning Procedures of 2014 to 2016".

The Bank assesses whether objective evidence for individual assessment for impairment exists. The process for identifying loans for impairment and estimating their impairment provision consists of the following steps:

- identification of loans which will be individually assessed and for which events exist which constitute objective evidence that an impairment loss has occurred,
- impairment calculation on an individual basis for the loans identified in the previous step, as the difference between the recoverable amount and the carrying amount of the loan,
- loans that were individually assessed but not individually impaired, will be examined under the collective impairment assessment, based on similar credit risk characteristics.

Significant loans are assessed on an individual basis if one of the following trigger events exists:

- exposures exhibiting arrears / past due over 90 days,
- non performing exposures (EBA Definition),
- rating of borrower CC- or worse (Wholesale customers),
- customer expired credit rating (Wholesale customers),
- deteriorated debt restructuring (EBA Forborne),
- significant difficulty of the borrower to repay third parties obligations,
- significant deterioration of the financial position and performance of the borrower,
- adverse developments in borrowers' industry outlook,
- interventions and actions by regulatory bodies against the borrower (Wholesale customers),
- interventions and actions by government authorities against the borrower (Retail customers),
- adverse changes in the shareholders' structure or the management of the company or serious management issues/problems (Wholesale customers),
- occurrence of unforeseen, extreme events,
- 30 to 90 days arrears in at least one client's account.

Collective Impairment Assessment

Collective Impairment Assessment is applied to loans which do not meet the conditions for individual assessment once they are classified based on similar credit risk characteristics. In addition, exposures for which there has not been calculated any loss during the individual assessment, are assessed on a collective basis, once they are incorporated into groups based on similar credit risk characteristics.

In order to effectively manage credit risk, the Bank has developed specific methodologies and credit risk measurement systems in accordance with regulatory and Basel II requirements while incorporating banking industry best practices. These methodologies and systems are continuously evolving to provide the Business Units with timely and effective support in the decision making process and to avoid possible adverse consequences for the Group.

The Credit Risk Committee assesses the adequacy and the efficiency of the credit risk management policy and procedures as regards undertaking, monitoring and management of credit risk per business line and resolves on the planning of the required corrective actions. The Credit Risk Committee convenes regularly every quarter or earlier if needed.

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 as of 31.12.2017 are displayed in the following table:

Table 9. EU CRB-B - Total and average net amount of exposures (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	676	704
of which SMEs	342	461
Retail	807	833
of which SMEs	58	63
Secured by mortgages on immovable property	290	314
of which SMEs	39	45
Other items and items associated with high risk	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 (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	597	26	13	40	676
Retail	481	5	287	34	807
Secured by mortgages on immovable property	230	0	49	11	290
Other items and items associated with high risk	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 at 31.12.2017. Exposures include on and off-Balance-Sheet exposures less allowances/impairments.

Table 11. EU CRB-D - Concentration of exposures by industry or counterparty type (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	34	11	190	92	57	60	49	182	1	676
Retail	16	-	20	34	3	5	6	723	-	807
Secured by mortgages on immovable property	1	-	1	10	-	6	3	269	-	290
Other items and items associated with high risk	-	-	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 as of 31.12.2017, including on Balance Sheet exposures less allowances/impairments.

Table 12. EU CRB-E - Maturity of exposures (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	208	23	70	282	2	585
Retail	292	12	68	370	0	742
Secured by mortgages on immovable property	13	1	27	240	0	281
Other items and items associated with high risk	90	7	12	39	55	203
Total	**994**	**587**	**177**	**931**	**61**	**2.750**

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

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 (in Euro million)

	Gross carrying amount of				
Exposure Class	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**Accumulated write offs**	**Net values**
Central governments or central banks	0	363	0	0	363
Institutions	0	581	0	0	581
Corporates	429	456	209	116	676
Retail	953	301	447	115	807
Secured by mortgages on immovable property	0	290	0	6	290
Other items and items associated with high risk	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.

Table 14. EU CR1-B - Credit quality of exposures by industry or counterparty type

(in Euro million)

31.12.2017	Gross carrying values of		Total Provisions	Accumulated write offs	Net Values
	Defaulted Exposures	Non-defaulted exposures			
NON FINANCIAL CORPORATIONS	700	509	404	108	805
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
CENTRAL BANKS	0	231	0	0	231
CREDIT INSTITUTIONS	0	572	0	0	572
GENERAL GOVERNMENT	0	132	0	0	132
OTHER FINANCIAL CORPORATIONS	17	43	5	19	55
HOUSEHOLDS	1.008	517	485	123	1.040
Total [1]	**1.725**	**2.004**	**894**	**250**	**2.835**

(1) Includes loans and advances, debt securities, and off-balance sheet items as included in Corep.

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

Table 15. EU CR1-C - Credit quality of exposures by geography (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 (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 (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 during the year ended 31 December 2017.

Table 18. EU CR2-A - Changes in the stock of general and specific risk adjustments
(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
(in Euro million)

	Gross carrying value defaulted and impaired exposures [(1)]
Opening balance	**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

6.3 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.

Moreover, the Bank sets additional criteria which should be satisfied during the collateral management process (market value monitoring, insurance, legal validity) and the terms and conditions of the relevant agreements.

6.3.1 Collateral valuation and management policies and procedures

Collateral can be used in order to mitigate the Credit Risk created in case 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.

6.3.2 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.

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 (in Euro million)

Exposure Class	Exposures Unsecured - Carrying amount	Exposures Secured - Carrying amount	Exposures Secured by collateral - Carrying amount	Exposures Secured by financial guarantees - Carrying amount	Exposures Secured by credit derivatives - Carrying amount
Total Loans and Advances	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) at 31.12.2017, excluding exposures with counterparties.

Table 21. EU CR4 - Standardized approach - Credit risk exposure and credit risk mitigation (CRM)
(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	585	92	515	17	552	103,76%
Retail	742	65	723	3	698	96,14%
Secured by mortgages on immovable property	281	8	281	4	101	35,44%
Other items and Items associated with high risk	203	0	201	0	257	127,86%
Total	**2.750**	**170**	**2.240**	**27**	**1.661**	**73,27%**

6.4 Concentration risk

Concentration risk as part of the credit risk, includes:

- Large exposures to single obligors or group of connected obligors
- Significant exposures to groups of counterparties whose probability of default is driven by common underlying factors such as:
    - Industry Sector
    - Macroeconomic Environment
    - Geographical Location

- The Bank has established risk exposure limits for single obligors and groups of connected obligors, as part of the Group's risk appetite and taking into account business objectives, product mix and services on offer.

7. 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 35.5 of the Financial Statements of 2017

8. Encumbered and Unencumbered assets

The bank is funded through secured and unsecured funding lines. Secured funding involves the encumbrance of the banks´assets.

An asset is considered as encumbered if it has been pledged as collateral, either to obtain funding or in any transaction that requests collateral. Such asset is no longer available for the bank to be pledged as collateral to obtain funding.

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. Carrying and fair value of encumbered and unencumbered assets (in Euro million)

31 December 2017	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Equity instruments	-	-	6	6
Debt securities	-	-	132	132
Other assets	198	198	2.654	2.741
Total	198		2.792	

Table 23. Carrying and fair value of encumbered and unencumbered collaterals (in Euro million)

31 December 2017	Fair value of encumbered collateral received or own debt securities issued	Fair value collaterals received or own debt securities issued available for encumbrance
Collaterals received by the Bank		
Equity instruments	-	-
Debt securities	-	423
Other	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-
Total	-	423

Table 24. Encumbered assets and collaterals received by the bank and associated companies (in Euro million)		
31 December 2017	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and Asset Backed Securities encumbered**
Carrying amount of selected financial liabilities	-	-
Total	-	-

9. Remuneration Policy

Alpha Bank Cyprus Ltd is applying a Remuneration Policy, coherent with Group guidelines, which is in line with the local and European regulatory framework as well as with the current collective labor agreement. The Remuneration Policy is required by the Central Bank of Cyprus directives and the relevant guidelines of the European Banking Authority.

The Remuneration policy:

- is consistent with the values, business strategy, objectives and in general the Bank's long-term interests,
- aligns personal and corporate goals in a long-term perspective and incorporates measures to avoid conflicting interests,
- promotes effective risk management, discourages excessive personal risks responsibility and prevents or minimizes the occurrence of conflicts of interest which are detrimental to sound, prudent and sound risk management. It is noted that risk responsibility is decided by committees / approving bodies that operate on the basis of specific terms of reference,
- correlates the personnel earnings with the risks they undertake.

Compensation components

The Remuneration policy covers all remunerations, whether resulting from the current Collective Labor Agreement or provided by the Bank's freedom, namely:

- Fixed earnings, wages
- Variable earnings: The variable component of the total reward is optional and refers to bonus schemes or other rewards that may vary from year to year. Their payment takes into account the achievement of the Bank's / Company's objectives, the Unit, as well as the individual performance on the basis of the relevant

evaluation criteria. Priority is given to the balance between fixed and variable remuneration components to ensure the bank's competitiveness in the market, in combination with the minimization of the risk involved.

• Benefits associated to the job

• Benefits associated with the retirement from the Bank, which are granted by the Bank and at the discretion of the Bank, as the case may be.

The ratio between the components of total remuneration aims to be:

• Promoting, attaining the objectives,

• Flexible and adaptable to current market conditions,

•Risk adjusted, taking into account present and future risks.

• Proactive, with provision for possible postponement, adjustment, non-payment or return of variable remuneration.

Remuneration Committee

The Central Bank of Cyprus has approved an exemption and the duties of the remuneration committee will be performed by the Remuneration Committee of the 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.

The Remuneration Committee prepares the Remuneration Policy in a prudent and objective manner, which is submitted to the Board of Directors of Alpha Bank S.A. for approval, taking into account the interests of shareholders, investors and other stakeholders.

The Remuneration Committee ensures that Human Resource Division, Internal Audit Division, Compliance Division and Risk Management Division are involved in the design, review and implementation of remuneration policy.

Tables