

GROUP OF ALPHA BANK CYPRUS LIMITED

PILLAR III Disclosures of the year 2019

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



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1. General Information

1.1 General

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 2019 were the following:

- The agreement with doValue currently acting as an advisor for the administration of Non performing exposures and the Real Estate assets that are acquired in settlement of customers debts.
- The incorporation of wholly owned subsidiaries to support the process of repossessing assets against customers debts (Debt for Assets - DFAS)
- The participation in the Government scheme “ESTIA” through which housing loans will be restructured with the participation of the government in the loan installment

1.2 COVID – 19 Outbreak

In the face of the Covid-19 pandemic, the Bank has timely implemented with discipline all the appropriate measures to minimise risks, to protect its employees, to ensure its business continuity and to deliver on its social responsibility to support customers and the economy, in line with the evolving situation. Alpha Bank is closely monitoring the situation on COVID-19 and continuously assesses the potential impact of the pandemic on the Bank’s asset quality, risk profile and the execution of its Business Plan to which the Bank remains fully committed.

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 11.10.2019 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 European Central Bank (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 2023, applying 0,125% phase-in percentages starting from 2019 with years 2020 to 2021 having the same percentage.

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 2019 amounted to Euro 2.169,5 million, compared to Euro 2.212,8 million on 31 December 2018, presenting a decrease of 2,0%. The net loans to deposits ratio was slightly improved to 69,0% on 31 December 2019, from 69,6% on 31 December 2018.

Non-performing exposures, according to the definition of the European Banking Authority (EBA), stood at Euro 1.140,4 million and accounted for 54,1% of gross loans, compared to 57,0% in 2018. On 31 December 2019, coverage ratio of non performing exposures, according to the definition of the European Banking Authority (EBA), stands at 53,5% compared to 55,5% on 31 December 2018.

Net Interest income in 2019 amounted to Euro 59,4 million, presenting an increase of 18,3% compared to Euro 50,2 million in 2018. The increase is mainly attributed to the decrease of the cost of customer deposits.

Total income of the Bank amounts to Euro 77,8 million in 2019, compared to Euro 63,6 million in 2018. The total increase of income during 2019 of 22,3% is mainly attributed to the decrease deposits cost and the increase of income from commissions and other income.

Total expenses of the Bank for 2019, amounted to Euro 61,7 million, compared to Euro 55,7 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 79,3% for 2019 compared to 87,5% in 2018.

Impairment loss and provisions to cover credit risk were decreased in 2019 by 77,2%, to Euro 5,3 compared to Eur23,2 million in 2018. 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 610,6 million on 31 December 2019, covering 28,9% of gross loans, representing a decrease of 14,4% compared to 31 December 2018. 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 2019 amounted to Euro 1.496,1 million, down 2,9% compared to Euro 1.540,8 million at December 31, 2018. The main reason relates to the deleveraging efforts of the Bank.

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 2019.

At the end of December 2019, Alpha Bank Cyprus's CET1 stood at approx. Euro 289 million; RWAs amounted to Euro 1.753 million resulting in a CET1 ratio of 16,5%, and Capital Adequacy Ratio of 20,2%.

The Bank operates well above regulatory ratios set for the year 2020.

Table 1. Capital Adequacy Ratios	(in Euro million)	
Capital Type	31.12.2019	31.12.2018
CET1	289	277
Additional Tier 1 Capital	64	64
Additional Tier 2 Capital	1	3
Total Regulatory Capital	354	344
Risk Weighted Assets	1.753	1.672
Capital Ratios		
CET1 Ratio	16,5%	16,6%
Tier 1 Ratio	20,2%	20,4%
Capital Adequacy Ratio (Tier 1 + Tier 2)	20,2%	20,6%

The capital adequacy of the Group is supervised by the parent company Alpha Bank A.E, which is considered to be a systemic credit institution by the Single Supervisory Mechanism of the European Central Bank. 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 supervision is conducted in accordance with the European Regulation 575/2013 (CRR) and the relevant European Directive 2013/36 (CRD IV), which was incorporated into the Cyprus Law. The framework is broadly known as Basel III. The Central Bank of Cyprus, with a view to harmonize with CRD IV, has proceeded to transfer the provisions of the above Directive by amending the Banking law and by introducing the new Macro-Prudential Oversight Law of 2015, which was amended in early February 2017 with retrospective effect from 1.1.2016, setting the minimum ratios (equity capital, Tier I capital and capital adequacy) that the Group should maintain.

In accordance with the above framework for the calculation of the capital adequacy ratio, the transitional provisions in force are followed.

- Besides the 8% capital adequacy limit, there are applicable limits for Common Equity Ratio and Tier I ratio of 4,5% and 6%, respectively
- The maintenance of capital buffers additional to the Common Equity Capital, from 1.1.2019 of 2,5% is maintained
- Central Bank of Cyprus, set the following capital buffers for 2019:

Other systemically important institutions' (O-SII) buffer 0,5%.

Countercyclical capital buffer equal to «zero percent» 0%.

In December 2018, the ECB informed Alpha Bank that for the year 2019 the minimum limit for the Overall Capital Requirement (OCR) is 13,625%. 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 which corresponds to 3%, and the combined buffer requirements (CBR), according to article 128(6) of the Directive 2013/36/EU which correspond to 2,625%. The above minimum ratio should be maintained on a phase-in basis under applicable transitional rules of the CRR / CRD IV, at all times.

Respectively, for the year 2020, the ratios requirements under the ECB's decision are estimated at 13,75%. The increase relates to the addition of 0,125% for the gradual implementation of the O-SII buffer reserve.

As per the recently announced regulatory measures by EBA and ECB, in view of the COVID-19 outbreak, capital regulatory thresholds for European banking institutions have been relaxed. Specifically, the European Central Bank (ECB) and the European Banking Authority (EBA) announced the following relaxation measures for the minimum capital and liquidity requirements for Banks in the Eurozone:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance, the Capital Conservation Buffer and the Countercyclical Buffer.
- Furthermore, the upcoming change under CRD5 regarding the P2R buffer was brought forward allowing the Pillar 2 Requirement (P2R) to be covered by Additional Tier 1 (AT1) capital and Tier 2 (T2) capital and not only by CET 1.

EU-wide stress test is primarily focused on the assessment of the impact of risk drivers on the solvency of banks. Banks are required to stress a common set of risks (credit risk – including securitisations – market risk and counterparty credit risk, operational risk – including conduct risk). The EU – Stress Test is a biannual exercise. However due to the outbreak of COVID – 19 (Coronavirus) and its global spread, EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks' exposures and asset quality to market participants.

4.2 IFRS9 Capital Impact

On December 12, 2017 the EU adopted Regulation No 2395/2017 of 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 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)	31.12.2019	31.12.2018	
CET1 capital	289	277	
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	242	228	
Tier 1 capital	353	341	
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	306	292	
Total capital	354	344	
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	307	295	
Risk-weighted assets (amounts)			
Total Risk-weighted assets	1.753	1.672	
Total Risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1.705	1.624	
Capital ratios			
CET 1 ratio (%)	16,5%	16,6%	
CET1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14,2%	14,02%	
Tier 1 ratio (%)	20,2%	20,4%	
Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,9%	17,96%	
Total ratio (%)	20,2%	20,6%	
Total ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18,0%	18,17%	
Leverage ratio			
Leverage ratio total exposure measure	2.698	2.710	
Leverage ratio	13,1%	12,6%	
leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11,5%	10,83%	

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 2019, 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 31.12.2019 the Bank's share capital amounts to Euro 180.694.153 divided into 212.581.357 ordinary shares with voting rights with nominal value of Euro 0,85 and a share premium of Euro 102.661.420. Further analysis of the share capital and share premium is provided in notes 30 and 32 of 2019 Financial Statements.

Additional Tier I capital mainly consists of hybrid securities. The amount included as part of Tier I for 2019 stands at Euro 64 million.

Tier II capital amounting to Euro 1,0 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 2019 stands at 16,5% 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	31.12.2019	31.12.2018
Share capital	181	181
Share premium	103	103
Accumulated other comprehensive income (and other reserves)	-42	-30
Reserves & Retained Earnings	-54	-35
AFS reserves	12	5
Adjustments due to IFRS 9 transitional adjustments	47	53
PVA	-	-
Common equity tier 1 capital before regulatory adjustments	289	307
Profit / (Loss) for the year	10	-19
Intangible Assets	-2	-2
DTA	-8	-9
Other transitional adjustments	-	-
Total regulatory adjustments to common equity tier 1	-10	-11
Common equity tier 1 capital (CET1)	289	277
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)	353	341
Subordinated loan	1	3
Tier II capital before regulatory adjustments	1	3
Total regulatory adjustments to Tier II	0	0
Tier II capital	1	3
Total Capital (TC = Tier I + Tier II)	354	344
Total RWA	1.753	1.672
Common equity tier 1 Ratio	16,5%	16,6%
Tier I Ratio	20,2%	20,4%
Capital Adequacy Ratio (Tier I + Tier II)	20,2%	20,6%

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			2019
1	Issuer	Alpha Bank Cyprus Ltd	Alpha Bank Cyprus Ltd
2	Unique identifier	N/A	N/A
3	Governing law(s) of the instrument	Cyprus	Cyprus
	Regulatory treatment		
4	Transitional CRR rules	N/A	Tier II
5	Post transitional CRR rules	Additional Tier I	Tier II
6	Eligible at solo/(sub-) consolidated/solo & (sub) consolidated	Solo / Cons	Solo / Cons
7	Instrument type (types to be specified by each jurisdiction)	Tier I	Tier II
8	Amount recognised in regulatory capital (currency in million, as at 31.12.2019)	€64	€1,1
9	Nominal amount of instrument	€64mil	€10,7mil
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability – Amortised cost	Liability – Amortised cost
11	Original date of issuance	1.11.2013	3.3.2011
12	Perpetual or dated	Perpetual	Liability – Amortised cost
13	Original maturity date	-	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 minimum capital requirements under Pillar I are calculated as 8% of RWA. RWAs are calculated by applying the IFRS 9 five-year phase-in period. The Euro 1.753 billion are decomposed into: Euro 1.630 billion from Credit Risk, which represents approx. 93% of total capital requirements, and Euro 0.123 billion from Operational Risk. During the financial year of December 2018 to December 2019, the total risk weighted assets of the Group were increased by Euro 81 million.

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.

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 5a. EU OV1 – Overview of RWAs 2019	(In Euro million)	
Risk Category	RWAs	Minimum capital requirements
Credit Risk (excluding CCR)	1.630	130
Of which standardized approach	1.630	130
Operational risk	123	10
Of which standardised approach	123	10
Total	1.753	140

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

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 2019. 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 31.12.2019 was 13,1%, (31.12.2018: 12,6%) 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)		
	2019	2018
Total assets as per published financial statements	2.600	2.614
Transitional adjustments due to IFRS 9	47	53
Adjustments for derivative financial instruments	3	4
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	58	49
Other	-10	-10
Leverage ratio total exposure measure	2.698	2.710

Table 7. Leverage ratio common disclosure		
(in Euro million)		
	2019	2018
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)	2.443	2.609
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	2.443	2.609
Derivative exposures		
Replacement cost associated with all derivatives transactions	1	-
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	2	4
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
Total derivatives exposures	3	4
SFT exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		
Counterparty credit risk exposure for SFT assets	194	48
Total securities financing transaction exposures	194	48
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	198	189
(Adjustments for conversion to credit equivalent amounts)	-140	-140
Other off-balance sheet exposures	58	49
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	353	341
Leverage ratio total exposure measure	2.698	2.710
Leverage ratio		
Leverage ratio	13,1%	12,6%
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)	
	31.12.2019	31.12.2018
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:	2.443	2.609
Banking book exposures, of which:	2.443	2.609
Exposures treated as sovereigns	422	771
Institutions	270	143
Secured by mortgages of immovable properties	370	333
Retail exposures	166	170
Corporate	411	471
Exposures in default	572	546
Other exposures	232	175

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.

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, market risk, liquidity 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.

6.1 Risk Management Framework and Principles

The Bank has established a thorough and prudent risk management framework (RMF) 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 throughout 2019 was to maintain high standards of internal 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 RMF establishes the mechanisms and strategy through which the Bank manages risk, taking into account its business objectives and vision, as well as its overall risk appetite. In

this way, the risk strategy sets the principles for risk governance, which in turn feed into the Bank's organisational structure for the forming of business functions as well as Board and executive level committees, the assignment of roles and responsibilities, and the definition of reporting lines.

Through its risk management framework the Bank aims to:

- Support the Bank's business strategy by ensuring that business objectives are pursued in a risk controlled manner in order to preserve earning stability and protect 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 to safeguard that the risk profile maintained is compatible with the established risk appetite.

The Bank's risk management framework comprises of:

- The risk strategy that:
 - Is in line with the Group's risk strategy
 - Sets ABC's risk management objectives, key risk management principles and overall risk appetite, and assigns responsibilities for risk across all the activities of the Bank;
 - Is consistent with the Bank's and Group's overall business strategy
- Written policies that:
 - Include a definition and categorization of the material risks faced by the Bank, by type, and the levels of acceptable risk taking / limits for each type of risk
 - Support the implementation of Bank's risk strategy
 - Facilitate control mechanisms
 - Take into account the nature, scope and time horizon of business activities and the risks associated with them
- Processes and procedures which enable the 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, is subject to constant evaluation to ensure that it meets the challenges of the markets in which the Bank operates, and complies with current regulatory requirements and industry best practices and standards.

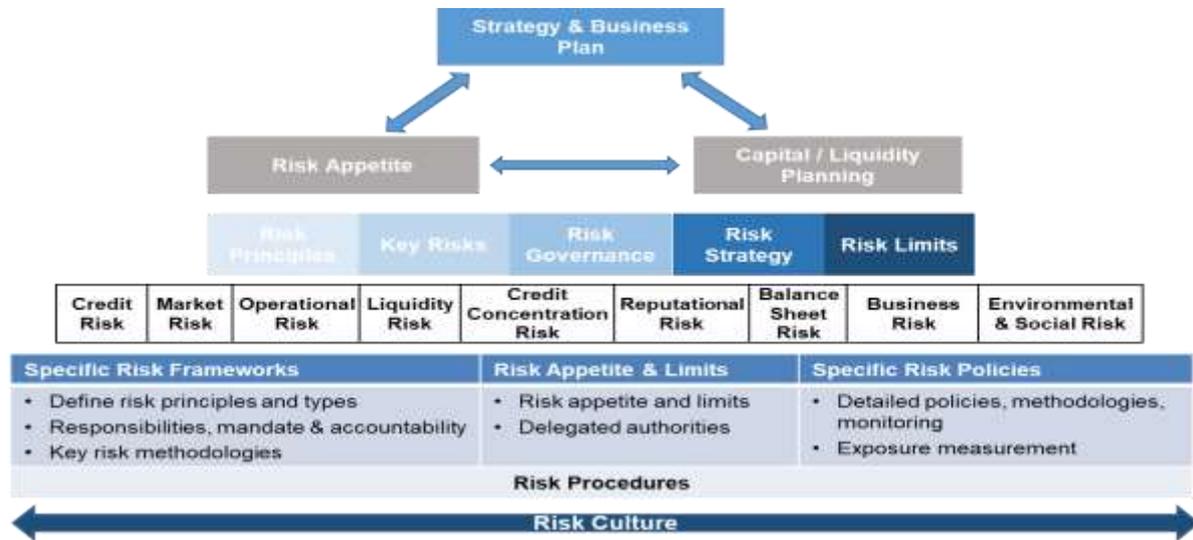


Figure 1: Interaction of Strategy, Risk and Capital / Liquidity Planning

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 directly linking them to the Bank's strategy and business objectives. In this respect, the RAS provides the amount of risk which the Bank may undertake in pursue of its strategic objectives.

The RAS is formulated through:

- Qualitative statements which translate strategy into risk management objectives; these statements aim to bring out the principles underlying the risk appetite pillars (please refer to Figure below);
- Quantitative ratios and indicators that facilitate adherence to and monitoring of goals set. Indicators are derived taking into account a) thresholds set by Regulators, b) industry best practices and standards, c) internal Key Performance Indicators ("KPIs")

Specifically the RAF Pillars are the following:

- Pillar I: Capital Adequacy
- Pillar II: Asset Quality
- Pillar III: Profitability
- Pillar IV: Liquidity and Market
- Pillar V: Franchise / Reputational & Operational

The objectives of each pillar are supported by a set of risk 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.

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 as well as a Management Body that is responsible for proper risk management processes and a strong internal control system, ensuring that the Bank holds sufficient capital and liquidity to meet both its regulatory and internal capital/liquidity targets.

The risk governance of the Bank forms an integral part of its Risk Management Framework and is organized in a way that ensures the establishment of clear responsibilities, the proper segregation of duties and the avoidance of conflicts of interest at all levels.

The Bank's risk governance framework is based on the "Three Lines of Defense Model" as depicted in the figure below. It also follows the *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*.

In particular:

- The Business Units constitute the first line of defense and risk "ownership" which identifies and manages the risks that arise when conducting banking business. This includes assessing and reporting of their exposures for identifying the relevant risks, taking into account the Bank's approved risk appetite, as well as its policies, procedures, controls and limits.
- The second line of defense consists of the Risk Management function and other relevant functions, independent from the first line of defense. These functions complement the business lines' risk activities through monitoring and reporting responsibilities. They are responsible for overseeing the Bank's and the Group's risk-taking activities for the individual risk assessment and the aggregation of risk. The second line of defense, also, includes the independent Compliance function. The Compliance function, among other things, monitors compliance with laws, corporate governance rules, regulations, codes and policies of the Bank and the Group. The BoD approves the compliance policies that are communicated internally. The function ensures compliance with the policies and reports to the senior management and the BoD on how the Bank and the Group manage their compliance risk.
- Internal Audit constitutes the third line of defense. As an independent function, reports to the Audit Committee of the Board of Directors and audits the activities of the Bank and the Group, including the Risk Management function.

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 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 Board of Directors of the Bank ensures the proper operation and organization of the Bank. In accordance with the Corporate Governance Directive, the Board of Directors is responsible for the approval of the long-term strategy and the operational objectives of the, the risk strategy and the risk appetite of the Bank and the regular monitoring of their implementation, with the support of the Board Risk Committee. Based on the risk appetite that it defines, the Board of Directors ensures that the levels of risk are well understood and communicated throughout the Bank.

The Board of Directors determines the risks that the Bank may assume, the size of such risks, the limits and the basic principles for the calculation and measurement of these risks. The risk profile of the Group covers, among other substantial risks, the following risk types:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

To this end, it ensures that the executive management carries out appropriately and effectively the Bank's activities in a manner consistent with the business strategy, the risk profile and the risk appetite, while at the same time it oversees that the management is escalating risk issues and involves the appropriate Board Committees in a timely manner.

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 addressed 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 Bank's Executive Committee (ExCo), as the senior executive body of the Bank is responsible, among other things, to prepare the strategy, business plan and annual budget of the Bank for submission and approval by the Board of Directors (BoD) as well as the annual financial statements.

Further to the above, the Committee is responsible to monitor the local and global economy, to be informed of market developments and to examine matters related to business planning and policies of the Bank.

The ExCo is mandated by the BRC to review and approve the risk management policies and ensures that the risk management strategy and appetite are incorporated in the Bank's business decision-making process. The ExCo assigns authorities and responsibilities to specific committees comprised of members of the Bank's General Management, including the Assets and Liabilities Committee ("ALCO"), the Credit Risk Committee and the Operational Risk Committee.

The Bank's ExCo in its capacity as the Senior Management of the Bank is responsible to recommend to the BRC an appropriate RAF which should be consistent with the business and risk strategy of the Bank.

Assets and Liabilities Committee (“ALCO”)

The Bank’s ALCO 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 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 is also responsible for the initial approval and the subsequent submission for final approval to the Board Risk Committee of the Bank’s Credit Risk Policies and the quarterly calculations in regards to the provisions

In addition to the above, the Committee is also responsible for reviewing the Stress Test results and evaluating auditors’ and credit control reports concerning the Bank’s Credit Risk Policies and the overall management of Credit Risk.

Operational Risk Committee

The Bank’s Operational Risk Committee has an oversight role in operational risk management. It approves the Bank’s 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 to achieve the desired business results while effectively managing risks.

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. It is also responsible for assessing and approving material operational losses and events within its approving limits, developing and monitoring mitigating actions for operational risks, monitoring litigation cases arising from operational risk events and participating in the evaluation of appropriateness of insurance contracts and other mitigation techniques and measures for operational risks.

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 Arrears 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 and the Wholesale Banking Arrears Divisions 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

As per the provisions of the Central Bank of Cyprus Directive to Credit Institutions on Governance and Management Arrangements and the guidelines of the European Supervisory Authorities in relation to internal governance, the Bank's Risk Divisions, under the General Manager Risk, are independent control functions which refer matters of their competence to the Board Risk Committee and through it to the Board of Directors, with notice to the Managing Director.

The Risk Divisions under the General Manager Risk, are responsible for implementing the Risk Management Framework according to the directions of the Board Risk Committee and operates independently from any executing processes..

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 and Credit Risk Model Validation Department;
- Assignment of responsibilities and duties to each Risk Division and the Credit Risk Model Validation Department and coordination of risk related activities;
- Evaluation of processes and procedures followed by the Risk Divisions and the Credit Risk Model Validation Department;
- 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 supervision 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 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. The Division is also responsible for the independent measurement, assessment and monitoring of the market, liquidity and operational risks.

Credit Risk Division

The Credit Risk Division, under the supervision of the General Manager Risk, 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.

The Credit Risk Division, determines the credit risk management framework and policies in accordance with the supervisory and regulatory framework, Group's credit risk policies and the decisions of the Board Risk Committee and the Board of Directors of the Bank.

Credit Risk Model Validation Department

The Credit Risk Model Validation Department was established, with the perspective to reinforce Bank's Second "line of defense". The Department is under the General Manager Risk 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's 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 regularly, 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 risk adjusted rate of 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.

The Credit Risk Appetite expresses the level of credit risk that the Bank is willing to assume within its risk capacity in order to achieve its mission, strategic objectives and business plan.

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 Bank's Credit Risk Division implemented in 2019 a series of actions. The most important ones were the following:

- Update of the Risk Appetite Framework by revising the risk indicators, respective limits and supporting methodologies
- Revision of the Bank's Wholesale Credit Manual
- Revision of the Bank's Retail Restructuring Policy, including the enhancements in the types of restructuring solutions, the affordability assessment process, as well as the criteria for debt forgiveness. In addition, the Policy defines the Governance Framework in relation to the implementation of the restructurings, by taking into account the abovementioned changes incurred in the Retail Arrears Division.
- Revision of the Country Risk Policy to take into account the Bank's revised Risk Appetite Framework. In particular, the Bank redefined the meaning of "Country Risk" in order to include the risk arising from the Bank's investment portfolio, as per the relevant regulatory requirements.
- Revision of the Bank's Loan Impairment Policy
- The Credit Risk Methodologies Department (CRMD), responsible for the development, monitoring and maintenance of credit risk statistical models adopted in the context of its operations the principles in connection with the following documents:
 - Group's Credit Risk Model Development Framework for the development of new models;
 - Group's Credit Risk Model Management Policy, which governs the Credit Risk Model life cycle, from conception to withdrawal.
- The Credit Control Department carried out a number of credit controls within 2019 in accordance with the approved credit control plan. The findings of the credit controls and recommendations have been communicated to the responsible Units in order to take all necessary actions for their implementation. A summary of the findings and recommendations is presented to the Credit Risk Committee. The credit control reports are further communicated to the Credit Risk Policy and Control Division of Alpha Bank S.A.

7.2 Credit Quality of Exposures

Definitions

The following definitions of exposures are provided:

7.2.1 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 unlikelihood to pay is reported on its 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.

7.2.2 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.

7.2.3 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, as defined in the Commission Implementing Regulation (EU) 2015/227 of January 9, 2015.

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).

7.2.4 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.

7.2.5 Unlikelihood 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 when reviewing borrower's credit limits depending on its credit ratings and in accordance with the International Wholesale Banking Credit Manual. If a borrower is flagged as UTP, then his credit risk rating should be D (Default) according to Bank's rating system or Default for Borrowers assessed using Slotting Models. If a borrower flagged as UTP belongs to a group of companies, then the group should also be assessed by the competent Credit Committee for the existence or not of UTP trigger.

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).

Additionally, for Wholesale Banking exposures, the following Soft UTP triggers exist:

- 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:

- Debtor is under the 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**).

Default Exposures

An exposure is considered as Default when the criteria specified by the definition of Non – Performing Exposures are met.

Credit Impaired Exposures

An exposure is considered as Credit Impaired when the criteria specified by the definition of Non-Performing Exposures are met.

Loan Impairment Assessment Methodology

The Loan Impairment Methodology is uniform and applicable both to Wholesale and Retail Banking Portfolios. The Bank carries out the loan impairment measurement and recognition procedure per calendar quarter.

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

Following initial recognition, an exposure is classified to a stage based on its credit risk characteristics. The portfolio classification in stages is based on changes in the credit quality of the loan portfolio since initial recognition.

At initial recognition of an exposure, the Bank must determine whether the exposure is considered to be credit impaired (Credit Impaired at Initial Recognition).

The Purchased or Originated Credit Impaired category (“POCI”) includes the following financial assets:

- Exposures that meet the criteria of non-performing exposures at the time of purchase (“Purchased”).
- Exposures for which accounting derecognition of the old exposure occurs and a new exposure is recognized, and for which the following apply (“Originated”): if the exposure was classified as credit impaired prior to derecognition (hence NPE), the new exposure will maintain this classification and 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 which have not had significant increase in credit risk since initial recognition. The expected credit losses are recognised based on the probability of default within the next twelve months, and the assessment is performed on a collective basis, with the exception of borrowers assessed on an individual basis.
- Stage 2 includes credit exposures which have had significant increase in credit risk since initial recognition but which are not non-performing. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective basis, with the exception of borrowers assessed on an individual basis.
- Stage 3 includes the non-performing / defaulted credit exposures. The expected credit losses calculated are the lifetime losses and the assessment is performed on a collective or individual basis.

With regards to 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 of an exposure since initial recognition (“SICR”) and the measurement of lifetime expected credit loss, as opposed to expected credit loss within the next twelve months, the risk of default at the reference date is compared to the risk of default at initial recognition for all performing exposures, including those with zero days past due (no delinquency).

The assessment of whether credit risk has increased significantly since initial recognition is based on the following:

- **Quantitative Indicators:** They refer to the use of quantitative information and more 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 consideration both the absolute increase of PD between the reporting date and the initial recognition date (established absolute threshold of increase in PD by 4 percentage points), as well as the relative increase of PD between the reporting date and the initial recognition date (established relative threshold of doubling of PD). The established absolute and relative thresholds used for determining whether credit risk has increased significantly since initial recognition are assessed on an annual basis, in order to document the materiality of statistical differentiation. Particularly for specialized lending portfolios (Project Finance and Shipping Finance), a deterioration of the respective slotting grade since initial recognition to Category 4 (high risk), is considered to be an indication of significant increase in credit risk.
- **Qualitative Indicators:** They refer to the use of qualitative information which is not necessarily captured within the probability of default, such as the classification of an exposure as performing forborne (FPL, for at least two years according to EBA ITS). Additional qualitative indicators for both the Wholesale Banking portfolios and the Retail Banking portfolios are included within the mechanisms of the Bank’s Early Warning Policy, where, depending on the assessment performed, the credit risk of an exposure may be considered to have significantly increased.
- **Other indicators (Backstop Indicator):** In addition to the above, in order to ensure that cases with no indication of significant credit risk deterioration based on the quantitative and qualitative indicators are addressed, the Bank also considers, by definition, that a significant increase in credit risk occurs for exposures with more than 30 days past due.

Expected Credit Loss estimation

Impairment Methodology

The Bank carries out the impairment recognition and measurement procedure per calendar quarter. The impairment 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 risk characteristics and
 - that there are not sufficient historical data, or
- Collectively for the remaining exposures

Exposures assessed on individual basis (Individual Assessment)

Individual assessment for impairment

The following exposures to Companies are assessed on an individual basis:

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

The following exposures to Individuals are assessed on an individual basis:

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

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 indicative attributes 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 of collateral coverage (Loan to Value)
- Credit risk rating
- Activity sector

Calculation of expected credit loss

The measurement of expected credit losses is performed as follows:

- For financial assets, the credit loss is equal to 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 revolving loan commitments, the credit loss is equal to 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.

Credit risk parameters

The mechanism for the measurement of expected credit loss on a collective basis is based on the following credit risk parameters:

- **Probability of Default (PD):** It is an estimate of the probability of default over a specific time horizon. The estimation of PD relies on the use of statistical credit rating and scoring models, based on which the credit quality of borrowers is evaluated across the main portfolio segments of the Bank. Such models take into consideration a range of quantitative and qualitative parameters, including amongst others, information regarding the current and historical behavior of borrowers.

- 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 equivalent exposure, which is 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 by the Bank, including the liquidation of collateral and the probability of cure, which is based on historical data and adjustments made to incorporate the estimated evolution of management actions in connection with the management of the non performing perimeter of Retail Banking credit exposures.

More specifically, for the determination of expected future cash flows, the Bank takes into consideration new data and information stemming from expected future events, which relate mainly to changes in the timing of cash flow payments and recoveries from the liquidation of collateral, based on the solutions offered in the context of the management of the NPE perimeter.

Expected recoveries from tangible collateral are based on the following inputs: most recent (updated within the year) market value of the collateral, the time required for the liquidation or sale of the collateral (5 years for collectively assessed exposures, whilst for individually assessed exposures the respective time horizon varies according to the status of actions, as well as the specific facts and circumstances of each case), expected market value of tangible collateral at the time of liquidation/sale based on the expected evolution of property prices in future years, and expected recoveries through either a consensual or non-consensual process. The haircut used in the collective assessment for the realization of tangible collateral amounts to 25% (including sale costs), whilst the respective haircut used in the individual assessment varies according to the specific characteristics and circumstances of each case. The expected cash flows are discounted using the original effective interest rate of the exposure. Last, it is noted that for exposures secured with tangible collateral, the LGD may vary under each macroeconomic scenario used.

Any changes to the assumptions used, or differences between the assumptions used and actual results could lead to significant changes in the amount of the required impairments.

Incorporation of forward looking information

The Bank calculates expected credit losses based on the weighted probability of three alternative scenarios.

More specifically, the Bank uses forecasts for the possible evolution of macroeconomic variables that affect the level of expected credit losses of loan portfolios, under a baseline and two alternative macroeconomic scenarios (an upside and an adverse one), while it also produces the cumulative probabilities associated with those scenarios.

The annual average for the period 2020-2022 of macroeconomic variables affecting both the estimation of the probability of default and the expected loss given default are the following:

	Adverse Scenario	Base Scenario	Upside Scenario
Change in Real GDP (%)	0,6%	2,7%	4,8%
Unemployment rate (%)	7,7%	5,6%	3,5%
Change in Residential Real Estate prices (%)	2,0%	2,9%	3,9%
Change in Commercial Real Estate prices (%)	0,6%	2,2%	4,0%

The production of the baseline scenario, supported by a consistent economic description, serves as the starting point and 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 attached to the macroeconomic scenarios for the Cyprus economy indicate that the economy performs better or worse than forecasts of the baseline scenario and the alternative scenarios, that is the upside and the adverse 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 scenario.

The Bank has performed sensitivity analysis based on the credit risk models used for the purposes of the collective assessment, in order to assess the impact of changes in key impairment inputs on expected credit losses for non performing exposures. In particular:

- If the assigned cumulative probability of the adverse scenario was increased from 15% to 30%, expected credit losses would increase by €3,2 million.
- If the assigned cumulative probability of the upside scenario was increased from 15% to 30%, expected credit losses would decrease by €3,2 million.
- If the expected recovery period for tangible collateral was increased by 1 year, expected credit losses would increase by €8,4 million.
- If the expected recovery period for tangible collateral was decreased by 1 year, expected credit losses would decrease by €8,7 million.
- If the haircut for the sale/ realization of tangible collateral was increased by 5%, expected credit losses would increase by €15,2 million
- If the haircut for the sale/ realization of tangible collateral was decreased by 5%, expected credit losses would decrease by €14,4 million

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 9a. EU CRB-B - Total and average net amount of exposures as of 31.12.2019 (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	422	597
Institutions	467	331
Corporates	535	563
<i>of which SMEs</i>	163	269
Retail	228	230
<i>of which SMEs</i>	41	43
Secured by mortgages on immovable property	387	367
<i>of which SMEs</i>	34	42
Exposures in default	572	559
Items associated with particularly high risk	127	118
Equity exposures	17	11
Other exposures	88	75
Total	2.843	2.851

Table 9b. 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
<i>of which SMEs</i>	376	359
Retail	232	519
<i>of which SMEs</i>	45	51
Secured by mortgages on immovable property	346	318
<i>of which SMEs</i>	49	44
Exposures in default	546	646
Other exposures	175	189
Total	2.856	3.261

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

Table 10a. EU CRB-C - Geographical breakdown of exposures as of 31.12.2019					
(in Euro million)					
Net Exposure values					
Exposure Class	Cyprus	Greece	EU countries	Other countries	Total
Central governments or central banks	390	22	10	-	422
Institutions	5	328	74	60	467
Corporates	240	133	49	113	535
Retail	164	2	54	8	228
Secured by mortgages on immovable property	295	19	48	25	387
Exposures in default	426	1	122	23	572
Items associated with particularly high risk	127				127
Equity exposures	17				17
Other exposures	88				88
Total	1.752	505	357	229	2.843

Table 10b. EU CRB-C - Geographical breakdown of exposures as of 31.12.2018					
(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

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 11a. EU CRB-D - Concentration of exposures by industry or counterparty type as of 31.12.2019 (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								422		422
Institutions								467		467
Corporates	43	34	42	97	89	52	23	155		535
Retail	4	1	6	16	1	3	1	196		228
Secured mortgages by on immovable property	11		1	13	1	20	20	321		387
Exposures in default	9		84	36	2	9	22	410		572
Items associated with particularly high risk			124				3	-		127
Equity exposures									17	17
Other exposures									88	88
Total	67	35	257	162	93	84	69	1.971	105	2.843

Table 11b. 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 on 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

(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 12a. EU CRB-E - Maturity of exposures as of 31.12.2019						
(in Euro million)						
Exposure Class	Net Exposure values				Not stated maturity ⁽¹⁾	Total
	On Demand	<=1 year	>1 year <=5 years	>5 years		
Central governments or central banks	210	212				422
Institutions	12	454			1	467
Corporates	54	107	186	64	-	411
Retail	21	2	26	117	-	166
Secured by mortgages on immovable property	18	5	39	308	-	370
Exposures in default	342	21	47	162	-	572
Items associated with particularly high risk	3	1	114	9	-	127
Equity exposures					17	17
Other exposures	16			4	68	88
Total	676	802	412	664	86	2.640

Table 12b. EU CRB-E - Maturity of exposures as of 31.12.2018						
(in Euro million)						
Exposure Class	Net Exposure values				Not stated maturity ⁽¹⁾	Total
	On Demand	<=1 year	>1 year <=5 years	>5 years		
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).

The table below presents gross carrying values of credit risk exposures and specific credit risk adjustments .

Table 13a. EU CR1-A - Credit quality of exposures by exposure class as of 31.12.2019				
(in Euro million)				
Exposure Class	Gross carrying amount of		Specific credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Central governments or central banks		422		422
Institutions		467		467
Corporates		541	6	535
of which SMEs		164	1	163
Retail		233	5	228
of which SMEs		42	1	41
Secured by mortgages on immovable property		394	7	387
of which SMEs		34		34
Exposures in default	1.122		550	572
Items associated with particularly high risk	18	114	5	127
Equity exposures		17		17
Other exposures		88		88
Total	1.140	2.276	573	2.843
of which: Loans	1.140	973	570	1.543
of which: Debt Securities		443		443
of which: Off-balance sheet exposures		206	3	203

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

(in Euro million)

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

The following table shows the Non Financial amounts broken down by significant industry or counterparty

Table 14a: NPE 1 - Credit quality of loans and advances by industry as of 31.12.2019						
(in Euro million)						
	Gross carrying amount			Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing				
			Of which defaulted			
Agriculture, forestry and fishing	10	9	9	10	6	
Mining and quarrying	5	1	1	5	1	
Manufacturing	62	21	21	62	14	
Electricity, gas, steam and air conditioning supply	20	1	1	20	1	
Water supply						
Construction	349	223	223	349	146	
Wholesale and retail trade	113	55	55	113	36	
Transport and storage	90	2	2	90	1	
Accommodation and food service activities	87	15	15	87	11	
Information and communication	3	2	2	3	1	
Financial and insurance activities						
Real estate activities	76	34	34	76	14	
Professional, scientific and technical activities	15	11	11	15	2	
Administrative and support service activities	15	6	6	15	4	
Public administration and defence, compulsory social security						
Education						
Human health services and social work activities	1			1		
Arts, entertainment and recreation	1			1		
Other services	17	14	14	17	9	
Total	864	394	394	864	246	

Table 14b: NPE 1 - Credit quality of loans and advances by industry as of 31.12.2018

(in Euro

	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

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

Table 15a: NPE 2 - Quality of non-performing exposures by geography as of 31.12.2019							
(in Euro million)							
	Gross carrying/nominal amount			Of which subject to impairment	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 defaulted				
On-balance-sheet exposures	3.094	1.140	1.140	3.094	610		
Cyprus	1.886	847	847	1.886	451		
Greece	472	1	1	472	2		
Other EU countries	501	259	259	501	143		
Other countries	235	33	33	235	14		
Off-balance-sheet exposures	204	8	8			4	
Cyprus	173	8	8			4	
Greece	31						
Other EU countries							
Other countries							
Total	3.298	1.148	1.148	3.094	610	4	

Table 15b: NPE 2 - 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 defaulted	Of which subject to impairment			
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

The following table provides an overview of quality of forbearance as at 31.12.2019.

Table 16: NPE 6 - Quality of forbore exposures 31.12.2019
 (in Euro million)

	Gross carrying amount of forbore exposures
Loans and advances that have been forbore more than twice	115
Non - performing forbore loans and advances that failed to meet the non - performing exit criteria	233

The following table provides an overview of the quality of forborne exposures as per Commission Implementing Regulation (EU) No 680/2014 as at 31.12.2018 and 31.12.2019.

Table 17a: NPE 3 - Credit quality of forborne exposures as at 2019 (in Euro million)								
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures	74	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	
		Of which defaulted	Of which impaired					
Loans and advances	96	421	421	421	3	151	74	219
-Central banks	-	-	-	-	-	-	-	-
-General governments	-	-	-	-	-	-	-	-
-Credit institutions	-	-	-	-	-	-	-	-
-Other financial corporations	1	1	1	1	-	-	-	-
-Non-financial corporations	6	68	68	68	0	21	4	37
-Households	89	352	352	352	3	130	70	182
Debt securities	443	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	96	421	421	421	3	151	74	219

Table 17b: NPE 3 - Credit quality of forborne exposures as at 2018
 (in Euro million)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures	336	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures	
		Of which defaulted	Of which impaired					
Loans and advances	133	462	462	462	8	188	336	235
-Central banks	-	-	-	-	-	-	-	-
-General governments	-	-	-	-	-	-	-	-
-Credit institutions	-	-	-	-	-	-	-	-
-Other financial corporations	-	11	11	11	-	-	9	9
-Non-financial corporations	36	72	72	72	1	24	63	35
-Households	97	379	379	379	7	164	264	191
Debt securities	-	-	-	-	-	-	-	-
Loan commitments given	-	-	-	-	-	-	-	-
Total	133	462	462	462	8	188	336	235

The following tables provide an overview of the quality of non performing exposures as per Commission Implementing Regulation (EU) No 680/2014 as at 31.12.2018 and 31.12.2019.

Table 18a: NPE 4a - Credit quality of performing and non-performing exposures by past due days as at 31.12.2019 (in Euro million)												
	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	1.509	1.486	23	1.140	126	26	37	109	210	242	390	1.140
<i>Central banks</i>	210	210	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	332	332	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	37	37	-	3	-	-	-	-	-	2	1	3
<i>Non-financial corporations</i>	468	467	1	396	46	3	10	33	51	57	196	396
<i>of which SMEs</i>	355	355	-	396	46	3	10	33	51	57	196	396
<i>Households</i>	462	440	22	741	80	23	27	76	159	183	193	741
Debt securities	443	443	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	213	213	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	131	131	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	83	83	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	16	16	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	198	-	-	8	-	-	-	-	-	-	-	8
<i>Central banks</i>	-			-								-
<i>General governments</i>	1			-								-
<i>Credit institutions</i>	-			-								-
<i>Other financial corporations</i>	1			4								4
<i>Non-financial corporations</i>	146			4								4
<i>Households</i>	50			-								-
Total	2.150	1.929	23	1.148	126	26	37	109	210	242	390	1.148

Table 18a: NPE 4b - Credit quality of performing and non-performing exposures by past due days as at 31.12.2018
 (in Euro million)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	1.691	1.654	37	1.286	169	34	46	134	315	171	417	1286
<i>Central banks</i>	541	541	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	182	182	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	33	33	-	13	5	0	0	1	6	1	0	13
<i>Non-financial corporations</i>	498	492	6	469	38	5	11	41	84	67	223	469
<i>of which SMEs</i>	439	432	7	469	38	5	11	41	84	67	223	469
<i>Households</i>	437	406	31	804	126	29	35	92	225	103	194	804
Debt securities	287	287	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	230	230	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	9	9	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	32	32	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	16	16	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	186	-	-	9	-	-	-	-	-	-	-	9
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	4	-	-	-	-	-	-	-	4
<i>Non-financial corporations</i>	143	-	-	5	-	-	-	-	-	-	-	5
<i>Households</i>	43	-	-	-	-	-	-	-	-	-	-	-
Total	2.164	1.941	37	1.295	169	34	46	134	315	171	417	1295

The following table provides an overview of the credit quality of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class as at 31.12.2018 and 31.12.2019.

Table 19:NPE 5a - Performing and non-performing exposures and related provisions														
(in Euro million)														
31.12.2019														
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		
Loans and advances	1.509	1.307	203	1.140	-	1.140	11	4	6	599	-	599	645	481
Central banks	210	210	-	-	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	332	332	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	37	35	2	3	-	3	-	-	-	2	-	2	31	1
Non-financial corporations	468	398	71	396	-	396	5	3	1	241	-	241	239	155
of which SMEs	355	285	71	396	-	396	3	2	1	241	-	241	233	155
Households	462	332	130	741	-	741	6	1	5	356	-	356	375	325
Debt securities	443	443	-	-	-	-	-	-	-	-	-	-	-	-
Central banks	0	0	-	-	-	-	-	-	-	-	-	-	-	-
General governments	213	213	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	131	131	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	83	83	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	16	16	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	198	188	9	8	-	8	3	3	-	1	-	1	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	1	-	1	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1	-	-	4	-	4	-	-	-	-	-	-	-	-
Non-financial corporations	146	139	7	4	-	4	3	3	-	1	-	1	-	-
Households	50	49	1	-	-	-	-	-	-	-	-	-	-	-
Total	2.150	1.938	212	1.148	-	1.148	14	7	6	600	-	600	645	481

Table 19:NPE 5b - Performing and non-performing exposures and related provisions 31.12.2018
 (in Euro million)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		
Loans and advances	1691	1429	262	1286	-	1286	13	2	11	700	0	700	660	479
<i>Central banks</i>	541	541	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	182	182	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	33	32	1	13	0	13	0	0	0	2	0	2	31	1
<i>Non-financial corporations</i>	498	383	115	469	0	469	3	1	2	279	0	279	254	153
<i>of which SMEs</i>	439	324	115	469	0	469	3	1	2	279	0	279	247	153
<i>Households</i>	437	291	146	804	0	804	10	1	9	419	0	419	375	325
Debt securities	287	287	-	-	-	-	-	-	-	-	-	-	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	230	230	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	9	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	32	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	16	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	186	182	4	9	0	9	2	2	0	1	0	1	-	-
<i>Central banks</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>General governments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Credit institutions</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other financial corporations</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Non-financial corporations</i>	143	140	3	5	0	5	2	2	0	1	0	1	-	-
<i>Households</i>	43	42	1	0	0	0	0	0	0	0	0	0	-	-
Total	2.164	1.898	266	1.295	0	1.295	15	4	11	701	0	701	660	479

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

Table 20a. EU CR2-A - Changes in the stock of general and specific risk adjustments as of 31.12.2019 (in Euro million)	
	Accumulated specific credit risk adjustment
Opening balance 1.1.2019	716
Increase due to amounts set aside for estimated loan losses during the period	85
Decrease due to amounts set aside for estimated loan losses during the period	-87
Decreases due to amounts taken against accumulated credit risk adjustment	-163
Impact of exchange rate differences	7
Change of present value of the impairment losses	42
Other adjustments	10
Closing balance 31.12.2019	610
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	6

Table 20b. 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

The following table provides an overview of the movements (inflows and outflows) of non-performing loans and advances during the period from 01.01.2019 to 31.12.2019. Given the fact that the Group has fully aligned Defaulted and impaired exposures with the EBA NPE definition, the disclosure requirement regarding CR2-B (Flow of Defaulted/ Impaired exposures) is covered by the provided NPE flow (Table 21).

Table 21: NPE 8 - Changes in the stock of non-performing loans and advances 31.12.2019 (in Euro million)		
	Gross carrying amount	Related net accumulated recoveries
Initial stock of non-performing loans and advances	1.286	
Inflows to non-performing portfolios	248	
Outflows from non-performing portfolios	394	
Outflow to performing portfolio	55	
Outflow due to loan repayment, partial or total	54	
Outflow due to collateral liquidation	2	-
Outflow due to taking possession of collateral	51	29
Outflow due to sale of instruments	-	-
Outflow due to risk transfer	-	-
Outflow due to write-off	140	
Outflow due to other situations	92	
Outflow due to reclassification as held for sale		
Final stock of non-performing loans and advances	1.140	

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.

Depending on the type of collateral, the assessments of the value of collateral is carried out by partners (Appraisers), with the necessary expertise and specialisation. The selection of the appraiser is subject to specific criteria, while their performance is assessed on an ongoing basis.

Especially for tangible collaterals, the Bank entrusts independent qualified appraisers who have the necessary qualifications, ability and experience in evaluation (as defined in the article 208 paragraph 3 of the EU Regulation No 575/2013).

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.

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 22a: EU CR3 – CRM techniques – Overview as of 31.12.2019
(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	863	883	645	-	-
Total debt securities	443	-	-	-	-
Total exposures	1.306	883	645	-	-
of which defaulted	249	337	-	-	-

Table 22b: 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

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

Table 23a: EU CR4 - Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects as of 31.12.2019						
(in Euro million)						
Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-Balance-sheet amount	Off-Balance-Sheet amount	On-Balance-Sheet amount	Off-Balance-Sheet amount	RWAs	RWA density
Central governments or central banks	422	-	422	-	-	0%
Regional government or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Institutions	467	-	282	-	109	39%
Corporates	411	124	405	36	405	92%
Retail	166	62	140	4	105	73%
Secured by mortgages on immovable property	370	17	369	8	165	44%
Exposures in default	572	-	570	-	604	106%
Items associated with particularly credit risk	127	-	105	-	157	150%
Equity	-	-	17	-	17	100%
Other items	88	-	88	-	68	100%
Total	2.640	203	2.398	48	1.630	67%

Table 23b: EU CR4 - Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects as of 31.12.2018

(in Euro million)

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	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%

Under Standardised approach, credit risk is measured by applying risk weights outlined in CRD IV based on the exposure class to which the exposure is allocated. The following tables outline the Standardised exposure classes by CRD IV prescribed risk weight. Exposures subject to Counterparty Credit Risk are not included in the table

Table 24: EU CR5 - Standardized approach 31.12.2019 (in Euro million)																		
Exposure classes	Risk Weight															Total	Of which unrated	
	0%	2%	4%	10%	20%	25%	35%	50%	70%	75%	100%	150%	250%	370%	1250%			
Central governments or central banks	422	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	422	
Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Institutions	-	-	-	-	335	-	-	116	-	-	6	10	-	-	-	-	467	
Corporates	-	-	-	-	-	-	-	72	-	-	463	-	-	-	-	-	535	
Retail	-	-	-	-	-	-	-	-	-	228	-	-	-	-	-	-	228	
Secured by mortgages on immovable property	-	-	-	-	-	-	299	28	-	32	29	-	-	-	-	-	388	
Exposures in default	-	-	-	-	-	-	-	-	-	-	504	68	-	-	-	-	572	
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	127	-	-	-	-	127	
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	
Equity	-	-	-	-	-	-	-	-	-	-	17	-	-	-	-	-	17	
Other items	16	-	-	-	4	-	-	-	-	-	67	-	-	-	-	-	87	
Total	438	-	-	-	339	-	299	216	-	260	1.086	205	-	-	-	-	2.843	

The table below discloses collateral valuation and other information on loans and advances as at 31.12.2019

Table 25: NPE 7 - Collateral valuation - Loans and advances 31.12.2019 (in Euro million)												
	Loans and advances											
	Performing			Non-performing exposures								
			Of which: past due >30 days ≤ 90 days	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days							
						Of which: past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 year ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years	
Gross carrying amount	2.649	1.510	22	1.140	127	1.013	26	37	109	209	241	391
<i>Of which secured</i>	1.757	725	21	1.032	119	913	23	29	98	190	221	352
<i>Of which secured with immovable property</i>	1.675	649	20	1.026	118	908	23	29	98	189	220	349
<i>Of which instruments with LTV higher than 60% and lower or equal to 80%</i>	197	142		55	23	32						
<i>Of which instruments with LTV higher than 80% and lower or equal to 100%</i>	154	88		66	21	45						
<i>Of which instruments with LTV higher than 100%</i>	961	118		844	52	792						
Accumulated impairment for secured assets	610	10	1	600	15	585	5	10	55	111	145	259
Collateral												
<i>Of which value capped at the value of exposure</i>	1.126	645	17	481	91	390	18	22	51	90	83	126
<i>Of which immovable property</i>	1.059	580		479	91	387	18	22	50	90	82	125
Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-	-

The following table provides an overview of foreclosed assets obtained from non-performing exposures as at 31.12.2019.

Table 26: NPE 9 - Collateral obtained by taking possession and execution processes 31.12.2019 (in Euro million)		
	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	47	2
Residential immovable property	27	1
Commercial immovable property	20	1
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	-	-
Total	47	2

The table below provides an overview of collateral obtained by taking possession (by type and by time since date of foreclosure) as at 31.12.2019.

Table 27: NPE 10 - Collateral obtained by taking possession and execution processes-vintage breakdown 31.12.2019 (in Euro million)												
	Debt balance reduction		Total collateral obtained by taking possession		Foreclosed ≤ 2 years		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
	Gross carrying amount	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	-	-	-	-								
Collateral obtained by taking possession other than that classified as PP&E	46	-	47	2	38	2	8	-	1	-	4	1
<i>Residential immovable property</i>	26	-	27	1	18	1	8	-	1	0	3	1
<i>Commercial immovable property</i>	20	-	20	1	20	1	0	-	-	-	1	-
<i>Movable property (auto, shipping, etc.)</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Equity and debt instruments</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other</i>	-	-	-	-	-	-	-	-	-	-	-	-
Total	46	-	47	2	38	2	8	-	1	-	4	1

7.4 Concentration risk

Concentration Risk is a specific form of credit risk which 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 Counterparty Credit Risk

Counterparty credit risk is the risk of default of a counterparty before the final settlement of all existing transactions' cash flows. An economic loss would occur if the portfolio of transactions with the counterparty has a positive economic value to the Group at the time of counterparty default. According to CRR 575/2013 the term transaction refers to:

- Over the counter (OTC) derivative transactions, such as FX or interest rate derivative transactions
- Repurchase transactions, securities or commodities lending or borrowing transactions or margin lending transactions
- Long settlement transactions

Alpha Bank Group only has the first two types of transactions.

The exposures generating counterparty credit risk are monitored on a daily basis. The Group has set limits per counterparty group, per counterparty and per product.

In order to reduce counterparty credit risk exposure, Alpha Bank Group uses two types of bilateral contracts as far as financial products transactions of financial institutions are concerned, which are:

- ISDA (International Swap and Derivatives Association): defines the general terms governing the conduct of bilateral contracts on derivatives, such as FX Swaps, Interest Rate Swaps, Cross Currency Swaps, etc. CSA (Credit Support Annex), which is an annex to ISDA, defines the conditions under which collateral is exchanged in the context of these derivatives transactions.
- GMRA (Global Master Repurchase Agreement): defines the terms for conducting transactions of interbank lending backed by securities and defines the conditions under which collateral is exchanged in the context of these transactions e.g. Repurchase Agreement, Securities Lending, Collateralized Loan.

Under these contracts (ISDA & CSA, GMRA) contracting parties are obliged to exchange any negative valuation that concerns the sum of all the underlying transactions. Consequently Alpha Bank Group exchanges required collateral as mentioned in the contracts and therefore the existing counterparty credit risk is minimized.

The amount of collateral required is calculated on a regular basis and agreed between counterparties. For transactions that are governed by these contracts, the risk of loss for the Alpha Bank Group is the potential difference between the current value of the collateral and the market value of transactions. As a result, frequent settlement of any difference with collateral exchange eliminates the risk of losses due to counterparty credit risk.

As far as repos and reverse repos are concerned, where Alpha Bank Group exchanges securities for cash for a specific period of time, they are included in counterparty limits as they involve counterparty credit risk. The maximum potential loss of the Group is capped by the difference between the market

value of securities held (or assigned) and the respective interbank transaction. Through GMRA Contracts, the aforementioned risk is minimized with the exchange of required collateral.

The table below reflect the Group's counterparty credit exposures, including the impact of netting and collateral. Current credit exposures consist of the replacement cost of contracts together with potential future credit exposure.

Table 28: EU CCR1 - Analysis of CCR exposure by approach
(in Euro million)

Approach	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market	219	1	2	-	-	3	1
Financial collateral comprehensive method (for SFTs)	194	-	-	-	-	9	2

According to CRR 575/2013 Article 381, financial institutions are required to calculate the own funds requirements for Credit Valuation Adjustment (CVA Risk).

The CVA reflects the current market value of the counterparty credit risk to the institution. Own Funds requirements for CVA risk, are calculated for all derivative transactions with financial institutions all OTC derivative instruments excluding credit derivatives.

In order to calculate CVA, Alpha Bank incorporates the Standardized methodology according to article 384 of CRR 575/2013. Value at Risk is calculated with a 99% confidence interval and with one-year risk horizon.

The most important factors that influence the capital requirements of CVA are the Weight of the counterparty, the real notional-weighted maturity, the contribution of the exposures to the counterparties as well as the number of the counterparties of the portfolio.

Table 29: EU CCR2 - CVA capital charge 31.12.2019
(in Euro million)

	Exposure value T	RWAs T	Exposure value T-1	RWAs T-1
All portfolios subject to the standardised method	-	-	-	-
Total subject to the CVA capital charge	-	-	-	-

The table below presents the CCR exposures by regulatory portfolio and risk:

Table 30: EU CCR3 - Standardized approach – CCR exposures by regulatory portfolio and risk (in Euro million)												
Exposure classes	Risk Weight										Total	Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%		
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	197	-	-	-	-	197	-
Corporates	-	-	-	-	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	197	-	-	-	-	197	-

9 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 38.4 of the Financial Statements of 2019

10 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 33a – Encumbered and Unencumbered Assets as of 31.12.2019				(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	135	-	2.014	2.122
Equity Instruments	-	-	8	8
Debt Instruments	-	-	442	442
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	-		185	
Debt Instruments	-		-	

Table 33b – 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	2.247
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	-		405	
Debt Instruments	-		-	

11 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 therefrom;
- 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 fulfil 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 AE 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.

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