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Other Announcements
HELLENIC BANK PUBLIC COMPANY LTD
HB

Disclosure of Information under Pillar III of Basel III for the year ended 31 December 2016

Announcement dated 28 April 2017 is attached.

Attachments:

1. **Disclosure of Information under Pillar III of Basel III for the year ended 31 December 2016**
2. **Disclosure of Information under Pillar III of Basel III**

Non Regulated
Publication Date: 28/04/2017

HELLENIC BANK

28 April, 2017

ANNOUNCEMENT

Subject: Disclosure of Information under Pillar III of Basel III for the year ended 31 December 2016

Within the framework of compliance with the requirements of Part 8 "Disclosure by Institutions" of the Regulation (EU) No. 575/2013 (CRR), Hellenic Bank publishes the disclosures based on Pillar III of Basel III. These disclosures, which are submitted to the Central Bank of Cyprus are posted on Hellenic Bank's website www.hellenicbank.com on 28 April 2017.

Enclosed please find the abovementioned Disclosures for the year 2016.

HELLENIC BANK PUBLIC COMPANY LTD

/πμ.announcements2017.ltrapr28.2017 announcement to CSE and CySEC re. Pillar 3 – Basel III - English

HELLENIC BANK

DISCLOSURES
IN ACCORDANCE WITH PILLAR III OF BASEL III

for the year ended 31 December 2016

April 2017

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

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1. INTRODUCTION

1.1 Incorporation and Principal Activity

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

The principal activity of the Group during 2016 continued to be the provision of a wide range of banking and financial services, including financing, investment, insurance services, custodian and factoring services as well as management and disposal of properties.

The Bank provides banking and financial services through its branch network which includes 52 branches in Cyprus as well as its representative offices in South Africa, Ukraine and Russia. On 17 November 2015 the Bank was granted approval by the Central Bank of Cyprus for the operation of a Representative Office in Athens.

1.2 Basel III Legal Framework

As from 1st January 2014, the European Parliament's and Council's Directive 2013/36/EU (CRD IV or the Directive) and the Regulation No. 575/2013 (CRR or the Regulation) of 26 June 2013 became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. The Regulation establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by and is immediately binding on all European Union Member States. The Directive governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the Regulation, the Directive has been transposed into national law by the Central Bank of Cyprus (CBC), which can impose additional capital buffer requirements. The Regulation introduces significant changes in the prudential and regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital, the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity and funding. The Regulation permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019, and some other transitional provisions with phased-in until 2024.

Basel III comprises of three Pillars:

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

1.2.1 Pillar I

Pillar I sets forth the guidelines for calculating:

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

1.2.2 Pillar II

Pillar II includes rules to ensure that adequate capital is in place to support any risk exposures of the Group and requires appropriate risk management, reporting and governance policies. Under Pillar II, the Bank conducts stress tests, presenting different balance sheet positions to adverse scenarios, in order to identify weaknesses that may, under the circumstances, expose the Bank at risk. The intensity and breadth of scenarios depends on idiosyncratic factors relevant to the types and the concentration of the assets of the Bank.

Banks are assessing internally their capital needs relative to their risks within the framework of the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is reviewed and evaluated by the Single Supervisory Mechanism (SSM) as part of the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy process and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of the Bank's capital adequacy and internal processes.

Supervisory Review and Evaluation Process (SREP) 2015

As from 20 November 2015 the Bank is required to maintain, on a consolidated basis, a CET1 capital ratio of 11,75%, as such ratio is defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council, including a fully loaded capital conservation buffer (CCB) of 2,5%. The European Central Bank's (ECB) decision was based on the SREP conducted on the information available with reference date 31 December 2014.

In February 2017, the House of Representatives in Cyprus passed into law, an amendment in the Business of Credit Institutions Law which introduces a transitional period for the application of the CCB requirement with retrospective application from 1st January 2016 of 0,625%, with full implementation from 1st January 2019 of 2,5%.

If the provisions of the above law amendment were applied the minimum Common Equity Tier 1 capital (CET1) ratio would have been reduced to 9,875% for 2016.

Supervisory Review and Evaluation Process (SREP) 2016

In December 2016, following ECB's final decision in establishing prudential requirements, which was based on the Supervisory Review and Evaluation Process (SREP) conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, and also having regard to other relevant information received thereafter, the Bank is required to maintain for 2017, on a consolidated basis, a phased-in Capital Adequacy Ratio of 12,75%, which includes: (i) the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital), (ii) an own funds Pillar II requirement of 3,5% required to be held in excess of the minimum own funds requirement (to be made up entirely of CET1 Capital) and (iii) a phased-in combined buffer requirement which for 2017 includes the capital conservation buffer (CCB) of 1,25% following the above mentioned law amendment, which have to be made up with CET1 capital.

Furthermore, the Bank is prohibited from making distributions to shareholders until 31st December 2017.

Additionally, applicable for Hellenic Bank, the combined buffer requirement includes an O-SII buffer of 1% fully loaded and is phased-in over a period of four years with application starting from 1st of January 2019, a Counter-Cyclical Capital Buffer (CCyB) for which the CBC has set the level at 0% for 2016 and for the first and second quarter of 2017 for relevant exposures in Cyprus (the Institution-specific CCyB for 2016 was 0%) and a Systemic Risk Buffer which has not been set to date.

Taking into account the phased-in legislation for CCB, the Group's minimum CET1 and Tier 1 ratios effective as from 1st January 2017 are set at 9,25% and 10,75% respectively. In addition to the above, the ECB has set, on a consolidated basis, a Pillar II capital guidance to be made up entirely of CET1 capital.

1.2.3 Pillar III

Pillar III sets out required disclosures to allow market participants, having a full picture of the risk profile of the Group, to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Group.

Based on Part Eight "Disclosure by Institutions" of the CRR the banks shall disclose, among others, information relating to their objectives and risk management policies, the composition of their Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital, their compliance with minimum capital requirements, their leverage ratio, their internal capital adequacy assessment process, their remuneration policy and their recruitment and staff evaluation processes.

For further information in relation to risk management, refer to Note 48 of the Financial Statements for the year ended 31 December 2016.

The Group is fully in compliance with the requirements of the Regulation regarding the disclosure of the Pillar III report, based on the Basel III principles as adopted by the European Union.

1.2.3.1 Basis and frequency of disclosures

The following information is disclosed based on Articles 435 to 455 and 492 of Part Eight of the Regulation No. 575/2013 (CRR) of the European Parliament and Council for the calculation of the capital requirements which is in effect since the 1st of January 2014 as well as any transitional provisions adopted by the CBC.

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

The Pillar III Disclosures should be read in conjunction with the Financial Statements for the year ended 31 December 2016.

1.2.3.2 Approval

The Pillar III disclosures are approved by the Board of Directors through the Board Risk Committee and the Audit Committee, prior to its public disclosure.

1.3 Scope of Application

As at 31st December 2016, the subsidiary companies were consolidated, based on International Financial Reporting Standards (IFRS) and the requirements of the Legal Framework in relation to the capital requirements as adopted by the European Union and taking into consideration the differences in the definitions used. The relevant reconciliation between the statement of financial position as presented in the Financial Statements with the statement of financial position prepared for regulatory purposes is presented in Section 4.3.

Subsidiary company	**Ownership %**	**IFRS**	**Basis of consolidation for Legal Framework**
Hellenic Bank (Investments) Ltd	100	Full	Full, Note 1
Hellenic Bank Trust and Finance Corporation Ltd	100	Full	Full
Pancyprian Insurance Ltd	99,96	Full	Out of scope Note 2, Note 3
Hellenic Alico Life Insurance Company Ltd	72,50	Full	Out of scope, Note 2
Hellenic Insurance Agency Ltd (Cyprus)	100	Full	Out of scope, Note 2
D4A2 Ltd	100	Full	Full, Note 4

Notes:

1. On 28th November 2016 the Board of Directors of Hellenic Bank (Investments) Ltd decided to discontinue all its business activities, which primarily relate to retail brokerage services. Based on this decision, on the 17th of February 2017 Hellenic Bank (Investments) Ltd business activities were terminated.

2. With regards to the Bank's significant investments in financial sector entities, including its investments in subsidiary companies which operate in the insurance sector (Pancyprian Insurance Ltd, Hellenic Alico Life Insurance Company Ltd and Hellenic Insurance Agency Ltd (Cyprus)), and deferred tax assets that rely on future profitability and arise from temporary differences, the Bank applied the exemptions from deduction from CET1 in accordance with the provisions of Article 470 of the European Regulation No. 575/2013 and these items are risk weighted at 250%.

3. On 31st December 2016, the Group assessed whether there is any impairment of goodwill arising on the acquisition of Pancyprian Insurance Ltd, by calculating the estimated fair value of the company, based on the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the investments. As a result of this assessment, no impairment of goodwill arose.

4. Assets acquired in satisfaction of debt are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs). For liquidation optimisation the SPVs are owned either directly by the Bank or indirectly through a wholly owned holding company (D4A2 Ltd).

   As at 31st December 2016, D4A2 Ltd was the holding company of 25 wholly owned SPVs established or acquired to hold assets acquired or that will be acquired in satisfaction of debt. 5 out of the 25 SPVs were dormant (31 December 2016) while 2 of those had signed agreements for the acquisition of assets. For details on D4A2 Ltd refer to Note 26 of Financial Statements.

2. GOVERNANCE

2.1 Number of directorships held by members of the Board

The following table shows the number of positions in the various Boards of Directors, including the Bank's, in 2016. Positions in the Boards of the same group are regarded as one position. Positions in the Boards of Directors of organisations that are not engaged in profit-making activities (e.g. Charitable Non-profit Organisations) or are deemed not to pursue predominantly commercial activities and therefore they are not counted for the purposes of national legislation implementing Article 91(3) of CRDIV, are not presented in the table below.

Name	Position with Hellenic Bank	Directorships – Executive *	Directorships – Non-Executive*
Irena A. Georgiadou	Non Executive Chairwoman	-	2
Henricus Lambertus (Bert) Pijls	Executive Director / CEO (Resigned on 15 December 2016)	1	-
Marinos S. Yannopoulos	Non Executive Vice Chairman	-	2
Marianna Pantelidou Neophytou	Non Executive Director	-	1
Ioannis A. Matsis	Non Executive Director	1	2
David Whalen Bonanno	Non Executive Director	-	4
Dr Evripides A. Polykarpou	Non Executive Director - Senior Independent Director	-	1
Georgios Fereos	Executive Director	1	-
Christodoulos A. Hadjistavris	Non Executive Director	-	1
Andreas Christofides	Non Executive Director	1	1
Lambros Papadopoulos	Non Executive Director	1	1
Andrew Charles Wynn	Non Executive Director	1	1
Stephen John Albutt	Non Executive Director	-	1

* Directorships as at 31st December 2016 including Directors who retired during the year.

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

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

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

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

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

The Bank has set an aspirational target to have members of the under-represented sex make up 40% of the Board's non-executive membership by the end of 2018.

The diversity policy is included in the above-mentioned policy for the selection and appointment of the members of the Board.

3. REMUNERATION POLICY AND PRACTICES

3.1 Basic principles of the Group's remuneration policy

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

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

The present version of the Group's Remuneration Policy is based on the Directive of the CBC on "Governance and Management Arrangements in Credit Institutions" (August 2014), the European Banking Authority's Guidelines on "Remuneration Policies and Practices" (December 2010), Articles 3 and 4 of Regulation (EU) No 604/2014 and the "Code of Corporate Governance" published by the Cyprus Stock Exchange (April 2014).

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

The Remuneration Committee met eleven times during the year 2016.

The revised Remuneration Policy was approved by the Board of Directors on the 9th of June 2015. Currently, it is under review, to incorporate the provisions of the revised Guidelines of the European Banking Authority on Sound Remuneration Policies.

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

3.1.1 Fixed Remuneration

Basic Principles

- Fixed remuneration refers to the staff's main form of remuneration and is determined by relevant legislation and individual employment contracts in the various countries the Group operates.
- The fixed remuneration of non-executive Directors is subject to the approval of the Bank's shareholders at Extraordinary or Annual General Meetings and is based on the recommendation of the Board, following the proposal of the Remuneration Committee.
- The fixed remuneration of Executive members of the Board is determined by the member's individual employment contract and governed by legislation.
- The fixed remuneration of the Chief Executive Officer is determined through a contract which is mutually agreed and approved by the Board of Directors of the Group, based on the recommendations of the Remuneration Committee of the Board of Directors.

3.1.2 Variable Remuneration

Basic Principles

Variable remuneration/reward is additional remuneration for performance that is over and above what it expected and is determined by measurable performance indicators, the Group's overall results, the financial conditions under which these have been achieved and the risks undertaken. Its purpose is to motivate staff and to increase productivity and competitiveness.

The procedure carried out for the payment of variable remuneration varies depending on the responsibilities of the recipients. For those whose professional activities have a material impact on the risk profile of the Bank (identified staff/material risk takers) the procedure used is based on the following principles:

- The alignment of variable remuneration with the business strategy, the corporate and individual objectives and the long-term interests of the Group, without encouraging conflicts of interest or risk-taking that exceeds the Bank's risk tolerance limits.
- Associating the payment of variable remuneration with the Bank's corporate values, as described in the Group's 'Code of Business Conduct & Ethics'.
- The amount of the reward given is linked with measurable performance criteria such as: the skills acquired by the individual, personal development, the ability to take on upgraded duties, compliance with procedures and policies of the bank, commitment towards the Group's strategic goals, contribution to the team's performance and business ethics.
- The assessment of performance is set within a multi-year framework in order to ensure that it has a long-term perspective and that the actual payment of the reward is spread over a period which takes into account Hellenic Bank's underlying business cycle and business risks.
- The performance measurement used to calculate variable remuneration components includes an adjustment for all types of current and future risks and takes into account the cost of capital and liquidity required.
- The total variable remuneration does not limit Hellenic Bank's ability to strengthen its capital base.
- The conditions described in the Group's Remuneration Policy regarding guaranteed variable remuneration (start-up bonuses), discretionary pension benefits, role-based allowances, early termination payments and personal hedging strategies.
- The Bank may provide variable remuneration up to 100% of base salary.
- Reward is disbursed in deferred payments and is subject to a retention period during which the variable remuneration paid out cannot be sold.
- At least 50% of the payment of variable remuneration must be in the form of shares or equivalent ownership interests or other financial instruments.
- Reward that has already been paid out, may be recalled through malus and clawback arrangements.
- The remuneration of Control Functions is disassociated from the targets and performance of the Business Units they monitor and the evaluation of Control Functions with regards to their own targets and responsibilities is ensured.
- Non-executive members of the Board are not included in the beneficiaries of variable remuneration.

Variable remuneration may be granted through the Bank's incentive schemes and not be subject to the conditions mentioned above where the incentives are negligible in size and hence do not encourage excessive risk taking which could in turn undermine the effective risk management of the Bank. Such incentives are granted based on the Group's results and profitability, return on equity and cost to income ratio and are based on the following principles:

- The motivation of staff,
- The increase of productivity and competitiveness,
- Transparency in the procedure of granting additional remuneration.

3.2 Remuneration Policy Report for the year 2016

The Board of Directors, in compliance with the provisions in the Code of Corporate Governance, published by the Cyprus Stock Exchange (4th edition (revised)-April 2014) and particularly Appendix 1 of the Code, incorporates the Remuneration Policy Report in the Bank's 2016 Annual Report, which includes amongst others, the composition and the Terms of Reference of the Remuneration Committee. The 2016 Annual Report has been published on the Bank's official website.

3.3 Members of the Board of Directors and Personnel categories

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

1. Non–Executive Members of the Board
2. Executive Members of the Board
3. People whose professional activities have a material impact on the risk profile of the Bank as defined by the CBC in its Directive on Governance and Management Arrangements in Credit Institutions (2014) and the European Banking Authority's "Regulatory Technical Standards with respect to Qualitative and Appropriate Quantitative Criteria to Identify Categories of Staff whose Professional Activities have a material impact on an Institution's risk profile" (EU/604/2014) (includes both Executive and Non-executive members of the Board).
4. Staff Members of the Group not included in the above categories.

3.4 Geographical segments

During 2016 the Group operated mainly in Cyprus, principally providing banking, financial and insurance services.

The Bank maintains Representative Offices in Moscow, Saint Petersburg, Kiev and Johannesburg. On 17 November 2015 the Bank was granted approval by the Central Bank of Cyprus for the operation of a Representative Office in Athens.

The number of staff employed by the Group on 31st December 2016 was 1.646, compared to 1.555 on 31st December 2015.

The remuneration of the personnel of the Group for 2016 according to the legal framework, which includes salaries and other short-term benefits as well as employer's contributions for social insurance etc., is analysed as follows:

		2016	2016
		€000	Number
Personnel including executive members of the Board per geographical segment:			
Cyprus		82.422	1.633
Representative Offices in Moscow		148	5
Representative Offices in Saint Petersburg		74	3
Representative Offices in Kiev		73	3
Representative Offices in Johannesburg		64	2
		82.781	**1.646**
Emoluments/number of people whose professional activities have a material impact on the risk profile of the Bank as defined by the CBC and the Committee of European Banking Supervisors:			
Non-Executive Members of the Board		914	11
Executive Members of the Board		1.446	2
General Managers and Managers of Central Services		3.895	39
Managers of Regulatory Services		1.788	22
Managers of Business Divisions		4.301	42
		12.344	**116**

Information on the remuneration of the Members of the Board of Directors and the Chief Executive Officer for the year 2016 is disclosed in the notes to the Financial Statements of the Group (Note 39) as well as in the Remuneration Policy Report.

On the 15th of December 2016 the Bank announced that Mr. Bert Pijls stepped down from the position of Group Chief Executive Officer. The parties agreed to a consideration for the termination of the contract of employment, in cash amounting in total to around €526 thousand. Additionally, during 2016 the contract of employment between one Key Management personnel and the Bank was terminated by mutual consent. The parties agreed to a consideration for the termination of the contract of employment, in cash and in kind, of approximately €238 thousand. Lastly, the Bank signed a termination agreement with another Key Management Personnel who received the ex-gratia amount of €202 thousand.

For the year 2016, the Group did not offer variable remuneration, other than to the CEO, to people whose professional activities had a material impact on the risk profile of the Bank, as defined by the CBC and the Committee of European Banking Supervisors. The CEO's remuneration includes 40.128 number of shares at a nominal value of €20.064.

During 2016, the remuneration payment of one employee exceeded the threshold of €1 million and was hence part of the pay band ranging from €1 million to €1,5 million. The employee's remuneration includes total remuneration and benefits of €555 thousand and consideration for the termination of contract amounting to €526 thousand.

For an analysis of the remuneration of directors refer to the Annual Report 2016.

For an analysis of the staff remuneration per segment refer to Note 42 of Annual Financial Report 2016.

4. CAPITAL BASE

The Group's regulatory capital is calculated in accordance with the provisions of the European Regulation 575/2013 and is analysed as follows:

- Common Equity Tier 1, which includes share capital, share premium, reduction of share capital reserve, retained earnings including the profit/loss for the year, the revaluation reserve (i.e. revaluation reserve of investment in debt securities, revaluation reserve of investment in equities and property revaluation reserve) and other reserves i.e. translation reserve. The carrying amount of goodwill and other intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier 1 capital subject to the transitional provisions of the relevant circular of the CBC (R.A.A. 393/2014). Also, deducted from CET1 Capital is the Group's contribution to the Investors Compensation Fund, as per the requirements of Circular 162 issued on 10th October 2016 by the Cyprus Securities and Exchange Commission (CySEC).
- Additional Tier 1 capital, which includes hybrid instruments, composed by Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2). A portion of the carrying amount of intangible assets is deducted from Additional Tier 1 capital subject to the transitional provisions of the relevant circular of the CBC.
- Tier 2 capital, which includes subordinated loan capital. The direct holdings of Tier 2 instruments are deducted from Tier 2 capital. In addition, other transitional adjustments in relation to property revaluation reserve are added to Tier 2 capital.

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

4.1 Share capital

As at 31st December 2016, 198.474.712 fully paid shares were in issue, with a nominal value of €0,50 each (2015: 198.434.584 shares with a nominal value €0,50 each).

The movement of the share capital for the years 2016 and 2015 is presented in the table below:

Issued Fully paid shares (€000)		**31 December 2016**	**No. of shares (thousand)**	**31 December 2015**	**No. of shares (thousand)**
1 January		99.217	198.435	93.010	9.300.974
Allotment of unexercised 2014 rights		-	-	874	87.422
Reverse split		-	-	-	(9.200.628)
Issue of shares to EBRD		-	-	5.333	10.667
Issue of shares to CEO as part of his variable remuneration package		20	40	-	-
Total issued share capital		**99.237**	**198.475**	**99.217**	**198.435**

For more information in relation to the share capital, refer to Note 33 of the Financial Statements for the year ended 31st December 2016.

4.2 Loan capital

4.2.1 Primary loan capital

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

Tier 1 Capital (€000)		**2016**
Convertible Capital Securities 1		1.597
Convertible Capital Securities 2		128.070
Total Tier 1 Capital		**129.667**

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

The Convertible Capital Securities 1 and Convertible Capital Securities 2 ("CCS1" and "CCS2") are perpetual securities with no maturity date.

4.2.1.1.1 Coupons

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

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

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

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

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

(i) the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS1 or/and CCS2, or
(ii) the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank's or the Group's capital requirements, or

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

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

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

4.2.1.1.2 Hierarchy Step up

The CCS1 and CCS2 are unsecured and subordinated obligations of the Bank and are classified as Tier 1 capital securities in accordance with the Directive of Capital Requirements and Large Exposures (as amended, revised or replaced) and any relevant European Union Directives and Regulations as applied in Cyprus or any other requirements that may apply.

The rights and claims of CCS1 and CCS2 holders:

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

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

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

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

4.2.1.1.3 Redemption

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

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

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

(a) Tier 1 Capital and/or

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

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

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

4.2.1.1.4 Mandatory Conversion

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

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

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

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

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

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

4.2.1.1.5 Voluntary Conversion

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

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

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

4.2.1.1.6 Mandatory Conversion Price

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

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

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

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

4.2.1.1.7 Voluntary Conversion Price

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

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

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

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

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

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

4.2.2 Secondary loan capital

The amount of €3.330 included in supplementary own funds as at 31st December 2016 comprises of:

Secondary loan capital (€000)		Carrying amount	Reductions based on the Directive	Amount in supplementary own funds
Non-convertible bonds 2016		-	-	-
Non-convertible bonds 2018		10.000	(6.670)	3.330
Total		**10.000**	**(6.670)**	**3.330**

4.2.2.1 Non-Convertible Bonds 2016

The Bonds 2016 were issued in three different series and matured on the 1st of July 2016, irrespective of the date of issue. Under the terms of issue, (Prospectus dated 11 May 2006, Supplementary Prospectus dated 7 June 2006, Second Supplementary Prospectus dated 1 November 2006, Third Supplementary Prospectus dated 12 December 2006 and Fourth Supplementary Prospectus dated 5 April 2007), the Bank had the right to redeem the Bonds 2016 on any interest payment date after the 1st of July 2011. The Bonds which resulted from all issues were listed on the Cyprus Stock Exchange.

Bonds 2016 were not secured and in the event of the Bank's liquidation their repayment would have followed in priority the claims of depositors and other creditors. They had, however, priority over shareholders and Capital Securities holders.

Bonds 2016 bore interest at a floating rate reviewed at the beginning of each interest payment period and applicable to that specific period. According to the Bonds' terms of issue, if the Bonds were not redeemed by the Bank, the current interest rate was the 3-month Euribor plus 0,80% until the 1st of July 2011 and the 3-month Euribor plus 1,50% after the 1st of July 2011. Interest was payable quarterly in cash at the end of each interest period.

Pursuant to the Prospectus, dated 30 September 2013 among others, CCS2 of total value of €20.881.785 were issued to exchange the Non-Convertible Bonds 2016 (ISIN CY0140040110)(HBDF), to the holders who had accepted the CCS2 Voluntary Exchange Offer.

On the 2nd of November 2013, all Non-Convertible Bonds 2016 that were converted into CCS2 were automatically cancelled and the Bank ceased to have any obligations in respect of them.

In implementing the provisions of the Prospectus dated 11 May 2006, the Bank proceeded on the 1st of July 2016 with the full redemption of Bonds 2016. Following the redemption of the Bonds, any obligations the Bank may otherwise had in relation to all or any of the Bonds and the holders thereof ceased to apply. The interest on the Bonds for the period from the 1st April 2016 to 30 June 2016 with a rate of 1,257% was paid on 1st July 2016. Individuals entitled to receive the interest payment were all registered holders of the Bonds as at 23rd of June 2016 (record date). Bonds last cum-interest trading date was the 21st of June 2016.

4.2.2.2 Non-Convertible Bonds 2018

On the 1st of September 2008, the Bank proceeded with the issue of the Bonds 2018 amounting to €10.000.000. The Bonds mature on 31st August 2018.

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

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

For more information regarding loan capital, refer to Note 32 of the Financial Statements for the year ended 31 December 2016.

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

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

Reconciliation between regulatory capital with equity (€000)		**Ref**	**31 December 2016**	**31 December 2015**
Total Equity per Financial Statements		a	566.871	642.796
Deconsolidation of insurance entities		b	(14.347)	(12.894)
Intangible assets			(15.875)	(9.043)
Deferred tax assets that rely on future profitability and do not arise from temporary differences			(5.078)	(23.174)
Reserves arising from revaluation of properties and other non CET1 eligible reserves			(13.790)	(13.952)
Additional deductions of CET1 Capital due to Article 3 CRR			(232)	-
Total Common Equity Tier 1			**517.549**	**583.733**
Additional Tier 1				
Loan Capital (after deduction of Own Additional Tier 1 instruments)		c	129.667	129.667
Intangible assets			(10.582)	(13.564)
Total Additional Tier 1			**119.085**	**116.103**
Total Tier 1			**636.634**	**699.836**
Tier 2				
Loan Capital (after deduction of Own Tier 2 instruments)		c	10.000	51.800
Tier 2 amortisation			(6.670)	(42.279)
Property revaluation reserve and other unrealised gains			5.516	8.371
Total Tier 2			**8.846**	**17.892**
Total Own funds			**645.480**	**717.728**

Note 1: The references (a) – (c) identify balance sheet components on section 4.4 which are used in the calculation of regulatory capital.

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

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

As at 31 December 2016 (€000)		Ref	Consolidated statement of financial position	Deconsolidation of insurance entities	Statement of financial position per regulatory scope of consolidation
Assets					
Cash and balances with Central Banks			2.083.444	(1)	2.083.443
Placements with other banks			548.902	(11.216)	537.686
Loans and advances to customers			2.926.033	-	2.926.033
Debt securities			1.149.132	(6.428)	1.142.704
Equity securities & Collective Investment Units			16.008	(7.505)	8.503
Investment in subsidiary companies			-	33.748	33.748
Property, plant and equipment			99.648	(6.155)	93.493
Intangible assets			26.526	(14.862)	11.664
Tax receivable			127	(54)	73
Deferred tax asset			8.465	-	8.465
Other assets			179.319	(35.956)	143.363
Total assets			**7.037.604**	**(48.429)**	**6.989.175**
Liabilities					
Deposits by banks			100.652	-	100.652
Amounts due to Central Banks			-	-	-
Customer deposits and other customer accounts			6.111.088	20.708	6.131.796
Tax payable			5.422	(302)	5.120
Deferred tax liability			1.980	(180)	1.800
Other liabilities			111.924	(54.308)	57.616
Loan capital		c	139.667	-	139.667
Total liabilities			**6.470.733**	**(34.082)**	**6.436.651**
Equity					
Share capital			99.237	-	99.237
Reserves			464.252	(10.965)	453.287
Equity attributable to owners of the parent company			**563.489**	**(10.965)**	**552.524**
Non-controlling interest			3.382	(3.382)	-
Total equity		a/b	**566.871**	**(14.347)**	**552.524**
Total liabilities and equity			**7.037.604**	**(48.429)**	**6.989.175**

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

As at 31 December 2015 (€000)		Ref	Consolidated statement of financial position	Deconsolidation of insurance entities	Statement of financial position per regulatory scope of consolidation
Assets					
Cash and balances with Central Banks			2.029.180	(1)	2.029.179
Placements with other banks			909.849	(2.255)	907.594
Loans and advances to customers			3.092.773	-	3.092.773
Debt securities			1.043.012	(5.761)	1.037.251
Equity securities & Collective Investment Units			15.140	(7.046)	8.094
Investment in subsidiary companies			-	33.771	33.771
Property, plant and equipment			98.564	(6.836)	91.728
Intangible assets			22.640	(14.854)	7.786
Tax receivable			66	(53)	13
Deferred tax asset			58.094	-	58.094
Other assets			128.055	(31.950)	96.105
Total assets			**7.397.373**	**(34.985)**	**7.362.388**
Liabilities					
Deposits by banks			76.938	-	76.938
Amounts due to Central Banks			236.373	-	236.373
Customer deposits and other customer accounts			6.138.705	28.082	6.166.787
Tax payable			5.314	(251)	5.063
Deferred tax liability			1.472	(138)	1.334
Other liabilities			114.307	(49.785)	64.522
Loan capital		c	181.468	-	181.468
Total liabilities			**6.754.577**	**(22.092)**	**6.732.485**
Equity					
Share capital			99.217	-	99.217
Reserves			540.380	(9.695)	530.685
Equity attributable to owners of the parent company			**639.597**	**(9.695)**	**629.902**
Non-controlling interest			3.199	(3.199)	-
Total equity		a/b	**642.796**	**(12.894)**	**629.902**
Total liabilities and equity			**7.397.373**	**(34.985)**	**7.362.387**

4.5 Regulatory Capital

The tables below disclose the components of regulatory capital as at 31st December 2016 and 2015 on both a transitional and fully loaded basis.

This disclosure has been prepared using the format set out in Annex VI of the "Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the Regulation 575/2013 (CRR).

Transitional Own Funds 2016 (€000)		**Transitional basis**	**Transitional impact**	**Fully loaded basis**
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts		614.860	-	614.860
Retained earnings		(357.040)	-	(357.040)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		280.914	-	280.914
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**538.734**	**-**	**538.734**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Intangible assets (net of related tax liability)		(26.457)	-	(26.457)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		(8.465)	-	(8.465)
Other transitional adjustments to CET1 capital		13.969	(13.969)	-
(-) Additional deductions of CET1 capital due to Article 3 CRR		(232)	-	(232)
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(21.185)**	**(13.969)**	**(35.154)**
Common Equity Tier 1 (CET1) capital		**517.549**	**(13.969)**	**503.580**
Additional Tier 1 (AT1) capital: instruments				
Capital instruments and the related share premium accounts		129.667	-	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments		**129.667**	-	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments				
Other transitional adjustments to AT1 capital		(10.582)	10.582	-
Total regulatory adjustments to Additional Tier 1 (AT1) capital		**(10.582)**	**10.582**	**-**
Additional Tier 1 (AT1) capital		**119.085**	**10.582**	**129.667**
Tier 1 capital (T1 = CET1 + AT1)		**636.634**	**(3.387)**	**633.247**
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts		3.330	-	3.330
Tier 2 (T2) capital before regulatory adjustments		**3.330**	-	**3.330**
Tier 2 (T2) capital: regulatory adjustments				
Other transitional adjustments to T2 capital		5.516	(5.516)	-
Total regulatory adjustments to Tier 2 (T2) capital		**5.516**	**(5.516)**	**-**
Tier 2 (T2) capital		**8.846**	**(5.516)**	**3.330**
Total capital (TC = T1 + T2)		**645.480**	**(8.902)**	**636.577**
Total risk weighted assets		**3.743.505**	-	**3.747.505**
Capital ratios and buffers				
Common Equity Tier 1		13,83%	-	13,45%
Tier 1		17,01%	-	16,92%
Total capital		17,24%	-	17,00%

4.5 Regulatory Capital (continued)

Transitional Own Funds 2016 (€000)		Transitional basis	Transitional impact	Fully loaded basis
Institution specific buffer requirement		0,63%	2,87%	3,50%
of which: capital conservation buffer requirement		0,63%	1,87%	2,50%
of which: countercyclical buffer requirement		0,00%		0,00%
of which: systemic risk buffer requirement		0,00%		0,00%
of which: Other Systemically Important Institution (O-SII) buffer		0,00%	1,00%	1,00%
Common Equity Tier 1 available to meet buffers		23.397	107.626	131.023
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		18.869	-	18.869
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		1	-	1
Applicable caps on the inclusion of provisions in Tier 2				
Cap on inclusion of credit risk adjustments in T2 under standardised approach		40.893	-	40.893

4.5 Regulatory Capital (continued)

Transitional Own Funds 2015 (€000)		Transitional basis	Transitional impact	Fully loaded basis
Common Equity Tier 1 capital: instruments and reserves				
Capital instruments and the related share premium accounts		614.823	-	614.823
Retained earnings		(292.641)	-	(292.641)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)		293.768	-	293.768
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**615.950**	**-**	**615.950**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Intangible assets (net of related tax liability)		(22.607)	-	(22.607)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		(57.936)	-	(57.936)
Regulatory adjustments applied to common equity tier 1 in respect of amounts subject to pre-CRR treatment		48.326	(48.326)	-
Regulatory adjustments relating to unrealised gains and losses		-	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(32.217)**	**(48.326)**	**(80.543)**
Common Equity Tier 1 (CET1) capital		**583.733**	**(48.326)**	**535.407**
Additional Tier 1 (AT1) capital: instruments				
Capital instruments and the related share premium accounts		129.667	-	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments		**129.667**	-	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments				
Regulatory adjustments applied to AT1 capital		(13.564)	13.564	-
Total regulatory adjustments to Additional Tier 1 (AT1) capital		**(13.564)**	**13.564**	**-**
Additional Tier 1 (AT1) capital		**116.103**	**13.564**	**129.667**
Tier 1 capital (T1 = CET1 + AT1)		**699.836**	**(34.762)**	**665.074**
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts		9.521	-	9.521
Tier 2 (T2) capital before regulatory adjustments		**9.521**	-	**9.521**
Tier 2 (T2) capital: regulatory adjustments				
Regulatory adjustments applied to T2 capital		8.371	(8.371)	-
Total regulatory adjustments to Tier 2 (T2) capital		**8.371**	**(8.371)**	**-**
Tier 2 (T2) capital		**17.892**	**(8.371)**	**9.521**
Total capital (TC = T1 + T2)		**717.728**	**(43.132)**	**674.595**
Total risk weighted assets		**3.958.251**	-	**3.958.251**
Capital ratios and buffers				
Common Equity Tier 1		14,75%	-	13,53%
Tier 1		17,68%	-	16,80%
Total capital		18,13%	-	17,04%
Applicable caps on the inclusion of provisions in Tier 2				
Cap on inclusion of credit risk adjustments in T2 under standardised approach		43.229	-	43.229

4.6 Transitional Own Funds Disclosure

The table bellow discloses the components of regulatory capital as at 31st December 2016 and 2015 after taking into account the transitional provisions.

This disclosure has been prepared using the format set out in Annex VI of the "Commission Implementing Regulation (EU) No 1423/2013", which lays down implementing technical standards with regards to disclosure of own funds requirements, for institutions according to the Regulation 575/2013 (CRR).

Transitional Own Funds (€000)		**As at 31 December 2016**	**As at 31 December 2015**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts		614.860	614.823
Retained earnings		(357.040)	(292.641)
Accumulated other comprehensive income (and other reserves)		280.914	293.768
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**538.734**	**615.950**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets (net of related tax liability)		(26.457)	(22.608)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		(8.465)	(57.935)
Other transitional adjustments to CET1 capital		13.969	48.326
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(20.953)**	**(32.217)**
(-) Additional deductions of CET1 Capital due to Article 3 CRR		(232)	-
Common Equity Tier 1 (CET1) capital		**517.549**	**583.733**
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts		129.667	129.667
Additional Tier 1 (AT1) capital before regulatory adjustments		**129.667**	**129.667**
Additional Tier 1 (AT1) capital: regulatory adjustments			
Other transitional adjustments to AT1 capital		(10.582)	(13.564)
Total regulatory adjustments to Additional Tier 1 (AT1) capital		**(10.582)**	**(13.564)**
Additional Tier 1 (AT1) capital		**119.085**	**116.103**
Tier 1 capital (T1 = CET1 + AT1)		**636.634**	**699.836**
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts		3.330	10.375
Tier 2 (T2) capital before regulatory adjustments		**3.330**	**10.375**
Tier 2 (T2) capital: regulatory adjustments			
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans		-	(854)
Other transitional adjustments to T2 capital		5.516	8.371
Total regulatory adjustments to Tier 2 (T2) capital		**5.516**	**7.517**
Tier 2 (T2) capital		**8.846**	**17.892**
Total capital (TC = T1 + T2)		**645.480**	**717.728**
Total risk weighted assets		**3.743.505**	**3.958.251**

4.6 Transitional Own Funds Disclosure (continued)

Transitional Own Funds (€000)		As at 31 December 2016	As at 31 December 2015
Capital ratios and buffers			
Common Equity Tier 1		13,83%	14,75%
Tier 1		17,01%	17,68%
Total capital		17,24%	18,13%
Institution specific buffer requirement		0,63%	0,00%
of which: capital conservation buffer requirement		0,63%	0,00%
of which: countercyclical buffer requirement		0,00%	0,00%
of which: systemic risk buffer requirement		0,00%	0,00%
of which: Other Systemically Important Institution (O-SII) buffer		0,00%	0,00%
Common Equity Tier 1 available to meet buffers		23.397	-
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		18.869	18.944
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		1	159
Applicable caps on the inclusion of provisions in Tier 2			
Cap on inclusion of credit risk adjustments in T2 under standardised approach		40.893	43.229

The decrease of 92 basis points in CET1 ratio compared to 31 December 2015, was mainly the result of the below:

i) overall decrease in CET1, mainly as a result of the below:

- derecognition of deferred tax assets arising from tax losses, net effect of 75 basis points decrease.
- current year losses mainly due to provisions for impairment losses and provisions to cover credit risk as well as gradual elimination of transitional provisions, net effect of 89 basis points decrease.

ii) overall decrease in RWAs, mainly as a result of the increase in impairment losses and provisions to cover credit risk as well as decrease in risk weighted investment assets (effect of 142 basis points increase), despite the increased risk weighting classification of certain exposures compared to 31 December 2015, due to adoption of the CBC's recommendation (5 April 2016) and respective EBA's recommendation, regarding the risk weight to be assigned to high risk exposures (effect of 67 basis points decrease).

4.7 Main features of Capital Instruments

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

The main features of capital instruments issued by the Group are presented below:

		1	2	3	4	5
		CET1*	**AT1***	**AT1***	**T2***	**T2***
1	Issuer	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited	Hellenic Bank Public Company Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	CY0105570119	CY0144170111	CY0144180110	CY0140040110	N/A
3	Governing law(s) of the instrument	Cyprus Law	Cyprus Law	Cyprus Law	Cyprus Law	Cyprus Law
	Regulatory treatment					
4	Transitional CRR rules	CET1	AT1	AT1	T2	T2
5	Post-transitional CRR rules	CET1	AT1	AT1	T2	T2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type	Share capital	Loan capital	Loan capital	Loan capital	Loan capital
8	Amount recognised in regulatory capital (currency in thousands, as of most recent reporting date)	€99.237	€1.597	€128.070	€0	€3.330
9	Nominal amount of instrument	€0,01	€1.597	€128.070	€41.800	€10.000
9 (a)	Issue price	€1	€1	€1	£100	€100
9 (b)	Redemption price	N/A	at par including accrued interest and excluding any cancelled interest	at par including accrued interest and excluding any cancelled interest	at par including accrued interest	at par including accrued interest
10	Accounting classification	Shareholders equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	Refer to Annual Report on Share capital note	30 September 2013	30 September 2013	CY£38m 30 Sept 2006 CY£25m 22 Nov 2006 CY£12m 27 Apr 2007	1 September 2008
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	Matured on 1 July 2016	31 August 2018
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Refer to Section 4.2.1.1.3	Refer to Section 4.2.1.1.3	Refer to Sub Note 1 bellow	

4.7 Main features of Capital Instruments (continued)

		1	2	3	4	5
		CET1*	**AT1***	**AT1***	**T2***	**T2***
16	Subsequent call dates, if applicable	N/A	Refer to Section 4.2.1.1.3	Refer to Section 4.2.1.1.3	Refer to Sub Note 1 bellow	
	Coupons / dividends					
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Floating	Floating
18	Coupon rate and any related index	N/A	annual 11% payable every quarter	annual 10% payable every quarter	3-month Euribor + 1.50% per annum	3-month Euribor + 2.75% per annum
19	Existence of a dividend/coupon stopper	Yes - Refer to Sub Note 2 below	Yes	Yes	No	No
20 (a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Fully or partially discretionary	Fully or partially discretionary	N/A	N/A
20 (b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Fully or partially discretionary	Fully or partially discretionary	N/A	N/A
21	Existence of step up or other incentive to redeem	N/A	No	No	Yes	Yes
22	Non-cumulative or cumulative	N/A	Non-cumulative	Non-cumulative	N/A	N/A
23	Convertible or non-convertible	N/A	Convertible	Convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	Refer to Section 4.2.1.1.4 & 4.2.1.1.5	Refer to Section 4.2.1.1.4 & 4.2.1.1.5	N/A	N/A
25	If convertible, fully or partially	N/A	Partially	Partially	N/A	N/A
26	If convertible, conversion rate	N/A	Refer to Section 4.2.1.1.6 & 4.2.1.1.7	Refer to Section 4.2.1.1.6 & 4.2.1.1.7	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	Mandatory or optional	Mandatory or optional	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	Common Equity Tier 1	Common Equity Tier 1	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	Hellenic Bank Public Company Ltd	Hellenic Bank Public Company Ltd	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A

4.7 Main features of Capital Instruments (continued)

		1	2	3	4	5
		CET1*	**AT1***	**AT1***	**T2***	**T2***
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Refer to Section 4.2.1.1	Refer to Section 4.2.1.2	Refer to Section 4.2.2.1	Refer to Section 4.2.2.2
36	Non-compliant transitional features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

** CET1: Common Equity Tier 1 capital, AT1: Additional Tier 1 capital, T2: Tier 2 capital*

Sub Note 1: The Bank had/has the right to redeem the 2016/2018 Bonds:
(a) at any price to the market or
(b) by special agreement at any price or
(c) with an offer to all holders of the Bonds at any price.
All 2016 Bonds matured.
All 2018 Bonds will be redeemed, will be cancelled or will be offered for sale or transfer in accordance with the above provisions. The Bank, following approval by the CBC, a notice of not less than 30 and not more than 60 days to the Trustee and the holders of 2018 Bonds, has the right to redeem the 2018 Bonds on the first interest payment date after the 1st September 2013 for 2018 Bonds, and at any other interest payment date after that date.

Sub Note 2: The Bank is prohibited from making distributions to shareholders until 31st December 2017.

4.8 Countercyclical Capital Buffer

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

With a view to ensuring transparency and comparability across institutions, Regulation (EU) No 575/2013 requires institutions to disclose the key elements of the calculation of their countercyclical capital buffer, comprising the geographical distribution of their relevant credit exposures and the final amount of their institution-specific countercyclical capital buffer.

As set out in Article 130(1) of Directive 2013/36/EU, an institution-specific countercyclical buffer is calculated as the product of its total risk exposure amount in accordance with Article 92(3) of Regulation (EU) No 575/2013 and the institution-specific countercyclical buffer rate.

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

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (€000)		**General Credit Exposures**		**Trading Book Exposure**		**Securitisation Exposure**		**Own Funds Requirements**				**Own Funds Requirements Weights**	**Counter cyclical Buffer Rate**
		SA*	IRB**	SA	IRB	SA	IRB	General Credit Exposures	Trading Book Exposures	Securitisation Exposures	Total		
Cyprus		3.371.568	-	293	-	19.844	-	252.837	23	318	253.178	100%	0%

**Standardised Method*
***Internal Rating Based Approach*

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

The table below summarizes the countercyclical buffer rate calculation:

Amount of institution-specific countercyclical capital buffer (€000)		**Amount**
Total Risk Exposure Amount		3.743.505
Institution specific countercyclical buffer rate		0%
Institution specific countercyclical buffer requirement		-

5. GROUP RISK MANAGEMENT

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

The Executive Management and the Board are satisfied that the arrangements are appropriate given the risk profile and strategy of the Bank.

5.1 Risk Management Framework

Throughout 2016, the Bank has continued its efforts to further enhance the framework by which it identifies, assesses, monitors and controls risks.

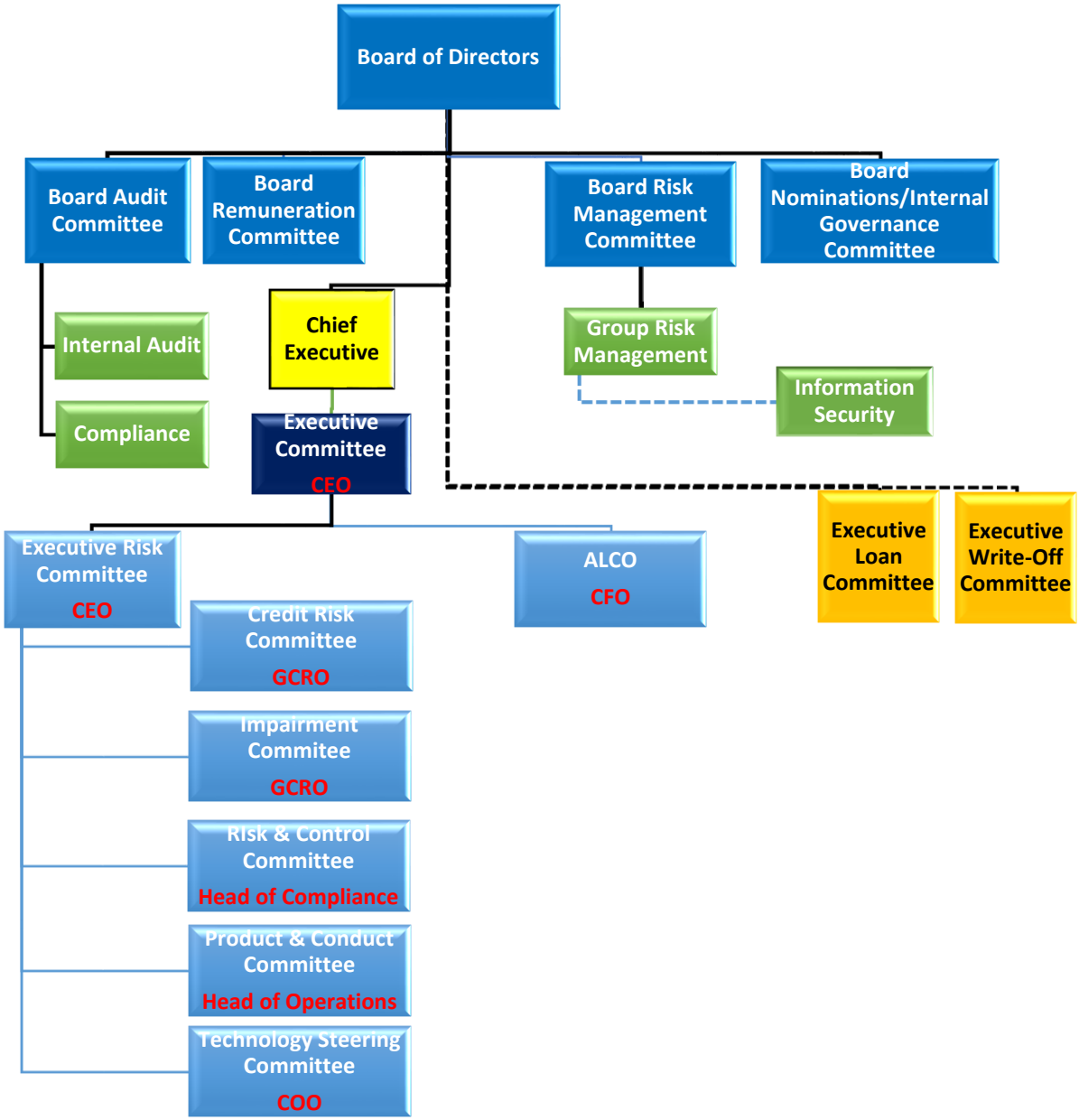
In March 2016, the Board approved the Enterprise Risk Management Framework (ERMF), the highest-level risk framework that sets out its approach to the identification, assessment and management of risks across the Group. The ERMF:

- serves as the umbrella framework under which all risk frameworks, policies and procedures are developed
- sets out the principles under which risk is managed and applies to all risks being taken and managed by the Bank
- confirms that the Bank adopts a three line of defence model and sets out the roles of each (refer to Section 5.1.2)
- recognises the importance of having a robust risk culture within the Board and supports the key factors that contribute to an open and transparent environment where well-trained and informed individuals take intelligent risk, under clear policies, in pursuit of achieving the Group's business strategy
- sets out the roles of the Board as ultimately responsible for the risk and control environment within the Group, as well as the Board and Executive Management committee structures, roles and responsibilities with respect to risk management (summarized in Section 5.1.1)
- defines the architecture of risk frameworks and policies for use across the Bank (refer to Section 5.1.4).

5.1.1 Risk Governance

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

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



The key duties and responsibilities of the Board Committees are shown below. The Committees are subject to full Terms of Reference which are available in the Annual Corporate Governance Report for 2016, which can be found on the Bank's website along with more details on their composition.

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

- Defining and submitting for Board approval risk management principles, frameworks and policies under which risk is managed and controlled within the Group,
- Advising and developing recommendations for the Board on the risk appetite and risk strategy of the Group,
- Reviewing and recommending to the Board the Group's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and the Group's Recovery Plan,
- Reviewing whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings,
- Overseeing the Group Risk Management and Information Security Functions,
- Determining the nature, amount and format of management information necessary to oversee the risk situation of the Group,
- Evaluating and recommending to the Board the risks related to any new markets, companies or business ventures.

During 2016, the Risk Management Committee has met 22 times.

The Board Audit Committee's duties and responsibilities include:

- Monitoring the integrity, accuracy and reliability of the Group's quarterly and annual financial reporting process and Financial Statements, including provisions and accounting policies and practices,
- Overseeing the relationship with external auditors, including their appointment, effectiveness and other non-auditing services,
- Overseeing the internal audit function, including its charter, plan and Head, as well as the adequacy and effectiveness of the Group's internal control systems and information systems based on reports from the internal audit department, external auditors and supervisory authorities,
- Overseeing the compliance function, including its charter, plan and Head and on-going activities,
- Overseeing management's actions to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by internal or external auditors, compliance or supervisory authorities.

The Board Remuneration Committee's duties and responsibilities include:

- Defining and recommending for Board approval the Remuneration Policy, including pensions and variable compensation, and the Remuneration Principles for the Group that are aligned to the Group's strategic objectives and values and liaising with the Board Risk Management Committee as necessary
- Preparing proposals, for approval by the Board of Directors, on the remuneration packages including retirement and other benefits of the Executive and Non-Executive Members of the Board, the Company Secretary, as well as the Chief Executive Officer and the persons reporting directly to him/her, and the Heads of Control Functions.

The Board Nominations / Internal Governance Committee duties and responsibilities include:

- Preparing proposals for the Board of Directors regarding the selection of individuals for nomination as Members of the Board or the Board of the subsidiaries of the Group, either to fill extraordinarily vacated or vacant seats or after the retirement of the Members in accordance with the retirement policy due to age

- Preparing proposals for the Board regarding the selection of the Chief Executive Officer

- Developing, implementing and overseeing policies of internal governance arrangements within the Group.

The Executive Committees' structure is comprised of three levels. The Executive Committee (ExCo) is the highest executive body within the Bank and is responsible for directing the day-to-day business activites. ExCo oversees the execution of the Bank's strategy within the risk appetite defined by the Board, in compliance with applicable laws, regulations and corporate governance principles.

The Assets and Liabilities Committee (ALCO) and the Executive Risk Committee (ERC) serve as sub-committees of the Executive Committee. The third level comprises of the following sub-committees to the Executive Risk Committee (ERC):

- Credit Risk Committee, chaired by the Group Chief Risk Officer (GCRO)
- Impairment Committee, chaired by the Group Chief Risk Officer (GCRO)
- Risk & Control Committee, chaired by the Head of Compliance
- Product & Conduct Committee, chaired by the Head of Group Operations
- Technology Steering Committee, chaired by the Chief Operations Officer (COO)

The sub-committees to the ERC make recommendations which are sent to the ERC for final approval.

Additionally, the Group Executive Loan Committee and the Group Executive Write-Off Committee are committees that are reporting to the Board. The first is responsible for approving high value credit facilities and restructurings of existing facilities and the latter for approvals of write offs in accordance with the Group Compromise and Write Down Policy.

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

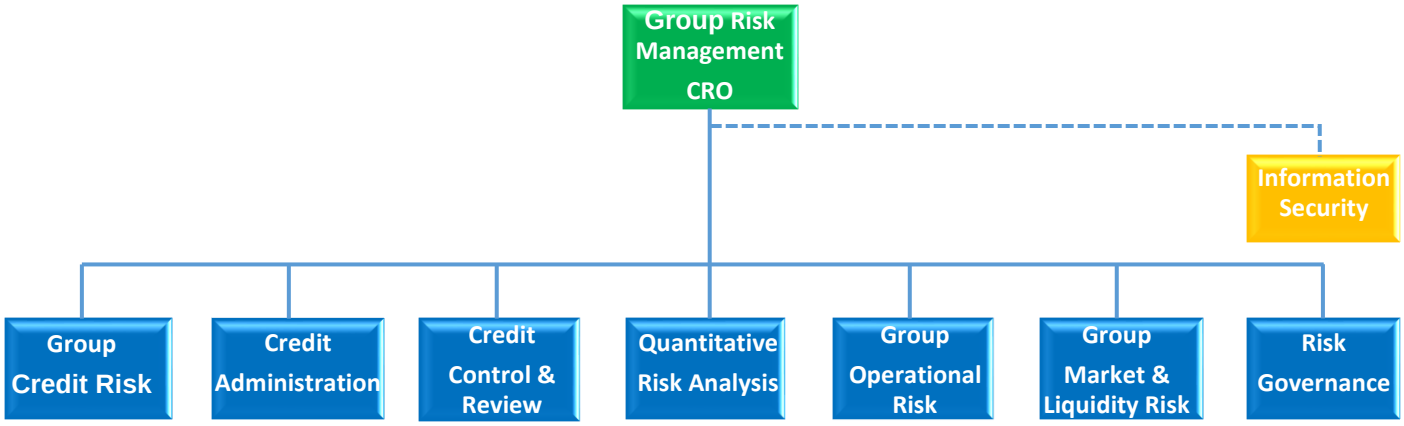
Hellenic Bank operates a Three Lines of Defence Model with responsibilities allocated as follows:

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

5.1.3 Group Risk Management Function (GRM)

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

Group Risk Management Structure – as applicable during 2016

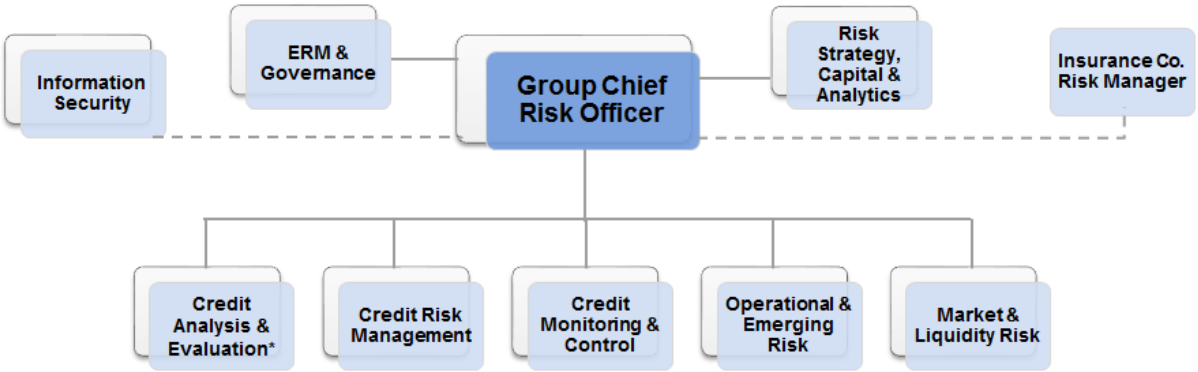


On the 14th of March 2017, the Bank's Board of Directors approved a revised Group Risk Management Charter that provides for the following changes to the organization of Group Risk Management (GRM):

- Chief Risk Officer has been renamed Group Chief Risk Officer,
- The structure of GRM division has been amended (see below chart)
- Group Credit Administration is no longer included in the GRM structure; instead a new unit named "Credit Analysis & Evaluation" will be formed with the primary objective of identifying and assessing credit risk and providing independent second line of defence advice and recommendations to Loan Approval Committees
- Existing unit names have been amended as follows: Quantitative Risk Analysis has been renamed to Risk Strategy, Capital & Analytics, Risk Governance has been renamed to Enterprise Risk Management & Governance, Group Operational Risk Management has been renamed to Operational & Emerging Risk and Group Credit Control & Review has been renamed to Credit Monitoring & Control
- The responsibilities of all the units within GRM have been more clearly defined and certain changes have been effected to these responsibilities.

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

Group Risk Management Structure – as approved with the revision of the GRM Charter



5.1.4 Risk Management Architecture of Risk Frameworks and Policies

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

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

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

During 2016, the following frameworks, charters, policies and plans which fall within the remit of Group Risk Management activities were approved/reviewed by the Board:

- Operational Risk Management Framework
- Bond Investment Framework
- Vendor & Outsourcing Management Policy
- Concentration Risk Policy
- Enterprise Risk Management Framework
- Group Information Security Policy
- Liquidity Risk Management Framework
- Market Risks Management Framework
- Market Risk Policy
- Liquidity Risk Policy
- Interest Rate Risk Policy
- Contingency Funding Plan (CFP)
- Capital Policy
- Business Continuity Policy
- Health, Safety & Security Policy
- Credit Risk Management Framework
- Risk Appetite Framework/ Risk Appetite Statement
- Information Security Charter
- Pricing Policy on Debt Restructurings
- Group Debt to Asset Policy
- Operational Risk Management Policy
- Data Governance Policy
- Reputation Risk Management Policy
- Products & Services Management Policy

5.2 Risk Appetite Framework and Statement

In 2016, the Board reviewed and approved the revised Risk Appetite Framework (RAF) that sets out the Bank's internal governance for establishing, monitoring and embedding its risk appetite on an on-going basis. The RAF sets out:

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

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

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

- **Capital** – the Bank will not accept any risk that would result in its reportable Total Capital or Common Equity Tier 1 falling below regulatory requirements or internally set capital limits
- **Liquidity** – the Bank will not accept any risk that would result in its Liquidity Coverage Ratio falling below 100%
- **Regulatory compliance** – the Bank will not knowingly breach any applicable law or regulation
- **Operational** – the Bank will not take any risk that cannot be assessed, reported or controlled or that, in extremis, could jeopardise the viability of the Bank
- **People** – the Bank will not accept any risk that could result in undesired attrition or unplanned withdrawal of labour
- **Reputation** – The Bank will not accept any risk or enter into any activity that might result in disrepute or negative reputational incident(s).

The formulation of the Risk Appetite leverages on the Material Risks Assessment. The Bank formulates its Risk Appetite Statement through articulation of qualitative risk appetite statements and quantitative metrics setting tolerance, management triggers and limits which guide the Executive Body in implementing the Bank's strategy. The major parameters of the Risk Appetite Statement as was approved by the Board of Directors and were applicable during 2016 are concisely summarized below:

Capital Adequacy Risk

- Maintain buffer capital over regulatory and internal requirements as these relate to base and adverse scenarios
- Allocate capital in pursuit of strategy not accepting risks that cannot be assessed, measured, recorded or monitored

Business Model Risk

- Consider inorganic opportunities within risk capacity
- Pursue diversification through exploring business opportunities overseas
- Initiate change management including organizational changes where these are necessitated to improve execution ability and management focus
- Examine externalization of loan servicing

Non-Performing Exposures (NPE) Management Risk

- Strive to reduce NPE balances using numerous tools and combination of tools with specific quantitative metris set for target NPEs and, target number of restructurings and metrics ensuring quality restructurings
- Accept that NPE resolution may lead to owning and managing a sizeable portfolio of assets obtained through Debt to Asset transactions

Credit Risk

- Target financing to local creditworthy businesses and households and investments with justifiable risk/return relationship. Pursue growth in the shipping finance business segment and opportunities to participate in syndications of leveraged finance transactions whilst operating within:
  - Maximum Concentration limits for new lending , specific sectors and investment securities
  - Minimum probability of default of new loan approvals

Market Risk

- Operating within prescribed limits for market risk exposure such as VaR, Stress Test Capital For AFS Bonds and IRRBB sensitivity from parallel interest rate yield shift

Operational Risk

- Minimize operational risks related to information security, data integrity and process related risk through necessitated investments
- Take measures to minimize external fraud risk post insurance losses to specific limits
- Accept elevated operational risk for change projects within the Bank whose residual operational risk after changes will be significantly lower

People & Culture Risk

- Provide a safe, secure, non discriminatory environment for all stakeholders that promotes respect and empowrment of employees and minimizes undesired attrition

Conduct Risk

- No tolerance for deliberate, negligent or reckless behavior that could lead to unfair, illegal or unethical practices which could result in stakeholder detriment, internal fraud or corruption
- Not knowingly accept practices, offer credit facilities, products and services, engage in actions or selling practices that will result to the detriment of clients' interests or treat customers unfairly

Reputation Risk

- Safeguard integrity of reputation by taking necessitated pro-active measures and monitoring through set limits

Liquidity Risk

- Maintain sufficient liquidity buffers over regulatory required levels and to cover idiosyncratic and market stress events

Regulatory Compliance Risk

- Take necessitated measures to mitigate deliberate, reckless, negligent or systemic breaches of applicable laws and regulations
- Minimize incidents where laws and regulations are not incorproated in the Bank's policies and procedures and instances of non-adherence to these

Anti-Money Laundering Risk

- Zero tolerance for AML & ATF risks and zero appetite for regulatory breaches of AML & ATF regulatory requirements.

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

The risk appetite measures are integrated into decision-making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The following table sets out a number of the Key Performance Indicators (KPIs) utilized to monitor the Bank's risk profile and the actual results as at 31st December 2016:

Indicators		**31 December 2016**	**31 December 2015**
NIM		2,2%	2,0%
Cost to income ratio		58,3%	59,3%
Cost of risk		2,8%	2,3%
Loans to deposits ratio		47,9%	50,4%
Non Performing Exposures (NPE) s % gross loans		58,2%	59,2%
NPEs provision coverage		54,9%	50,1%
CET1 ratio		13,8%	14,8%
Tier 1 ratio		17,0%	17,7%
Leverage ratio		8,8%	9,1%

5.3 Pillar II, ICAAP and SREP

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

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

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

During 2016 the Bank conducted the ICAAP to arrive at a forward-looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilising internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework and was carried out in accordance with the guidance provided by the European Banking Authority (EBA) through the Guidelines on Common Procedures and Methodologies for SREP (EBA/GL/2014/13 – 19 December 2014) and the Consultation Paper on Guidelines on ICAAP and ILAAP Information collected for SREP purposes (EBA/CP/2015/26 – 03 November 2016).

5.4 Recovery Plan

During 2016 the Bank updated its Recovery Plan which was first produced in 2015. Following the passing of the Bank Recovery and Resolution Directive (BRRD) and the transposition of its provisions into country legislations including Cyprus, the process of developing and updating the Recovery Plan has been normalized into the annual cycle of risk management and regulatory submissions.

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

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

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

6. CAPITAL REQUIREMENTS

The Group follows the Standardised Approach for the calculation of the Pillar I capital requirement for credit risk and market risk and the Basic Indicator Approach for operational risk. The Minimum Capital approach is followed for Pillar II purposes.

The Pillar I capital requirement at the end of 2016 was:

Risk Type (€000)		**Pillar I Capital**
Credit		261.718
Market		745
Operational		36.863
Credit Valuation Adjustment		154
Total Capital Requirement		**299.480**

6.1 CREDIT RISK MANAGEMENT

6.1.1 Definition of Credit Risk

Credit risk is the risk the Group to suffer losses as a result of customers and/or other counterparties defaulting on their contractual obligations. This risk primarily arises from lending, trade finance activities and treasury operations. It may also arise as a result of downgrades in the credit ratings of issuers of bonds, which will result in a reduction in the value of the Group's assets.

6.1.2 Group Credit Risk Management Unit (CRMU)

CRMU establishes procedures for identifying, evaluating and measuring credit risk, based on the strategic goals of the Group, as defined by the Bank's Board of Directors.

Credit risk management in the Banking and Trading Book is centralised and performed by the Group Credit Risk Management Department.

Under its second Line of Defence remit, the Group Credit Risk Management Unit's key responsibilities include:

- Formulating credit risk management policies for approval by the Board of Directors (BoD) and related internal control processes. These policies are reviewed and updated frequently to reflect any changes in the Group's risk appetite and strategy, the prevailing market environment/economy and Regulatory requirements.
- recommending appropriate limit setting regarding credit activities taking into consideration the changing conditions and environment.
- monitoring and reviewing the loan portfolio of the Bank and establishing effective credit risk management reporting system to the Executive Management and BoD of the Bank.
- validation of Individual Assessments of borrowers for impairment and challenge assumptions used for the calculation of credit losses (impairments) and submitting quarterly reports to the Impairment Committee for provisions.
- establish and utilize a system to monitor and control the nature, composition and quality of the credit portfolio including non performing and modified portfolio of the Bank via a defined set of KPIs and propose corrective or emergency (where needed) measure for the the improvement of the portfolio quality and the mitigation of credit risk.
- determining on the basis of the Credit Limits Model (CLM) the credit limits of countries and financial institutions and making recommendations for the approvals of such limits when the need arises. The adherence to such limits is monitored and deviations are reported to the appropriate Units/Committees.
- submitting reports to the CRO, the CEO and/or the Executive Credit Risk Committee and/or the ALCO Committee and / or the Risk Management Committee of the Board of Directors for briefing on individual topics that may be included in the reports and suggestions are made towards the mitigation of credit risk.
- identifying important and / or sudden changes in the parameters which shape credit risks (developments in the international markets, changes in economic sizes, changes in credit rating assessments, countries

reclassifications etc.) and taking the necessary measures and implementing specific actions in the context of credit risk with the aim to protect the Group's interests.

- setting limit ceilings for each loss making transaction and determining corrective measures for the minimisation of the loss. The adoption of mitigants (hedging instruments, netting agreements, credit insurance products etc.) at the time the credit risks are undertaken, helps in the reduction of potential losses.
- assessment and monitoring of the composition and the quality of the portfolio including individual concentrations such as:
    - Individual borrowers/counterparties and their related parties
    - Directors and their related parties
    - Groups of specific types of borrowers and counterparties on the basis of specific criteria
    - Economic Industry Sectors
    - Geographic locations
    - Countries or group of countries whose economies are interdependent to a considerable degree.
    - Collateral types
    - Specific product or financial instruments
    - Maturity of loans of financial instruments
- Ensuring that the Bank has adopted processes for the close monitoring of counterparties whose ability to repay has been affected negatively or it is anticipated to deteriorate and that the Bank has adopted processes for the effective management of problematic credit exposures.
- Submitting suggestions to the responsible approving committees for the determination of acceptable limits ceilings for the undertaking or credit risk in total as well as by category, including the maximum acceptable concentration of counterparty category, country, industry sector, business area etc. It is implied that the individual limits should not exist the maximum limits which are determined by the Supervisory Authorities, for example Large Exposures and loans to member of the Board of Directors and their related parties.
- defining the parameters for the calculation of Capital Requirements and develops methods for the calculation and monitoring of Capital Requirements for the full coverage of all credit risks.
- actively participating in the process for the calculation of Pillar II capitals on the basis of the Internal Assessment Process of Capital Adequacy and the preparation of the relevant report.
- participating in the process of business decision-making for the purpose of assuming important credit risks in accordance with the Group's Loan Policy, and in the context of compliance with the directive of the Central Bank of Cyprus.
- submitting proposals for the review of the pricing policy with the aim being to correct the pricing of all loans, so that the returns correspond to the level of credit risk, aiming to maximise the return on capital employed.
- assessing existing and new credit products and services with the aim being to identify, manage and to ensure the correct pricing of all credit risks.

6.1.3 Credit Risk Management Procedures

For the purposes of better management of credit risk there is an ongoing review of the Group’s credit policies and the monitoring of compliance with these policies by the relevant business lines. CRMU also issues directions to the various business units based on the risk appetite for specific market segments, operations and specific banking products. Where necessary, restrictions may be imposed on new banking operations, depending on the assessment of the risk undertaken and the evolving economic conditions.

CRMU informs and advises the various Group business units with respect to the credit risks that may arise, it organises seminars for the training of personnel and applies the appropriate systems for measuring and monitoring credit risk. In addition, CRMU closely co-operates with international credit rating agencies, as well as with the supervising authorities on matters pertaining to the management of credit risk.

CRMU is also responsible for monitoring the further breakdown of loans and borrowers in the various customer loan portfolios, including the assessment of the adequacy of the relevant provisions.

6.1.4 Measuring Credit Risk and Adopting Credit Limits

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

For corporations, a credit rating model is used which classifies companies into credit ratings. The model assists in both the assessment of companies and the rationalisation of pricing according to the risk undertaken. The credit

rating model takes into account the financial position of the company (quantitative criteria) as well as other qualitative criteria that relate to the company itself and the market in which it operates.

Lending approval for the Banking Book in Cyprus exceeding specified limits is granted by the various lending authorities, which are independent from the operational units. Loans exceeding the lending authorities' limits as well as loans to members of the Board of Directors and their related parties, as defined in the Banking Law of the CBC, are approved by the Board of Directors. Group CRMU closely monitors the credit approval limits of the various lending authorities and where considered necessary, revises those limits in co-operation with Group Credit Administration.

For the Treasury Book, exposures in countries, banking institutions and other counterparties are managed centrally. The maximum credit limits for countries and counterparties are approved by the Asset and Liability Management Committee. The limits are determined in accordance with the Country and Counterparty Limit Framework, whose primary indicator of assessment is the credit rating of the country and the counterparty as provided by international external rating agencies, while also taking into account their classification by Bankers Almanac for banks and by Euromoney for countries. Changes in the credit ratings of counterparties and countries are monitored daily and any variations in limits are communicated to the various business units of the Group. In relation to investments in Bonds, a revised "Bond Investment Framework" was approved by the Board of Directors in March 2016, which among other things, it sets a number of concentration limits in relation to the bond exposures, and a number of limits which relate to Market and Liquidity issues.

The setting up of limits in the Trading and Banking Book is based on the rational diversification of the Group's capital and on avoiding concentrations in various sectors of the economy, geographic locations, or in related counterparties. The determination of credit limits takes into account the strategic goals of the Group, the directives of Supervisory Authorities and the political and economic environment.

Credit risk evaluation analysis is communicated to the Higher Management through various reporting channels including the Annual and Quarter Risk Reports, the KPI Dashboard (monthly), the Customer Portfolio Credit Risk Analysis (Monthly) and the Recovery Plan Dashboard (monthly).

6.1.5 Implementation of Basel III

The Group has been in compliance with Basel III as of January 2014 as prescribed in Regulation 575/2013.

The Standardised Approach, which is used by the Group for calculating the minimum capital requirement for credit risk, requires the classification of exposures into specific asset classes and the application of specific risk-weights, which vary depending on the asset class, the credit rating and/or the characteristics of the exposure.

At the same time, a system for measuring the capital adequacy of the Group has been implemented and stress tests are performed in accordance with the requirements of the capital adequacy framework.

Basel III proposes two methods for recognising collaterals: the Simple and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as it allows for a fairer recognition and better measurement of the Group's collaterals.

Current developments

The Bank is in the process of examining the draft guidelines of the CRR II/CRD V in order to be prepared for the effects of the upcoming amendments.

The Basel Committee is currently developing significant revisions to the calculation of credit, market and operational risk and is proposing a new "capital floor" to limit the extent to which a bank's internal models-based approaches can drive its calculations for credit and market risks below those under the standardised approaches for these risks. The Basel Committee's revised framework for the standardised approach to Counterparty Credit Risk has already been finalised, as well as for the Interest Rate Risk in the Banking Book and for Market Risk, with a recommended implementation date of 2017, 2018 and 2019 respectively. All these revisions are part of "Basel IV".

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

6.1.6 Application of the Standardised Approach

The Pillar I minimum capital requirement is calculated by using a Minimum Capital Adequacy Ratio of 8%. Presented below are the asset classes and risk-weighted amounts for the Group, based on the Standardised Approach.

The table below presents the Risk-Weighted Amounts and Minimum Capital Requirements as at 31st December 2016 by asset class:

Asset Classes (€000)		**Risk-weighted amounts**	**Minimum capital requirement**
Central Governments or Central banks		-	-
Regional Governments or Local Authorities		123	10
Public Sector Entities		-	-
Multilateral Development Banks		-	-
International Organisations		-	-
Institutions		106.919	8.552
Corporates		614.988	49.199
Retail		226.397	18.112
Secured by mortgages on immovable property		338.238	27.059
Exposures in default		840.174	67.214
Items associated with particular high risk		852.437	68.195
Covered bonds		4.232	339
Items Representing Securitisation Positions		3.969	318
Institutions and Corporates with a Short-term Credit Assessment		-	-
Units or Shares in Collective Investment Undertakings		-	-
Equity		-	-
Other Items		283.998	22.720
Total		**3.271.475**	**261.718**

Counterparty Credit Risk

Limit allocation for Counterparty Credit Risk

The Limit Framework for institutions sets maximum limits for financial institutions. Through this framework an internal score system is applied to all banks which considers the following factors:

- Credit Rating of the Institution
- Institution's World Rank
- Institution's Ranking in the country of operation
- Country Rank of the Counterparty's risk country which is based on the following factors:
    - ✓ Economic
    - ✓ Political
    - ✓ Structural
    - ✓ Access to Capital
    - ✓ Credit Ratings
    - ✓ Debt Indicators

The above framework allocates a maximum credit limit to counterparties to cover exposures in Bonds, Money Market Placements, FX transactions, derivative transactions, cash collaterals in banks, trade finance and SWIFT exposures.

For FX and derivative transactions, exposures are captured in the credit limit by applying a fixed percentage on the nominal amount. Further to the credit limit, an FX settlement limit is allocated to institutions for FX transactions

which are processed outside the Continuous Linked Settlement (CLS), to cover for the settlement risk which arises on the value date.

In addition to the above, the Bank has a Bond Investment Framework in place which was approved by the Board of Directors and sets the maximum limits and guidelines for investments in debt securities classified in the Held to Maturity (HTM), Loans and Receivables (LR) and Available for Sale (AFS) portfolios. Within the framework, concentration limits, which are based on the Common Equity Tier 1 Capital of the Group, are set per sector (Sovereigns, Banks, Supranationals, Corporates and Securitisations), whereas other concentrations limits are set per portfolio, foreign currency, credit ratings, issuer, industry and limits concerning the market and liquidity risk. Further to the above, an investment framework for debt securities classified in the Trading book also exists which again sets a number of concentration limits.

In relation to counterparty credit risk, the method which the Bank has adopted for the credit risk arising from derivative transactions with counterparties is the mark-to-market method.

Policies with Respect to Wrong-Way Risk Exposures
Wrong-way risk is the risk that occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Effectively this reflects the risk of changes in market rates and mainly interest rates and foreign exchange rates-which are the main underlying factors affecting the value of the Bank's derivative transactions-having an adverse impact on the probability of default (PD) of a counterparty. This risk is not currently measured in the Bank since it is not considered to be significant given the fact that the Bank has signed Credit Support Annexes (CSA) with almost all counterparties of derivative transactions. The agreements provide that daily settlement of margins will take place, which significantly reduces credit risk.

Collateral posted by the Bank under the CSA and CLS agreements
The Bank has signed CSA agreements with most of the counterparties with which it transacts in over-the-counter derivatives. According to these agreements, the derivatives of the Bank are marked-to-market on a daily basis and collateral is posted when needed. The Bank has also signed a CLS agreement under which collateral is posted to the Bank's CLS counterparty. Collateral posted under both types of agreements is in the form of cash. The Bank holds a large pool of readily available liquid assets. The amounts that may need to be posted by the Bank as a result of the agreements mentioned above are immaterial (due to the volume of derivatives transactions that take place) compared to the Bank's liquid assets and therefore that Bank does not run the risk of having any problems to cover any collateral calls.

Collateral the Bank would have to provide given a Downgrade in its Credit Rating
The Bank expects that in the event of a significant deterioration in its credit rating, it may need to provide additional collateral to counterparties transacting in derivatives with which it has signed CSA and CLS agreements. These counterparties may request an amendment to the agreements after such an event, requesting additional collateral amounts. Nevertheless, any additional collateral requested, is expected to be within the range of excess liquidity held by the Bank to satisfy its daily needs, and it is not expected to significantly affect its liquidity position.

Credit Value Adjustment Risk
The Bank holds capital of €154 thousand for Credit Value Adjustment Risk (CVA). This capital is held for over-the-counter derivative transactions with other financial institutions and reflects the current market value of the credit risk of the financial institutions to the Bank. The CVA calculation as at 31st December 2016 was kept at low levels due to the high credit quality of the financial institutions involved in the derivatives transactions and due to the average short time to maturity of the derivatives.

Repurchase agreements
The Bank has adopted the Financial Collateral Comprehensive Method of Article 223 of Regulation 575/2013 for the calculation of exposures arising from the repurchase agreements. As at 31st December 2016 the Bank did not have any Repurchase agreements. As such, at the reporting date, there were no capital requirements to cover counterparty credit risk arising from repurchase agreements.

The Group's total exposure on derivatives amounted to €12 million that is calculated using the "Mark-To-Market Method" as the sum of the current replacement cost and potential future credit exposure.

It is important to note that the Bank has netting agreements in place for a large part of the derivatives transactions. For these derivatives, the current replacement cost is calculated by netting transactions belonging to each netting

agreement. The potential future credit exposure is reduced according to the relevant formula in the Regulation (per Article 298).

Derivatives
The risk-weighted amounts of the Bank include derivatives with a value of €3,9 million. The minimum capital requirement in respect of these derivatives amounts to €0,3 million. As at 31st December 2016, their current replacement cost amounted to €8,1 million, calculated using the positive current (market) prices of contracts (mark-to-market).

The Group uses the following derivative instruments:

- Foreign currency forward contracts: represent agreements of foreign exchange transactions settled at a future date.
- Foreign currency swaps: represent agreements for the exchange of cash flows in different currencies.
- Options: represent contracts for future purchase or sale, at a predetermined value, of a financial "product", offering the right, but not the obligation, to one of the two parties to request by the other party the fulfilment of the agreement during a certain period of time or on a specific date.
- Interest rate swaps: represent agreements where one stream of future interest payments is exchanged for another based on a predetermined notional amount and time periods.

Derivatives 31 December 2016 (€000)		**Nominal Value**	**Fair value**	
			Other assets	Other liabilities
Foreign currency forwards		43.734	1.145	1
Foreign currency swaps		402.077	8.239	1.610
Options		24.311	94	94
Interest rate swaps		114.868	1.448	2.522
Total		**584.990**	**10.926**	**4.227**

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

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

For all asset classes, Hellenic Bank Group has selected to proceed with the 3 Ratings approach as this is prescribed under Article 138 of EU 575/2013 Regulation.

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

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

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

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

In all other cases, the exposure shall be treated as unrated.

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

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

6.1.8 Credit Risk Hedging and Mitigation Policies

According to the Group's policy, the credit facilities granted shall not exceed the counterparties' ability of repayment. In addition, certain policies are implemented, whereby collaterals are obtained for hedging and mitigating credit risk. The policies define the collateral types that are recognised as tangible security, as well as their measurement methods.

The table below presents exposures value before and after credit risk mitigation, per credit quality step. The Credit Quality Step (CQS) is based on the asset class and the credit quality rating of the counterparty. The values before credit risk mitigation represent the initial exposure value net of credit risk valuation adjustments. The values after credit risk mitigation present exposures taking into account the eligible financial collateral (funded credit protection) and unfunded credit protection, but prior to the conversion of the off-balance sheet items to on-balance sheet.

Credit Quality Step (€000)		Exposures value before credit risk mitigation	Exposures value taking into account unfunded credit protection	Exposures value after credit risk mitigation
CQS 1		2.678.833	2.678.833	2.678.833
CQS 2		348.267	348.267	348.267
CQS 3		6.587	6.587	6.587
CQS 4		663.142	663.142	663.142
CQS 5		10	10	10
CQS 6		20.001	67.875	67.875
Unrated*		1.768.224	1.726.412	1.637.871
Not Applicable*		2.320.715	2.314.654	2.226.863
Total		**7.805.779**	**7.805.780**	**7.629.448**

**"Unrated" refers mainly to legal entities of the loan book that lack credit rating from the recognised ECAIs. "Not applicable" refer to individual clients.*

The table below presents the total value of exposures by Asset Class, Risk Weight and Credit Quality Step of the country of the counterparty, after credit risk valuation adjustments.

Exposures by Asset Class by Credit Quality Step by Risk Weight (€000)	Risk Weight (%)	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6	Unrated	Not Applicable	Total
Central Governments or Central banks	0%	2.168.603	-	-	640.764	-	-	-	-	2.809.367
Regional Governments or Local Authorities	20%	-	-	-	-	-	-	1.451	-	1.451
Public Sector Entities	100%	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	0%	281.980	-	-	-	-	-	-	-	281.980
Institutions	0%	-	-	-	-	-	-	-	-	-
	20%	169.514	345.143	6.275	156	-	114	3.310	-	524.512
	50%	-	155	-	-	-	-	7	-	162
	100%	-	-	-	-	-	-	2.368	-	2.368
	150%	-	-	-	-	-	25	-	-	25
Corporates	20%	77	-	-	-	-	-	-	-	77
	50%	-	2.969	-	-	-	-	-	-	2.969
	100%	-	-	312	22.222	-	-	746.681	193.716	962.931
	150%	-	-	-	-	10	19.862	40	-	19.912
Retail	75%	-	-	-	-	-	-	-	600.374	600.374
Secured by mortgages on immovable property	35%	-	-	-	-	-	-	4.483	397.265	401.748
	50%	-	-	-	-	-	-	86.888	94.466	181.354
	100%	-	-	-	-	-	-	78.325	50.254	128.579
Exposures in default	0%	-	-	-	-	-	-	-	-	-
	100%	-	-	-	-	-	-	240.921	435.244	676.165
	150%	-	-	-	-	-	-	84.356	38.662	123.018
Items associated with particular high risk	150%	-	-	-	-	-	-	519.394	179.026	698.420
Covered bonds	10%	35.307	-	-	-	-	-	-	-	35.307
	20%	3.508	-	-	-	-	-	-	-	3.508
Items Representing Securitisation Positions	20%	19.844	-	-	-	-	-	-	-	19.844
Other Items	0%	-	-	-	-	-	-	-	58.057	58.057
	20%	-	-	-	-	-	-	-	22.411	22.411
	100%	-	-	-	-	-	-	-	232.389	232.389
	250%	-	-	-	-	-	-	-	18.851	18.851
Total		**2.678.833**	**348.267**	**6.587**	**663.142**	**10**	**20.001**	**1.768.224**	**2.320.715**	**7.805.779**

Group policies and procedures for on and off balance sheet netting are in compliance with the relevant directives of the supervisory authorities.

The main collateral type of the Group consists of mortgages on real estate. Government and bank guarantees from counterparties in Cyprus are also obtained as well as corporate and personal guarantees. The total value of the government and bank guarantees amounts to €61 million. The Government Guarantees are provided solely from the Cyprus Government (Credit Quality Step 5) and are assigned a 0% Risk Weight. It is noted that the vast majority of guarantees are not deemed eligible for capital adequacy and Risk Weighted Assets calculation purposes due to the low rating of guarantors. Collateral policies are frequently reviewed to be in line with the directives of the supervisory authorities and Basel III, while at the same time concentrations to specific collateral types are monitored in order to reduce concentration risk.

As at 31st December 2016, the largest collateral concentration in the loan portfolio in Cyprus was in commercial real estate mortgages with a concentration of 45%, while mortgages on land represented 20% and residential real estate mortgages 25% of total collaterals. The total concentration in mortgages represents approximately 90% of total collaterals and has been taken into account in the calculation of additional capital for Pillar II.

The value of each mortgage is calculated as the lowest of the open market value, the indexed to today value of the property and the mortgage amount plus interest. The value of each property is based on valuations by independent qualified valuers that are accepted by the Bank and which are reviewed / updated as per the Bank's Valuation Policy. The Bank also monitors the value of the property with the use of Property Price Indices. During 2016 the Bank has prepared and approved a revised Property Collateral Valuation Policy and has set up a specialized Property Management Unit, staffed with real estate experts, which is responsible for the management of properties acquired by the Bank (through Debt to Asset Swaps, repossessions, etc.) as well as for their subsequent sale. In addition, a Property Management Committee has also been set up to monitor the activities around the management and sale of the on boarded properties.

The table below presents, by asset class, the total value of the exposures secured by financial collaterals (funded credit protection) after on and off balance sheet netting and value adjustments.

Asset Classes (€000)		**Value of exposures secured by financial collaterals**
Central Governments or Central banks		-
Regional Governments or Local Authorities		24
Public Sector Entities		-
Multilateral Development Banks		-
International Organisations		-
Institutions		-
Corporates		70.868
Retail		59.342
Secured by mortgages on immovable property		-
Exposures in default		1.896
Items associated with particular high risk		44.202
Covered bonds		-
Items Representing Securitisation Positions		-
Institutions and Corporates with a Short-term Credit Assessment		-
Units or Shares in Collective Investment Undertakings		-
Equity		-
Other Items		-
Total		**176.332**

The table below presents, by asset class, the total value of the exposures secured by guarantees or credit derivatives (unfunded credit protection) after on and off balance sheet netting.

Asset Classes (€000)		**Value of exposures secured by guarantees or credit derivatives**
Central Governments or Central banks		-
Regional Governments or Local Authorities		813
Public Sector Entities		-
Multilateral Development Banks		-
International Organisations		-
Institutions		-
Corporates		42.887
Retail		178
Secured by mortgages on immovable property		-
Exposures in default		4.988
Items associated with particular high risk		-
Covered bonds		-
Items Representing Securitisation Positions		-
Institutions and Corporates with a Short-term Credit Assessment		-
Units or Shares in Collective Investment Undertakings		-
Equity		-
Other Items		-
Total		**48.866**

6.1.9 Risk of impairment

6.1.9.1 Past due loans

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

6.1.9.2 Impaired loans and investment securities

Impaired receivables represent loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due, according to the contractual terms of the loan or relevant agreement. Impaired investments represent investments in debt securities for which there is objective evidence of impairment as a result of one or more events occurring since the initial recognition of the investment. Such events may relate to significant economic difficulties of the issuer, interest or capital default and increased probability of bankruptcy or financial restructuring of the debtor.

At the end of each reporting period, the Group assesses whether there is any objective evidence that financial assets not carried at fair value through profit or loss are impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that the borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(a) Loans and advances to customers

The Group reviews its loan portfolio, for evidence of impairment loss from past events, at both individual and collective basis. Significant loans are assessed at an individual basis. Non-significant loans are collectively evaluated for impairment losses. Significant loans that are assessed on an individual basis and found not to be impaired are also assessed on a collective basis for losses incurred but not reported (IBNR).These loans are grouped based on similar credit risk characteristics and evaluated for impairment. Impairment losses on the various groups are calculated on a collective basis. In assessing collective impairment the Group uses historical trends of the probability of default demonstrated by the relevant groups with similar risk characteristics.

Impairment loss on loans and advances to customers is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Losses are recognised in the income statement and accumulated in an impairment loss reserve as stated in Note 3.1 of the Financial Statements.

When a subsequent event causes the amount of the provision for impairment loss to decrease or amounts are collected from impaired loans, the decrease in impairment loss is reversed through the income statement.

The fair value of loans and advances to customers is based on the present value of expected future cash flows. The level of subjectivity and degree of management judgment required is significant in these discounted cash flow models given that management is required to exercise judgment in the selection and application of parameters and assumptions where some or all of the parameter inputs are less observable. Future cash flows have been based on the future expected loss rate per loan category, taking into account expectations in the credit quality of the borrowers. The discount rate includes components that capture: the Group's funding cost, cost of capital and an adjustment for the future cost of risk.

(b) Held to maturity investments and investments classified as loans and receivables

If there is objective evidence that an impairment loss on held to maturity investments and investments classified as loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the investment's original effective interest rate. The amount of the loss is recognised in the income statement and the carrying amount of investments is reduced.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the income statement.

(c) Available for sale investments

When there is objective evidence that an available for sale investment is impaired, the cumulative loss that had been recognised in equity is reclassified from equity to the income statement. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that investment previously recognised in the income statement.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer. For investments in shares the main evidence of impairment is a significant or prolonged decline in the fair value below its cost. Generally, the Group considers that a reduction of 20% below cost is significant and a period of nine months is prolonged. However in special cases a smaller decrease or a shorter period may be objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss will be reversed, with the amount of the reversal recognised in the income statement. Impairment losses recognised in the income statement for impaired available for sale equity securities are not reversed through the income statement but are recognised in equity.

d) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The loss from impairment of goodwill is not reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

The table below presents the total value of exposures analysed by asset class, after on and off balance sheet netting and credit risk valuation adjustments and before credit risk mitigation:

Asset Classes (€000)		**Total exposures value before credit risk mitigation**
Central Governments or Central banks		2.809.367
Regional Governments or Local Authorities		1.451
Public Sector Entities		-
Multilateral Development Banks		281.980
International Organisations		-
Institutions		527.067
Corporates		985.889
Retail		600.374
Secured by mortgages on immovable property		711.681
Exposures in default		799.183
Items associated with particular high risk		698.420
Covered bonds		38.815
Items Representing Securitisation Positions		19.844
Institutions and Corporates with a Short-term Credit Assessment		-
Units or Shares in Collective Investment Undertakings		-
Equity		-
Other Items		331.708
Total		**7.805.779**

The table below presents the value of the total exposures analysed by asset class and by industry segment, after on and off balance sheet netting and credit risk valuation adjustments:

Exposures by Asset Class by Industry Segment (€000)		1. CONSTRUCTION & REAL ESTATE	2. HOTELS, RESTAURANTS & BARS	3. MANUFACTURING	4. WHOLESALE & RETAIL TRADE	5. SERVICES	6. HEALTH & SOCIAL WORK	7. TRANSPORT, STORAGE & TELECOMMUNICATION	8. FINANCIAL & INSURANCE	9. OTHER	10. PRIVATE INDIVIDUALS	Not Applicable	Total
Central Governments or Central banks		-	-	-	-	-	-	-	30.118	34	-	2.779.215	**2.809.367**
Regional Governments or Local Authorities		-	-	-	-	-	-	-	-	1.451	-	-	**1.451**
Public Sector Entities		-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks		-	-	-	-	-	-	-	-	-	-	281.980	**281.980**
International Organisations		-	-	-	-	-	-	-	-	-	-	-	-
Institutions		-	-	-	-	-	-	-	154.740	-	-	372.327	**527.067**
Corporates		120.259	111.019	139.999	262.719	45.397	49.479	87.140	37.087	84.146	28.909	19.735	**985.889**
of which SME		*110.077*	*110.099*	*101.042*	*207.523*	*21.920*	*49.479*	*45.839*	*33.166*	*72.183*	-	-	***751.328***
Retail		18.688	24.163	30.235	104.896	43.740	6.738	8.537	7.431	16.816	339.130	-	**600.374**
of which SME		*18.688*	*24.163*	*30.235*	*104.896*	*43.740*	*6.738*	*8.537*	*7.431*	*16.816*	-	-	***261.244***
Secured by mortgages on immovable property		58.985	70.018	49.451	91.425	25.847	15.171	13.345	6.412	16.212	364.815	-	**711.681**
of which SME		*58.817*	*70.018*	*43.538*	*83.431*	*20.429*	*15.171*	*5.410*	*6.412*	*16.212*	*0*	-	***319.438***
Exposures in default		47.449	82.338	52.010	187.155	71.315	10.383	40.364	18.397	34.741	255.031	-	**799.183**
of which SME		*47.449*	*82.338*	*52.010*	*180.905*	*54.311*	*10.383*	*40.360*	*18.397*	*34.741*	*0*	-	***520.894***
Items associated with particular high risk		693.476	-	-	-	-	-	-	-	-	-	4.944	**698.420**
of which SME		*671.193*	-	-	-	-	-	-	-	-	-	-	***671.194***
Covered bonds		-	-	-	-	-	-	-	-	-	-	38.815	**38.815**
Items Representing Securitisation Positions		-	-	-	-	-	-	-	-	-	-	19.844	**19.844**
Institutions and Corporates with a Short-term Credit Assessment		-	-	-	-	-	-	-	-	-	-	-	-
Units or Shares in Collective Investment Undertakings		-	-	-	-	-	-	-	-	-	-	-	-
Equity		-	-	-	-	-	-	-	-	-	-	-	-
Other Items		-	-	-	-	-	-	-	-	-	-	331.708	**331.708**
Total		**938.857**	**287.538**	**271.695**	**646.195**	**186.299**	**81.771**	**149.386**	**254.185**	**153.400**	**987.885**	**3.848.568**	**7.805.779**

The table below presents the average value of the total exposures analysed by asset class, after on and off balance sheet netting and credit risk valuation adjustments and before credit risk mitigation:

Asset Classes		**Average total exposures value before credit risk mitigation (€000)**
Central Governments or Central banks		2.762.867
Regional Governments or Local Authorities		1.586
Public Sector Entities		-
Multilateral Development Banks		254.582
International Organisations		-
Institutions		748.701
Corporates		1.006.222
Retail		603.993
Secured by mortgages on immovable property		674.616
Exposures in default		876.140
Items associated with particular high risk		717.566
Covered bonds		17.807
Items Representing Securitisation Positions		6.988
Institutions and Corporates with a Short-term Credit Assessment		-
Units or Shares in Collective Investment Undertakings		-
Equity		-
Other Items		317.344
Total		**7.988.412**

The table below presents the value of the exposures analysed by asset class and by major geographical area*, which is based on the country of origin of the counterparty of the relevant exposures, net of credit risk valuation adjustments and before credit risk mitigation:

Exposures by Asset Class by major geographical area(€000)		**Cyprus**	**Int. Org./MDB/ECB**	**Germany**	**United States**	**Greece**	**Other**	**Total**
Central Governments or Central banks		640.763	1.999.978	49.943	85.419	-	33.264	2.809.367
Regional Governments or Local Authorities		1.451	-	-	-	-	-	1.451
Public Sector Entities		-	-	-	-	-	-	-
Multilateral Development Banks		-	281.980	-	-	-	-	281.980
International Organisations		-	-	-	-	-	-	-
Institutions		3.457	-	93.014	101.580	139	328.877	527.067
Corporates		916.442	-	19	0	26.402	43.026	985.889
Retail		560.129	-	514	252	6.588	32.891	600.374
Secured by mortgages on immovable property		644.288	-	1.218	883	15.339	49.953	711.681
Exposures in default		729.751	-	6	205	8.725	60.496	799.183
Items associated with particular high risk		693.829	-	-	-	4.338	253	698.420
Covered bonds		-	-	9.390	-	-	29.425	38.815
Items Representing Securitisation Positions		-	-	-	19.844	-	-	19.844
Institutions and Corporates with a Short-term Credit Assessment		-	-	-	-	-	-	-
Units or Shares in Collective Investment Undertakings		-	-	-	-	-	-	-
Equity		-	-	-	-	-	-	-
Other Items		331.708	-	-	-	-	-	331.708
Total		**4.521.818**	**2.281.958**	**154.104**	**208.183**	**61.531**	**578.185**	**7.805.779**

* Major geographical area has been defined as exposure exceeding €150 million, with the exception of Greece.

The table below presents the allocation of Impaired and Past Due exposures by main industry segment before and after credit risk valuation adjustments:

Impaired and Past Due Exposures by main industry segment before and after credit risk valuation adjustments (€000)		**Impaired Exposures**	**Exposures with Days Past Due**	**Of Which: Exposures with Days Past Due Not Impaired**	**Total Impaired or Past Due Exposure Before Credit risk valuation adjustments**	**Credit risk valuation adjustments**	**Credit risk valuation adjustments of which Specific**	**Credit risk valuation adjustments of which Collective**	**Total Exposure After Credit risk valuation adjustments**
1. CONSTRUCTION & REAL ESTATE		903.116	671.482	47.224	950.340	477.072	470.037	7.035	473.268
2. HOTELS, RESTAURANTS & BARS		180.833	162.954	5.967	186.800	100.895	100.339	556	85.905
3. MANUFACTURING		122.036	115.527	4.095	126.131	72.447	70.992	1.455	53.684
4. WHOLESALE & RETAIL TRADE		482.550	423.323	12.103	494.653	319.253	311.159	8.094	175.400
5. SERVICES		156.449	113.929	2.510	158.959	95.037	93.965	1.072	63.922
6. HEALTH & SOCIAL WORK		19.313	18.158	567	19.880	9.557	9.204	353	10.323
7. TRANSPORT, STORAGE & TELECOMMUNICATION		62.616	24.071	4.021	66.637	23.761	22.267	1.494	42.876
8. FINANCIAL & INSURANCE		35.806	20.387	718	36.524	22.584	21.848	736	13.940
9. OTHER		79.919	82.708	6.393	86.312	48.339	46.819	1.520	37.973
10. PRIVATE INDIVIDUALS		615.009	635.323	70.444	685.453	370.185	362.423	7.762	315.268
Not Applicable		-	-	-	-	-	-	-	-
Total		**2.657.647**	**2.267.862**	**154.042**	**2.811.689**	**1.539.130**	**1.509.053**	**30.077**	**1.272.559**

The table below presents the allocation of exposures by asset class, before credit risk mitigation, based on their residual maturity:

Allocation of exposures by asset class and residual maturity as at 31 December 2016 (€000)		**< 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**> 5 years**	**Total**
Central Governments or Central banks		2.079.297	20.698	108.992	100.546	499.834	2.809.367
Regional Governments or Local Authorities		-	29	10	1.063	349	1.451
Public Sector Entities		-	-	-	-	-	-
Multilateral Development Banks		-	9.517	29.953	242.510	-	281.980
International Organisations		-	-	-	-	-	-
Institutions		499.951	13.386	9.874	249	3.607	527.067
Corporates		240.250	65.605	207.259	98.957	373.818	985.889
Retail		103.410	27.068	127.463	123.527	218.906	600.374
Secured by mortgages on immovable property		41.160	12.760	60.774	53.244	543.743	711.681
Exposures in default		204.199	8.530	25.243	115.065	446.146	799.183
Items associated with particular high risk		157.248	7.812	104.978	234.051	194.331	698.420
Covered bonds		-	6.089	12.940	19.786	-	38.815
Items Representing Securitisation Positions		-	-	-	-	19.844	19.844
Institutions and Corporates with a Short-term Credit Assessment		-	-	-	-	-	-
Units or Shares in Collective Investment Undertakings		-	-	-	-	-	-
Equity		-	-	-	-	-	-
Other Items		154.481	478	66.751	4.934	105.064	331.708
Total		**3.479.996**	**171.972**	**754.237**	**993.932**	**2.405.642**	**7.805.779**

The table below presents the amount of past due or impaired exposures analysed by major geographical area which is based on the country of origin of the counterparty of the relevant exposures:

Past Due and Impaired Exposures and the respective Credit risk valuation adjustments by Counterparty Country of Origin (€000)		**Impaired Exposures**	**Exposures with Days Past Due**	**Of Which: Exposures with Days Past Due Not Impaired**	**Total Impaired or Past Due Exposure Before Credit risk valuation adjustments**	**Credit risk valuation adjustments**	**Credit risk valuation adjustments of which Specific**	**Credit risk valuation adjustments of which Collective**	**Total Exposure After Credit risk valuation adjustments**
Cyprus		2.482.180	2.115.647	145.109	2.627.289	1.431.558	1.403.260	28.298	1.195.731
Int. Org./MDB/ECB		-	-	-	-	-	-	-	-
Germany		20	19	2	22	17	13	4	5
United States		526	529	5	531	327	321	6	204
Greece		37.182	36.439	1.358	38.540	28.910	28.457	453	9.630
Other		137.739	115.228	7.568	145.307	78.318	77.002	1.316	66.989
Grand Total		**2.657.647**	**2.267.862**	**154.042**	**2.811.689**	**1.539.130**	**1.509.053**	**30.077**	**1.272.559**

The following table presents the movement of accumulated impairment losses on the value of loans and advances, debt securities and equity securities:

Movement of accumulated impairment losses (€000)		**Individual impairment losses (On an individual and collective assessment basis)**	**Collective impairment losses (On collective assessment basis (IBNR))**	**Accumulated impairment losses**	**Provisions for impairment of debt securities**	**Provisions for impairment of equity securities**	**Subtotal** Note 1	**Provisions to cover credit risk resulting from commitments and guarantees** Note 2	**Total**
Balance 1 January 2016		1.269.536	33.587	1.303.123	74	1.102	1.304.299	21.814	**1.326.113**
Net write-offs of loan impairment losses		(156.138)	(4.372)	(160.510)	-	-	(160.510)	-	**(160.510)**
Contractual interest on impaired loans		164.001	-	164.001	-	-	164.001	-	**164.001**
Unwinding of discount		(58.680)	-	(58.680)	-	-	(58.680)	-	**(58.680)**
Charge for the year: increase due to amounts set aside		218.532	27.370	245.902	-	-	245.902	4.858	**250.760**
Reversal for the year: decrease due to amounts reversed		(94.560)	(29.107)	(123.667)	(74)	-	(123.741)	(11.860)	**(135.601)**
Exchange difference		3.835	80	3.915	-	14	3.929	11	**3.940**
Balance 31 December 2016		**1.346.526**	**27.558**	**1.374.084**	**-**	**1.116**	**1.375.200**	**14.823**	**1.390.023**

Note 1: Impairment losses are deducted from the gross carrying amount of the financial assets.
Note 2: Provisions to cover credit risk resulting from commitments and guarantees are classified under other liabilities.

The IBNR part of collective provisions does not fall under the definition of “general credit risk adjustment”, thereby it is not a part of the Bank’s Tier 2 own funds calculation. Both individual and collective impairment losses are deducted from exposures in the process of calculating the Bank’s credit risk capital requirement.

For more information in relation to management of credit risk, refer to Note 48 of the Financial Statements for the year ended 31 December 2016.

6.1.10 Securitisations

The Bank holds a portfolio of securitization positions. The Bank invests in bonds under the Bond Investment Framework which haHs been approved by the Board of Directors. The Framework provides for a diversified bonds portfolio and allows for a proportion of total investments to be in securitization positions. The Bank acts only as an investor in transactions involving securitisation issues.

Hellenic Bank controls credit risk for its investments in securitizations through the Bond Investment Framework which sets a maximum concentration limit for exposures in securitizations, which is expressed as a percentage of the Group's CET1 Capital. 'Issuer' concentration limits for securitizations are also set, which vary depending on the credit rating of the issue. These limits do not allow investments in securitizations with an issue rating lower than Moody's A3 (or equivalent rating). Investments in securitizations are performed only if an issue meets the requirements of Article 405 of EU Regulation 575/2013, and in specific that the originator, sponsor or original lender has explicitly disclosed to the institution that it will retain, on an ongoing basis, a material net economic interest which, shall not be less than 5%. Current investments in securitizations are all Senior Tranches with a prime rating by Moody's (Aaa).

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

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

The exposure value of a securitisation position equals to its accounting value remaining after specific credit risk adjustments have been applied.

The Bank uses the Standardised Approach in order to calculate the risk weighted assets for its securitization positions, according to which the relevant risk weights are derived from the credit rating of the securitisation instrument as follows (as per Article 251 and subject to Articles 405-407 of CRR being met):

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

Hellenic Bank Group has selected to proceed with the 3 Ratings approach as this is prescribed under Article 138 of EU 575/2013 Regulation for all asset classes (including securitisation exposures). The Bank does not use the Internal Assessment Process for these positions.

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

Items representing securitisation positions (€'000)		**Total exposure value before credit risk mitigation**	**Minimum capital requirement**
Securitisation Positions		19.844	318
Risk Weight: 20%		*19.844*	*318*
Re-Securitisation Positions		-	-
Total		**19.844**	**318**

6.2. MARKET AND LIQUIDITY RISKS MANAGEMENT

6.2.1 Definition of Market and Liquidity Risks

Liquidity risk is the risk that the Bank either does not have adequate funds to meet its payment obligations as they fall due, or can obtain such funds only at an unacceptably high cost.

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

Market risk is analysed into the following types of risks:

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

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

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

6.2.2 Group Market and Liquidity Risk Unit (MLRU)

The MLRU is responsible for identifying, assessing, monitoring, controlling and reporting the market and liquidity risks of the Bank, in accordance with the risk policies and frameworks approved by the BoD. It acts as a second line of defence for the aforementioned risks.

6.2.3 Liquidity Risk Management Framework

Hellenic Bank obtains the majority of its funding through customer deposits. The Bank aims to maintain this funding by offering deposit products that meet customer needs while providing the requisite profitability and liquidity for the Bank.

The Group places great importance on the maintenance of stable customer deposits, as they represent one of its main sources of funding. This is mainly achieved through the maintenance of good and long-standing relationships of trust with customers and through competitive and transparent pricing strategies.

The Group's approach for managing liquidity risk is securing the existence of adequate liquidity to satisfy its obligations, as and when they arise under "normal" circumstances, as well as under stress conditions, without the Group bearing disproportionate additional costs.

Group Treasury[1], which acts as a first line of defence with regards to liquidity risk, is responsible for the day-to-day management of liquidity risk, including ensuring compliance with regulatory and internal liquidity risk limits.

All frameworks and policies concerning liquidity risk are reviewed and approved by the Group ALCO, before being forwarded to the BoD, through the Board Risk Management Committee (BRMC), for final approval. In addition, summary reports are periodically submitted to ALCO with regards to the liquidity position of the Group, along with possible measures that should be taken, as well as recommendations for enhanced monitoring. Possible limit breaches are timely reported by the MLRU to ALCO and the CRO. Subsequently, the CRO informs the BRMC about the breach and any remedial action taken by ALCO in order to restore positions within limits.

The liquidity risk of the Bank is monitored on a daily basis by the Group MLRU and is reported regularly to senior management, the ALCO, the BoD and the regulatory authorities.

More specifically, the ALCO is updated on a daily basis on certain significant liquidity risk measurements. On a monthly basis, the Group MLRU prepares a report to ALCO, which includes amongst others, the monitoring of regulatory and internal liquidity ratios, liquidity gaps, monitoring of funding risk and the evolution of the Bank's deposits. The BoD is also informed, on a monthly basis, on a number of liquidity measurements which have been identified as KPIs. The BRMC and the BoD also receive a detailed quarterly risk report which presents liquidity

[1] Part of Group Reserves Management and Dealing Room Unit

ratios, funding risk information, analysis of the characteristics of the Bank's deposit structure and stress test scenarios on liquidity. In addition, to assist the Bank in determining its liquidity tolerance and liquidity buffers, the MLRU uses liquidity stress testing and conducts an Internal Liquidity Adequacy Assessment Process (ILAAP) annually.

In managing liquidity risk for the Euro, the Group calculates and monitors, among other ratios, the liquid assets ratio, required by the relevant CBC Directive on Prudential Liquidity for the Euro. According to the Directive, the Bank is required to maintain this ratio at a minimum of 20%. Liquid assets comprise of cash, balances with Central Banks, interbank deposits and bonds.

The liquid assets ratio for the Euro during 2016 was as follows:

Liquid assets ratio for the Euro (%)		**2016**
As at 31 December		44,08
Average for the year		43,48
Maximum for the year		47,41
Minimum for the year		38,07

The liquidity of all foreign currencies combined is also monitored at the Group level. Based on the relevant Directive of the CBC on Prudential Liquidity in foreign currencies, the Bank is required to maintain at least 70% of its total foreign currency deposits in highly liquid assets, as defined by the Directive.

The liquid assets ratio in foreign currencies during 2016 was as follows:

Liquid assets ratio in foreign currency (%)		**2016**
As at 31 December		86,38
Average for the year		83,06
Maximum for the year		90,62
Minimum for the year		66,02[2]

6.2.4 Market Risk Management Framework

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

6.2.4.1 Market Risk Management – Trading Book

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

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

[2] This figure fell below the regulatory limit for three days, immediately following the successful exit of Cyprus from its economic and fiscal adjustment program in March 2016.

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

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

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

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

Value-at-Risk (VaR) for foreign exchange risk (€000)		**2016**
As at 31 December		11
Average for the year		9
Maximum for the year		20
Minimum for the year		3

6.2.4.2 Market Risk Management – Banking Book

The Group manages the price risk of its banking book through frameworks and policies for the setting and monitoring of limits, similar to those described above for the trading book.

The Group manages foreign exchange risk on a consolidated basis (banking and trading book) using the methods already described above for the trading book.

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

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

In addition, interest rate risk in the Banking Book is assessed through the ICAAP on an annual basis, using stress testing scenarios which take into consideration both net interest income measurements, net present value (economic value) measurements, parallel and non-parallel shifts to interest rates and basis risk. Interest rates for current and sight accounts are assumed to be less sensitive to market interest rates. This assumption is mainly based on observation of the behavioural characteristics of these accounts through time compared to market interest rate movements.

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

(a) Interest Rate Gap (IR Gap)
The Group manages interest rate risk through the monitoring of interest rate gaps, by currency, by time band and in total. Assets and liabilities are classified under time bands based on their repricing period. Interest rate gap by

time band is the difference of assets and liabilities under each time band. This helps to identify time bands with significant interest repricing mismatch.

(b) Economic Value sensitivity analysis (NPV sensitivity)
In addition to gap analysis, interest rate risk management is carried out mainly by monitoring the sensitivity of the Group's economic value (assets and liabilities), under various scenarios of interest rate changes.

The table below presents the impact on the Group's Economic Value of a change of ±100 basis points in interest rates by currency[3] as at 31st December 2016:

Change (€000)		**Euro**	**US Dollars**	**Other currencies**	**Total**
+100 basis points		(13.109)	433	1.342	(11.333)
-100 basis points[4]		13.109	(433)	(1.342)	11.333

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

The table below shows the impact on the Group's Net Interest Income (over the next 12 months) as a result of a change of ±100 basis points in interest rates by currency[5] as at 31st December 2016:

Change (€000)		**Euro**	**US Dollars**	**Other currencies**	**Total**
+100 basis points		23.093	16.215	1.322	40.629
-100 basis points[4]		(23.093)	(16.215)	(1.322)	(40.629)

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

6.2.4.2.1 Exposures in equity securities not included in the trading book

The Group has classified its investments in equity securities, under the following categories. Investment securities are classified in these categories upon their initial recognition based on their characteristics and the purpose for which they were acquired.

(a) At fair value through profit or loss
Financial instruments at fair value through profit or loss are broken down into two categories:

Instruments held for trading: Includes financial instruments acquired or incurred principally for the purpose of selling or repurchasing them in the near term or which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Instruments designated at fair value through profit or loss upon initial recognition: Includes financial instruments initially designated in this category when this designation results to more relevant information, because it either:

[3] A proportion of current and sight deposits is assumed to be more stable (core deposits) and is slotted in time buckets with an average maturity of three years. It is noted that for the discounting needed to perform the calculations, the risk-free yield curve was used for each currency.
[4] Under current conditions, the reduction in interest rates by 100 basis points is theoretical since market rates for the euro and most foreign currencies are very low.
[5] For current accounts, it is assumed that interest rates will change by only 15 basis points in the Euro and that they will remain unchanged in foreign currencies.

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's key management personnel.

The changes in fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

(b) Available for sale
Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified under another category of financial assets. Available for sale investments may be held for an undetermined period of time or may be sold in response to changes in market risks or liquidity requirements.

Subsequent to initial recognition, available for sale investments are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity. When an investment is sold or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the main factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Investments in equity securities held for trading are included in the trading book. The remaining investments in equity securities are included in the banking book.

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

Equity securities available for sale (€000)		**2016**
Quoted securities		982
Unquoted securities		7.228
Total - Carrying amount/(fair value)		8.210
Gains on disposal of available for sale equity securities		-
Cumulative unrealised gains included in the revaluation reserve in respect of available for sale equity securities		5.180

The quoted securities held by the Bank concern equity securities in one company which is listed in the Cyprus Stock Exchange. The unquoted equity securities mainly comprise of positions that the Bank holds as part of its Banking operations. As evidenced by the figures in the table above, the Bank holds immaterial positions in equity securities.

6.2.4.2.2 Policy in relation to hedging market risks

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

6.2.5 Basel III Implementation for Market Risk – Pillar I

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

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

The table below shows the capital requirements for the trading book, by risk category:

31 December 2016 (€000)			**Capital Requirements**	**Total**
Position Risk				
Traded debt instruments	- Specific risk		-	
	- General risk		699	699
Equities	- Specific risk		23	
	- General risk		23	46
Foreign Exchange Risk			-	-
				745

It should be noted that under Article 351 of the Regulation 575/2013, the Bank is required to maintain capital for foreign exchange risk only if its overall net foreign exchange position exceeds 2% of its Own Funds. In the Bank's case, the overall net foreign exchange position was less than 2%, so there was no need to hold capital for foreign exchange risk.

The Bank carries out its activities involving foreign currency through correspondence banks for the respective currencies. For the major currencies, the Bank maintains three bank relationships for USD, including one which is a full service relationship, three bank relationships for GBP, four bank relationships for RUB, and two bank relationships for CHF.

For more information in relation to market and liquidity risk management, refer to Note 48 of the Financial Statements for the year ended 31 December 2016.

6.3 OPERATIONAL RISK MANAGEMENT

6.3.1 Definition of Operational Risk

Operational risk is defined as the risk of, direct or indirect, costs/losses resulting from inadequate or failure in internal processes, people and systems or from external events. This definition includes legal, conduct and reputational risks, but excludes strategic risk.

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

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

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

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

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

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

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

6.3.3 Group Operational Risks Unit (GOR)

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

Under its second LoD remit, the GOR Unit's key responsibilities include:

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

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

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

GOR assesses identified operational risks and provides guidelines for the prevention and mitigation of potential

consequences/losses. Operational risk management is viewed and treated by GOR as a dynamic process which ultimately aims to assist the Group in achieving its objectives.

6.3.4 Operational Risks Management Procedures

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

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

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

GOR recommends improvements and assists first LoD stakeholders in implementing measures to mitigate operational risks identified in important procedures. Such measures include, but are not limited to, the establishment of clear lines of responsibility, segregation of duties, application of four eye principle and the utilisation of reports; these measures are in line with the principles adopted under the GOR Management Framework.

6.3.5 Reporting Systems

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

- Losses/errors/near misses
- Systems failures and business disruptions
- Events affecting directly or indirectly the reputation of the Group
- Key Risk Indicators
- Operational risk assessment by the business lines
- Cases dealt with by Legal Services, where operational risk events have been identified

The reports are submitted:

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

6.3.6 Risk Hedging and Mitigation Policies

As mentioned above, the Operational Risk Management Cycle is applied by GOR and the business lines, through the daily operations of the Group, as well as through the recording of identified inherent or potential operational risks and operational risk events through the RCMS.

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

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

Operational risk monitoring encompasses a range of relevant factors such as:

- The size of the potential maximum loss and estimated likelihood of occurrence.

- The nature, complexity and size of related activities, and relevant strategic objectives.
- The possible consequences on profitability from identified operational risks, capital adequacy implications including Pillar II, personnel matters and reputational implications.

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

6.3.7 Internal Audit

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

6.3.8 External Audit

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

6.3.9 Capital Requirement

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk. Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15% of the average of three years of the relevant indicator as set out in Article 316 of the CRR. The relevant indicator is based on the sum of the Group's net interest income and its net non-interest income after certain qualification adjustments.

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

Operational Risk (€000)		**Minimum Capital Requirement**
Basic Indicator Method		36.863
Total Required Capital		**36.863**

For more information on the operational risk management refer to Note 48 of the Financial Statements for the year ended 31 December 2016.

7. ENCUMBERED AND UNENCUMBERED ASSETS

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

The total assets which are encumbered are a small proportion of the Bank's total assets. There was only one main asset type, cash accounts, which was encumbered as at 31st December 2016. Encumbered cash accounts derive from two main sources. The first is due to the CSA agreements signed with counterparties when transacting in derivatives, which is a common practice in the market. The second source is due to a CLS (Continuous Linked Settlements) agreement that the Bank has signed as a third party.

In general, the Bank, as part of its policy, will not have significant proportions of encumbered assets. However, the Bank holds a pool of eligible securities which may be used -if conditions change and the need arises -to provide immediate funding for the Bank.

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

The following table presents the position of encumbered and unencumbered assets as at 31st December 2016:

Position of encumbered and unencumbered assets (€000)		**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Equity instruments		-	-	8.503	8.503
Debt securities		-	-	1.149.132	1.149.132
Loans and advances		110.979	N/A	5.393.727	N/A
Other assets		-	-	375.262	N/A
Assets of the reporting institution		**110.979**	**N/A**	**6.926.624**	**N/A**

The following table presents the position of collateral received in respect to encumbered and unencumbered assets as at 31st December 2016:

Position of collateral received in respect to encumbered and unencumbered assets (€000)		**Fair value of encumbered collateral received or own debt securities issued**	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution		-	7.403.987
Equity instruments		-	51.081
Debt securities		-	13.677
Other collateral received		-	7.339.229
Own debt securities issued other than own covered bonds or ABSs		-	-

The table below presents the position of encumbered assets and collateral received and associated liabilities as at 31st December 2016:

Position of encumbered assets and collateral received and associated liabilities (€000)		**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities		3.545	34.723

8. LEVERAGE RATIO

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

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

According to CRR and the Regulation No. 2015/62 of the European Parliament and Council dated 10th of October 2014, as at 31st December 2016 the Leverage Ratio for the Group was 8,75% and for the Bank 8,74%. The Leverage Ratio on a fully loaded basis for the Group was formed at 8,71% and for the Bank at 8,70%.

Summary reconciliation of accounting assets and leverage ratio exposures (€000)		**31 December 2016**
Total Assets as per Financial Statements		7.037.604
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation		(48.429)
Adjustments for derivative financial instruments		1.110
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		306.173
Other adjustments		(24.333)
Total leverage ratio exposure		**7.272.125**

Leverage ratio common disclosure (€000)		**LR Exposure**
Exposure Values		
Derivatives: Current replacement cost		8.057
Derivatives: Add-on under the mark-to-market method		3.978
Off-balance sheet items with a 10% CCF in accordance with Article 429 (10) of the CRR		49.115
Off-balance sheet items with a 20% CCF in accordance with Article 429 (10) of the CRR		890
Off-balance sheet items with a 50% CCF in accordance with Article 429 (10) of the CRR		103.168
Off-balance sheet items with a 100% CCF in accordance with Article 429 (10) of the CRR		153.000
Other assets		6.985.453
(-) Asset amount deducted - Tier 1 capital - fully phased-in definition		(34.922)
(-) Asset amount deducted - Tier 1 capital - transitional definition		(31.536)
Total Leverage Ratio exposure - using a fully phased-in definition of Tier 1 capital		7.268.739
Total Leverage Ratio exposure - using a transitional definition of Tier 1 capital		7.272.125
Capital		
Tier 1 capital - fully phased-in definition		633.248
Tier 1 capital - transitional definition		636.634
Leverage Ratio		
Leverage Ratio - using a fully phased-in definition of Tier 1 capital		8,71%
Leverage Ratio - using a transitional definition of Tier 1 capital		8,75%

Split-up of on balance sheet exposures (excluding derivatives and repurchase transactions) (€000)		**31 December 2016**
Trading Book Exposures		293
Banking book exposures, of which:		6.985.162
Covered bonds		38.815
Exposures treated as sovereigns		3.092.310
Central governments and central banks		2.810.330
Regional governments and local authorities treated as sovereigns		-
MDBs and International organisations treated as sovereigns		281.980
PSEs treated as sovereigns		-
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns		614
Regional governments and local authorities NOT treated as sovereigns		614
MDBs NOT treated as sovereigns		-
PSEs NOT treated as sovereigns		-
Institutions		544.340
Secured by mortgages on immovable properties; of which		644.201
Secured by mortgages of residential properties		392.559
Retail exposures		363.394
Retail SME		133.165
Corporate		606.240
Financial		23.409
Non-financial		582.831
SME exposures		468.211
Corporate exposures other than SME		114.620
Exposures in default		779.319
Other exposures; of which:		915.929
Securitisation exposures		19.844
Total on-balance sheet exposures (excluding derivatives and repurchase transactions)		**6.985.453**

The regulatory transitional leverage of the Group has slightly decreased during 2016, mainly as a result of the decrease in Tier 1 capital. The decrease has been partially mitigated by a decrease in leverage exposure (lower denominator).

9. ECONOMIC ENVIRONMENT

Economic Environment and Group operations in Cyprus

Cyprus has completed its three-year macroeconomic Adjustment Programme in March 2016, with the sovereign regaining international capital market access. Cyprus has implemented important fiscal and structural reforms under its macroeconomic adjustment programme, which are set to contribute towards strong fiscal governance in the coming years. Public finances have been consolidated to a large extent to secure the sustainability of public debt. Fiscal developments have largely out-performed the primary balance targets that were set at the beginning of the programme. Also, significant progress has been made under the programme to restructure and restore confidence in the Cypriot financial system. The better than expected outcome in the economy, together with the gradual restructuring taking place in the banking sector, have created and maintained an environment of improved confidence which is reflected in the upgrades of the country's and the largest domestic banks' credit rating by international rating agencies. As a result, Cyprus successfully tapped international markets three times during 2016, while the yields declined to historically low levels allowing to refinance the national debt at more favourable rates and with extended maturities.

Fitch Ratings upgraded the long-term rating of Cyprus by one notch to BB- with a positive outlook in October 2016. In March 2017, Standard and Poor's, also, upgraded Cyprus' long-term rating by one notch to BB+, from BB now one notch below investment grade. Moreover, in August 2016, Moody's changed its outlook on the Cypriot banking system to positive from stable. As a result of the above, and the minimum credit rating requirement of the ECB's quantitative easing programme, the Cyprus Bonds will qualify for the programme when Cyprus returns to investment grade. In July 2016, the Republic of Cyprus, accessed international capital markets for the first time after the completion of the economic adjustment programme, with an issue of a seven year bond of €1 billion at a yield of 3,8%.

The commitment regarding the implementation of the Economic Adjustment Programme has been the cornerstone in steering the economy out of recession. The economy has been exhibiting robust growth since the beginning of 2015, with real GDP growth increasing by 2,8% during 2016. The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. The deflation observed from the first months of 2013 has started diminishing in magnitude, with the price level in 2016 expected to decline by 1,2%, compared with a decrease of 1,5% in 2015.

The expansion of the economy was mainly driven by rising private consumption amid negative inflation and supported by the depreciation of the Euro and the low oil prices. In 2016, private consumption grew by 2,9%, compared with the corresponding period of 2015. Over the same period, investment grew by 26%, primarily due to investment in transport equipment, while investment in construction also increased by 8,7%. From a sectoral point of view, growth was supported by resilient export performance in the services sectors of tourism and professional business. Specifically, during 2016, tourist arrivals increased by an annual 19,8%, compared with the previous year and at the same time, revenues from tourism increased by an annual 12%.

The housing market continued its adjustment in the course of 2016, bringing the cumulative fall in prices since mid-2008 to 32% (Central Bank of Cyprus's Property Price Index). During 2016, property sales recorded a new increase according to Land Registry data. Specifically, the sales deeds submitted during 2016 increased to 7.063 versus 4.952 during the corresponding previous period, recording a year-on-year increase of 43%.

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product in 2016, the reduction in unemployment and further improvement of key domestic indicators since the beginning of the year. Despite the important steps taken towards restoring the economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high volume of non-performing exposures (NPEs), high unemployment and delays in the advancement of structural reforms. The high private indebtedness levels that have led to deleveraging and increased NPEs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy, especially via developments in property prices.

From an exogenous perspective, the country's economy may be negatively influenced due to weaker than expected growth in the Euro area and a slowdown in output growth in the UK and further depreciation of the pound against the Euro, as a result of increased uncertainty following the UK referendum. Also, possible deterioration of the Russian economic outlook and the increased geopolitical tensions in the Middle East and Eastern Mediterranean, could trigger adverse spillovers to economic confidence, tourism and consequently to the aggregate economic

activity. On the other hand, geopolitical tensions in neighbouring counties render Cyprus as a safer tourist destination and could therefore counterbalance, to a significant extent, the potential reduction in tourist traffic from UK. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess the potential prospects that are being developed.

In spite of these challenges, Cyprus' macroeconomic outlook is positive. Official forecasts by the Ministry of Finance of the Republic of Cyprus anticipate growth of 2,8% in 2017. The pick-up in domestic demand is expected to be reflected into improved labor market conditions, with unemployment starting to ease gradually. Inflation is expected to turn positive, but remain relatively low, weighed down by recent declines in oil prices.

Consequences of the recent developments

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Its size has been reduced to a moderate 3,7 times the GDP or about the EU average. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of NPEs is impacting both on the banks' balance sheets as well as on their ability to extend credit to the economy.

The Bank has managed to navigate successfully through the banking crisis. It has maintained throughout the crisis its reputation for stability and trust and is concentrating in its strengthening and better focusing of its market positioning. Meanwhile, the Bank maintains sufficient liquidity to allow it to exploit opportunities while maintaining its focus on organic growth. The Bank has the ability to finance creditworthy businesses and households, helping in the restoration of the country's economy. The Bank considers that there is potential and opportunities in various sectors of the economy. The focus of new loans will be to companies that increase the competitiveness and productivity of the country. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current clients who are deemed viable.

The high levels of NPEs pose major risks to the stability of the banking system and to the outlook for the economy. Ineffective implementation of the new insolvency and foreclosure legal framework could delay the resumption of healthy credit conditions and robust economic growth. Unavoidably, the high level of NPEs causes an erosion of the Banks' income and may cause additional provisions and effectively reduced profit from ordinary operations. At the same time the Bank recognises that the real estate market which is a significant driver of the provisions for impairment of customer loans continues to be subdued and puts further pressure on the profitability. Within the framework of tackling the Group's loan portfolio quality, the Bank has reached an agreement with APS Holding a.s (APS) for the management of real estate assets and servicing of the entire portfolio of non-performing exposures of the Bank. This agreement, which is subject to finalisation and applicable approvals and clearances from the relevant regulatory and any other authorities, is of huge strategic importance for Hellenic Bank and falls under the Group's strategy of reorganising and transforming its business model. The main pillars of the strategy ~~is~~ are the reduction of non-performing exposures, the expansion of new lending thus increasing the Bank's market share and the increase of its revenues through other banking activities. By creating the first debt servicing and real estate asset management platform in the Cypriot market, the Bank will be able to effectively deal with its non-performing exposures in an accelerated way, by developing, expanding and improving the recoveries of NPEs through leveraging on the knowhow and expertise of APS. Furthermore, it will allow the Bank to better allocate its resources on managing and growing the performing loan book by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

10. FUTURE ACCOUNTING DEVELOPMENT

In July 2014, the International Accounting Standards Board issued the final version of IFRS9 "Financial Instruments" which is effective from 1st January 2018. IFRS 9 replaces the requirements set out by IAS 39 for recognition and measurement of both financial assets and liabilities.

Classification and Measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. For financial liabilities, IFRS 9 retains most of the existing requirements. For more details refer to Note 2.3 of the Financial Statements.

Impairment Model

The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss (ECL) model, which could result in earlier recognition of credit losses compared with IAS 39.

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39. The requirement to recognise lifetime ECL for loans which have experienced a significant increase in credit risk since origination, but which are not credit impaired, does not exist under IAS 39.

The methodology required for quantification of expected credit losses which will be based on an unbiased and weighted consideration of the occurrence of a range of possible future scenarios that could impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. GNP, house pricing, unemployment rate, etc.). The need to consider a range of economic scenarios and how they could impact the loss allowance is a subjective feature of the IFRS 9 ECL model. The model will use mainly three key input parameters for the computation of expected losses, being probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Regulatory capital position

Apart from the impact derived solely from the forthcoming implementation of IFRS 9 requirements, the impact to the Bank on the IFRS 9 provisions to the regulatory capital position of the Bank is unknown as there are proposals from both the European Commission and the European Banking Authority for a transitional implementation of the IFRS 9 impact to the capital base. The Bank is considering IFRS 9 impact in the Group capital planning.

Preliminary impact of IFRS 9 on the Group

The adoption of IFRS 9 may result in an increase in the Group's balance sheet provisions for credit losses and may therefore negatively impact the Group's regulatory capital position. The extent of any increase in provisions will depend upon a number of factors including composition of the Group's lending portfolios and forecast economic conditions at the date of implementation.

During the year 2016 and beginning of 2017, the Bank engaged with external consultants who carried out a current state gap analysis as well as a preliminary quantitative impact study (QIS). The high level gap analysis pointed to the Bank's gaps in implementing the IFRS 9 requirements and also provided possible solutions to close those gaps. The QIS, which was based on existing financial asset classification, was performed to get an indication of the IFRS 9 impact provision-wise and to set an action plan which would assist the Bank during the full IFRS 9 implementation.

The result of this exercise indicated that the Group's profitability or regulatory capital position will be negatively affected, though the impact is not expected to be significant. However, it is too early to estimate the ongoing impact of the IFRS 9 impairment model on the financial results although the requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, could result in impairment changes being more volatile when compared to the current IAS 39 impairment model.

The final impact will depend on the facts and circumstances that will exist on 1st January 2018 as well as on the completion of IFRS 9 implementation programme for which the Bank engaged with external consultants.

IFRS 9 Implementation Programme

In addition to the above high level exercises completed early in the year 2017, the Group has an established IFRS 9 action plan in order to ensure a high quality implementation in compliance with the standard and additional regulatory guidance. The plan, which mainly involves the Finance and Risk functions, includes defining IFRS 9 methodology and accounting policy, development of ECL models, identifying data and system requirements, and establishing an appropriate operating model and governance framework. The Bank does not expect to restate comparatives on initial application of IFRS 9 on 1st January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7.

11. Bank Recovery and Resolution Directive (BRRD)

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

The regulatory authorities are currently in the process of establishing the MREL requirement on a case-by-case basis. More specifically, the Single Resolution Board and the Local Resolution Authority are currently carrying out workshops and discussions with regulated institutions.

12. EVENTS AFTER THE REPORTING PERIOD

12.1 ECB's NPL Guidance finalised

On 20th March 2017, the ECB published the final guidance to banks on non-performing loans (NPLs). The guidance does not intent to substitute or supersede any applicable regulatory or accounting requirement or guidance from existing EU regulations or directives and the national transpositions or equivalent, or guidelines issued by the EBA. ECB Banking supervision within this guidance identifies a number of best practices relating to identification, measurement, management and write off of NPLs in areas where existing regulations, directives or guidelines are silent or lack specificity. The guidance which is currently non-binding in nature is applicable as of its date of publication. NPL disclosure expectations described in the guidance should start from 2018 reference dates. The guidance will be taken into consideration in the SSM regular Supervisory Review and Evaluation and non-compliance may trigger supervisory measures. The Bank is currently evaluating the guidance in order to ensure compliance.

12.2 Hellenic Bank and APS signed an agreement for the management of real estate assets and the servicing of the entire portfolio of non-performing exposures

On the 10th of January 2017, the Bank and APS reached an agreement for the management of real estate assets and servicing of the entire portfolio of non-performing exposures of the Bank. For this purpose a new company will be established in which the Bank will have 49% of shares, whereas APS Recovery Cyprus Ltd will own the majority of shares (51%). The operations of the current Arrears Management Division of the Bank will be transferred to the new company, including the necessary resources to carry on such work independently, in exchange for a positive consideration.

The Bank will retain the ownership of the portfolio of non-performing exposures and the real estate assets. It is anticipated that a portfolio of non-performing loans of about €2,4 billion will be serviced by the new company upon establishment.

APS is a specialised debt servicing company covering 11 European countries in Central and South Eastern Europe and has been selected following a competitive bidding process.

This agreement is of huge strategic importance for Hellenic Bank and falls under the Group's strategy of reorganising and transforming its business model. The main pillars of the strategy are the reduction of non-performing exposures, the expansion of new lending thus increasing the Bank's market share and the increase of its revenues through other banking activities. Specifically the benefits that will be derived from this agreement include the improvement in the visibility for the clean-up of the Bank's balance sheet and strengthening the credibility with stakeholders by communicating a strong action message. In addition, clear separation of Pre-NPE and NPE business will help increase focus on managing early arrears and allow the strengthening of the early collections teams. Also, the creation of a servicing entity will attract credible investors in Cyprus which will in turn facilitate the future deleveraging of NPEs at increasingly higher pricing.

By creating the first debt servicing and real estate asset management platform in the Cypriot market, the Bank will be able to effectively deal with its non-performing exposures in an accelerated way, by developing, expanding and improving the recoveries of NPEs through leveraging on the knowhow and expertise of APS. Furthermore, it will allow the Bank to better allocate its resources on managing and growing the performing loan book by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

The completion of the transaction is subject to applicable approvals and clearances from the relevant regulatory and any other authorities and is targeted to be achieved by the end of the second quarter of 2017. This transaction clearly falls within the direction indicated by the ECB guidance issued to Banks for the work-out of non-performing exposures, and it is considered by Hellenic Bank as the most appropriate NPEs strategy aimed to decisively address the issue.

Further details of the agreement, including the commercial and financial terms, are expected to be announced by the end of the second quarter of 2017, upon finalisation of the transaction.

12.3 New agreement of the Hellenic Bank with the European Investment Bank

On the 13th March 2017 the Bank proceeded with the signing of an agreement with the European Investment Bank, aiming at the reinforcement of the Cypriot Small to Medium Enterprises (SMEs).

Based on the agreement, which is state guaranteed, an amount of around €66,7 million will be allocated in the form of low-interest loans to SMEs and Mid-Cap Companies. The amount of €66,7 million includes an amount of €16,7 million, which will be provided from the Bank's own funds. The Bank's objective is to support the economy and to finance key sectors such as the manufacturing, the energy, the tourism, the health and the transport sector.

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

Report Name	Report Description	Responsible Department	Recipient	Frequency
Quarterly Risk Report	Quarterly assessment and measurement of all risks and outlook covering, but not limited to specific CBC requirements	GRMU	BoD, BRMC, CBC	Quarterly
Annual Risk Report	Annual assessment and measurement of all risks and outlook covering, but not limited to specific CBC requirements	GRMU	BoD, BRMC, CBC	Annually
Annual Information Security Report	Annual summary of important information security risks, security incidents, corrective actions taken as well as outstanding issues which jeopardize the institution's information security	ISF	BoD, BRMC, CBC	Annually
ICAAP	Internal Capital Adequacy Assessment Process	GRMU	BoD, BRMC, ExCo, ECB	Annually
ILAAP	Internal Liquidity Adequacy Assessment Process	MLRU	BoD, BRMC, ExCo, ECB	Annually
Loan Arrears Resolution Targets	Comparison of actual results to the CBC Loan Arrears Resolution Targets	GCRU	BRMC, CBC	Quarterly
Operational Risk Report	Informs about any developments regarding operational risk, presents relevant loss data and risk indicators	GOR	RCC	Monthly
Customer Credit Risk Evolution Report	Analysis of the credit risk of the lending portfolio (evolution of NPEs, analysis of restructurings effectiveness and monitoring of new lending)	GCR	ExCo, BRMC	Monthly
Monthly report to ALCO	Monthly assessment and measurement of market and liquidity risks	MLRU	ALCO	Monthly
Bonds Investments Framework monitoring	Monthly monitoring of positions, profitability and risk of bonds portfolio under the Bonds Investments Framework	GRMU	ALCO	Monthly
Risk metrics within Board of Directors KPI dashboard	Monthly monitoring of the Bank's key performance indicators	GRMU	BoD, ExCo	Monthly

Report Name	Report Description	Responsible Department	Recipient	Frequency
Quarterly Report to the Executive Credit Risk Committee	Quarterly monitoring/assessment of the quality of the loan portfolio	GCRU	ExCRCo	Quarterly
Monthly report to the Impairment Committee	Monthly monitoring of the impairment results	GRMU	ImCo	Monthly
Quarterly Impairment report	Quarterly detailed presentation of the impairment results	GRMU	ImCo, RCC	Quarterly
Quarterly Write-off report	Report on the write off of lending facilities	Credit Administration	BoD	Quarterly
Recovery Dashboard	Report on the Risk Related Recovery and Early warning Indicators	GRMU	ExCo, BoD	Monthly
Review of policies, frameworks and charters		All Managers	Relevant Executive Body Committee, BRMC, BoD	Annually for policies and charters. Every three years for frameworks

BoD	Board of Directors
GRMU	Group Risk Management Unit
GCRU	Group Credit Risk Unit
BRMC	Board Risk Management Committee
ExCo	Executive Committee
RCC	Risk & Control Committee
ALCO	Assets & Liabilities Committee
MLRU	Group Market & Liquidity Risk Unit
CBC	Central Bank of Cyprus
ISF	Information Security Function
GOR	Group Operational Risk
ECB	European Central Bank
ExCRCo	Executive Credit Risk Committee
ImCo	Impairment Committee