

Alpha Bank Group
Pillar III Disclosures
Report for September 30, 2018



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1 Introduction

This Report provides Pillar III disclosures on the consolidated level of Alpha Bank as required by the regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision, also known as Basel 3.

The 30.9.2018 Pillar III Report provides an update to the risk weighted assets, own funds, leverage ratio & market risk information which have a quarterly disclosure frequency in line with the recommendations provided by the European Banking Authority (“EBA”) in its “Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No 575/2013” (“EBA Guideline”, EBA/GL/2016/11, version 2*) and based on uniform disclosures regarding the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds that were published in January 2018 (EBA Guideline, EBA/GL/2018/01).

1.1 General Information

Alpha Bank is one of the leading banks of the Greek privately owned banking sector and constitutes a consistent point of reference for over 130 years. The Bank offers a wide range of high-quality financial products and services, including retail banking, SMEs and corporate banking, asset management and private banking, distribution of insurance products, investment banking, brokerage and real estate management.

The Parent Company of the Group, Alpha Bank, which was founded in 1879 by John F. Kostopoulos, has its headquarters at 40 Stadiou Street, Athens, and is registered in the Register of Companies with number 6066/06/B/86/05. The Bank is subject to the Greek banking and accounting law and regulation and is supervised by the European Central Bank (ECB) and the Single Supervisory Mechanism (SSM).

Alpha Bank is active in the Greek and international banking market, with presence in the United Kingdom, Romania, Cyprus and Albania.

1.2 Single Supervisory Mechanism (SSM)

The SSM is a system of financial supervision composed of the European Central Bank (ECB) and National Competent Authorities (NCAs). Since November 2014, Alpha Bank Group is supervised in accordance with the SSM framework and as such is directly supervised by the ECB, having been assessed as “Other Systemically Important Institution” (O-SII).

The applicable banking regulatory framework in the European Union, the Basel 3 capital framework, was implemented by the “Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms” (Capital Requirements Regulation, or “CRR”) published on June 27, 2013, in combination with the “Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms” (Capital Requirements Directive 4, or “CRD 4”) published on June 27, 2013 that has been transposed into the Greek legislative framework by the Law 4261/2014. The framework on prudential requirements and prudential supervision is effective from 1st January 2014.

The minimum regulatory required levels for CET1, Tier 1 and Total Capital ratios are 4.5%, 6% and 8% respectively, according to article 92(1) of EU Regulation 575/2013 (“Capital Requirements Regulation” or “CRR”). On top of CET1 minimum capital credit institutions are required to maintain additional combined capital buffers, according to article 128(6) of Directive 2013/36/EU (“Capital

Requirements Directive” or “CRD IV”). Depending on the type and level of the buffer this requirement is gradually applicable from 1.1.2016 until 31.12.2019.

In particular:

- From 1.1.2016 onwards a capital conservation buffer of 0.625% exists, which has been adjusted to 1.875% from 1.1.2018 and will gradually rise to 2.5% by 1.1.2019.
- The Bank of Greece, through respective acts issued by its Executive Committee, has set the following capital buffers:
 - Countercyclical buffer at 0% (this is set on a quarterly basis - latest BoG Act is 135/14.03.2018 and relates to the second quarter of 2018)
 - Other systemically important institutions (O-SII) buffer is currently set to 0%.The O-SII buffer requirement is set to gradually increase to the level of 1% by 2022 for all Greek systemic banks, in phased-in increments of 25bps starting in 2019.

On 8 December 2017, the ECB informed Alpha Bank that according to its SREP assessment the Overall Capital Requirement (OCR) for 2018 is set at 12.875%.OCR includes, in addition to the Total SREP Capital Requirements (TSCR) of 11%, the combined buffers requirements (CBR) defined in point (6) of Article 128 of Directive 2013/36/EU as applicable.

1.3 2018 Stress test Results

Alpha Bank successfully concluded the 2018 Stress Test which was conducted based on a static balance sheet approach under a baseline and an adverse macro scenario with a 3 year forecasting horizon (2018-2020). The starting point was 31 December 2017, restated to account for IFRS 9 impact. The impact was assessed in terms of CET1 ratio. No hurdle rate or capital thresholds were applied for this exercise.

Under the baseline scenario, 2020 CET1 ratio reached 20.4%, following an aggregate impact of +212 bps mainly driven by a strong pre provision income generation. Under the adverse scenario, 2020 CET1 ratio stood at 9.7%, down by 856bps, post IFRS 9, largely driven by the negative credit risk impact, resulting from the stressed macro environment and methodological constraints. Based on the feedback received by the Single Supervisory Mechanism (SSM), the Stress Test outcome, along with other factors, have been assessed by its Supervisory Board, pointing to no capital shortfall. Therefore, no capital plan was required, as a result of the exercise.

Table 1: Stress test Results		(in Euro million)	
	31.12.2017	31.12.2020	31.12.2020
		Baseline Scenario	Adverse Scenario
CET1	8,987	10,380	4,745
RWAs	49,240	50,949	48,982
CET1 (%)	18.3%	20.4%	9.7%

2 Capital Management

2.1 Own Funds

The following table presents the analysis of Own funds structure:

Table 2: Own funds structure		(in Euro million)		
Type	30.9.2018¹	30.9.2018	30.6.2018	
Share capital	463	463	463	
Share premium	10,801	10,801	10,801	
Accumulated other comprehensive income (and other reserves)	-3,049	-3,049	-2,915	
Reserves & Retained Earnings	-3,161	-3,161	-3,143	
AFS reserves	112	112	229	
Adjustments due to IFRS 9 transitional adjustments	1,140	1,140	1,140	
Minority interest (transitional)	0	0	0	
PVA	-7	-7	-7	
Common Equity Tier 1 capital before regulatory adjustments	9,348	9,348	9,482	
Period Profit	47	7	7	
Intangible assets	-383	-383	-374	
DTA amortization	-209	-209	-224	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	0	0	0	
Total regulatory adjustments to Common Equity Tier 1	-545	-585	-591	
Common Equity Tier 1 capital (CET1)	8,803	8,762	8,891	
Hybrid instruments	15	15	15	
Additional Tier I before regulatory adjustments	15	15	15	
Hybrid instruments transitional	-9	-9	-9	
(-) Goodwill/Intangible investments	0	0	0	
<i>of which deductible from Additional Tier I</i>	-9	-9	-9	
<i>of which deductible from CET1</i>	0	0	0	
Total regulatory adjustments to Additional Tier I	-9	-9	-9	
Additional Tier I	6	6	6	
Tier I Capital (CET1 + AT1)	8,809	8,768	8,897	
Subordinated loan	1	1	1	
Hybrid instruments (transitional)	9	9	9	
Tier II capital before regulatory adjustments	10	10	10	
Total regulatory adjustments to Tier II	0	0	0	
Tier II capital	9	9	9	
Total Capital (TC = Tier I + Tier II)	8,818	8,778	8,906	
Total RWA	48,160	48,150	48,079	
Common Equity Tier 1 Ratio	18.3%	18.2%	18.5%	
Tier I Ratio	18.3%	18.2%	18.5%	
Capital Adequacy Ratio (Tier I + Tier II)	18.3%	18.2%	18.5%	

¹ Including interim profit of € 41 million

2.2 IFRS 9 impact

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

Alpha Bank has decided to make use of Article 473a of the above Regulation and will apply the transitional provisions for the calculation of Capital Adequacy on both a standalone and consolidated basis.

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

Table 3: Comparison of own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 (in Euro million)			
Available capital (amounts)	30.9.2018	30.6.2018	31.3.2018
Common Equity Tier 1 (CET1) capital	8,762	8,891	8,875
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,090	7,296	7,321
Tier 1 capital	8,768	8,897	8,881
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,096	7,302	7,327
Total capital	8,778	8,906	8,891
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,106	7,311	7,337
Risk-weighted assets (amounts)			
Total Risk-weighted assets	48,150	48,079	48,684
Total Risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	47,097	47,257	47,710
Capital ratios			
Common Equity Tier 1 ratio (%)	18.2%	18.5%	18.2%
CET1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.1%	15.4%	15.3%
Tier 1 ratio (%)	18.2%	18.5%	18.2%
Tier 1 ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.1%	15.5%	15.4%
Total ratio (%)	18.2%	18.5%	18.3%
Total ratio (%) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.1%	15.5%	15.4%
Leverage ratio			
Leverage ratio total exposure measure	61,283	59,703	59,481
Leverage ratio	14.3%	14.9%	14.9%
leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.9%	12.5%	12.6%

2.3 Capital requirements under Pillar I

The Group calculates and reports to the designated authorities its capital requirements (Pillar I RWAs) according to the provisions of the CRR and implementing the Technical Standards developed by the EBA on a solo and consolidated basis.

The approaches adopted for the calculation of the capital requirements under Pillar I are determined by the general policy of the Group in conjunction with factors such as the nature and type of risks that the Group undertakes, the level and complexity of the Group's business and other factors such as the degree of readiness of the information and software systems.

Capital Requirements are calculated using the following approaches:

- **Credit Risk:** The Group follows the Standardized Approach (STA). The advanced method is used for the valuation of financial collateral.
- **Operational Risk:** The Group follows the Standardized Approach (STA).
- **Market Risk:** A Value at Risk (VaR) model is used, developed at a bank level for the significant exposures and approved by the Bank of Greece. Additionally, the Bank uses the Standardized approach to calculate Market Risk for the remaining, non-significant exposures.

The following template summarises RWA and minimum capital requirements by risk type.

Minimum capital requirement is calculated at 8% of RWA.

Risk Category	RWAs		Minimum capital requirements
	30.9.2018	30.6.2018	30.9.2018
Credit risk (excluding CCR)	40,935	41,211	3,275
Of which the standardised approach	40,935	41,211	3,275
CCR	361	294	29
Of which mark to market	130	133	10
Of which risk exposure amount for contributions to the default fund of a CCP	0	0	0
Of which CVA	49	48	4
Settlement risk	0	0	0
Securitisation exposures in the banking book (after the cap)	89	89	7
Of which standardised approach	89	89	7
Market risk	883	572	71
Of which the standardised approach	4	2	0
Of which IMA	880	570	70
Large exposures	0	0	0
Operational risk	3,925	3,925	314
Of which basic indicator approach	10	10	1
Of which standardised approach	3,925	3,925	314
Amounts below the thresholds for deduction (subject to 250% risk weight)	1,947	1,979	156
Total	48,150	48,079	3,852

3 Leverage

The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and it is a binding requirement since the beginning of 2018. The risk of excessive leverage means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

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

As presented in the following table, the consolidated leverage ratio with reference date 30.9.2018 stood at 14.3%, according to the transitional definition of Tier 1 capital, significantly higher than the 3% minimum threshold.

Table 5: Summary information on leverage ratio		(in Euro million)
Tier I Capital		8,768
Leverage Ratio Total Exposure Measure		61,283
Leverage Ratio		14.3%

4 Market Risk-IMA approach

A flow statement explaining the variations in the market RWAs is displayed in the following table.

Table 6a: EU MR2-B – RWA flow statements of market risk exposures under the IMA (in Euro million)				
	VaR	SVaR	Total RWAs	Total capital requirements
RWAs at 30.6.2018	156	414	570	46
<i>Regulatory adjustment</i> ²	97	219	316	25
RWAs at the previous quarter-end (end of the day)	59	195	254	20
<i>Movement in risk levels</i>	2	-3	-1	0
<i>Model updates/changes</i>	-	-1	-1	0
<i>Other</i>	-	0	0	0
RWAs at 31.12.2017 (end of the day)	61	191	251	20
<i>Regulatory adjustment</i> ^{2,3}	143	485	628	50
RWAs at 30.9.2018	204	676	880	70

Table 6a: EU MR2-B – RWA flow statements of market risk exposures under the IMA (in Euro million)				
	VaR	SVaR	Total RWAs	Total capital requirements
RWAs at 31.3.2018	203	399	602	48
<i>Regulatory adjustment</i> ²	159	290	449	36
RWAs at the previous quarter-end (end of the day)	44	108	153	12
<i>Movement in risk levels</i>	26	81	107	9
<i>Model updates/changes</i>	2	6	8	1
<i>Other</i>	-14	0	-14	-1
RWAs at 30.6.2018 (end of the day)	59	195	254	20
<i>Regulatory adjustment</i> ²	97	219	316	25
RWAs at 30.6.2018	156	414	570	46

² The regulatory adjustment takes into account the Bank's multiplier in terms of the Internal Model which is embedded in the calculation of the RWAs.

³ The difference in the RWAs is due to the increase in nominal value of the underlying Greek Government bonds during the rollover of the Total Return with the Group Subsidiary Alpha Life as of 28 June 2018. The position is reflected on the RWAs at the previous quarter-end (end of the day) figure, however it is not reflected on the RWAs at 30.6.2018 which takes into account the average VaR and SVaR during the second quarter.