EUROBANK ERGASIAS S.A.

CONSOLIDATED PILLAR 3 REPORT

FOR THE THREE MONTHS ENDED

31 MARCH 2019

8 Othonos Street, Athens 105 57, Greece
www.eurobank.gr, Tel.: (+30) 210 333 7000
General Commercial Registry No: 000223001000

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1. Introduction – General Information

Eurobank Ergasias S.A. (the "Bank" or the "Group") is a credit institution based in Greece and is supervised on a stand alone and consolidated basis by the European Central Bank (ECB) and the Bank of Greece (BoG). The Group is one of the four systemic banks in Greece, operating in key banking product and service markets. The Group offers a wide range of financial services to the retail and corporate clients. It has a strategic focus in Greece in fee-generating activities, such as asset management, private banking, equity brokerage, treasury sales, investment banking, leasing, factoring, real estate and trade finance. The Group is also among the leading providers of banking services and credit to SMEs, small businesses and professionals, large corporates and households.

Eurobank has an international presence in six countries outside of Greece, with operations in Bulgaria, Serbia, Cyprus, Luxembourg, United Kingdom and Romania.

On 3 April 2018, Eurobank and Banca Transilvania (BT) concluded all the actions and fulfilled all the conditions precedent for the completion of the transfer of the shares held by the Group in Bancpost S.A., ERB Retail Services IFN S.A. and ERB Leasing IFN S.A. to BT. Prior to this, BT has obtained the relevant regulatory approvals from both the National Bank of Romania and the Romanian Competition Authority for the acquisition. Further information in relation to the completion of the disposal is provided in the Interim Condensed Consolidated Financial Statements note 13.

On 7 November 2018, the Bank announced that it has concluded an agreement with Piraeus Bank S.A. for the acquisition of Piraeus Bank Bulgaria A.D., a subsidiary of Piraeus Bank, by Eurobank's subsidiary in Bulgaria, Eurobank Bulgaria A.D. ("Postbank") for a consideration of € 75 million. The completion of the Transaction is subject to approvals by the relevant competent regulatory and supervisory authorities and is expected to take place during the second quarter of 2019.

On 26 November 2018, the Boards of Directors ("BoD") of the Bank and Grivalia Properties REIC ("Grivalia") announced that they unanimously decided to commence the Merger of the two companies by absorption of Grivalia by Eurobank (the "Merger").

On 7 February 2019, the European Commission (DG Competition) decided that the Merger is in line with Eurobank's commitments and State Aid rules considering that the strengthening of its capital base through the Merger will enable Eurobank to significantly reduce its non-performing loans in the near future.

On 22 February 2019, the BoD of the Bank and Grivalia approved the Draft Merger Agreement for the absorption of Grivalia by the Bank according to the provisions of the Greek Laws 2166/1993 and 2515/1997, as in force as well as the applicable Company Law.

On 5 April 2019, the Extraordinary General Meeting of the shareholders of the Bank resolved, among others, (a) the approval of the Merger of the Bank with Grivalia by absorption of the latter by the former, (b) the approval of the Draft Merger Agreement, as it was approved by the BoD of the merging companies and (c) the increase of the share capital of the Bank by € 197.3 million.

The Merger was approved on 17 May 2019 by the Ministry of Finance and Development and was registered, on the same day, in the General Commercial Registry. The trading of the 1,523,163,087 new common voting shares of nominal value € 0.23 each was initiated at Athens Exchange on 23 May 2019.

Following the completion of the Merger, Fairfax group, which held 18.40% and 54.02% in Eurobank and Grivalia, respectively, before the Merger, becomes the largest shareholder in the merged entity with a ca. 33.03% shareholding.

Detailed information regarding the Merger can be found in the Interim Condensed Consolidated Financial Statements Note 31.

1.1 Regulatory framework

The general Basel III framework is structured around three mutually reinforcing pillars:

- Pillar 1 defines the minimum regulatory capital requirements, based on principles, rules and methods specifying and measuring credit, market and operational risk. These requirements are covered by regulatory own funds, according to the rules and specifications of CRR.
- Pillar 2 addresses the internal processes for assessing overall capital adequacy in relation to risks Internal Capital Adequacy Assessment Process - ICAAP and Internal Liquidity Assessment Process ILAAP). Pillar 2 also introduces the Supervisory Review & Evaluation Process (SREP), which assesses the internal capital adequacy of credit institutions.
- Pillar 3 deals with market discipline by developing a set of quantitative and qualitative disclosure requirements, which allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes and hence the capital adequacy and the internal liquidity adequacy of credit institutions.

According to the CRD IV provisions (with gradual implementation until 2019):

- Minimum Common Equity Tier 1 (CET1) ratio: 4.5%;
- Minimum Tier 1 ratio: 6%;
- Minimum Total Capital ratio: 8%
- Furthermore, banks are required to maintain in addition to the Common Equity Tier 1 capital a capital conservation buffer equal to 2.5 % (from 1 January 2019) of their total risk exposure amount calculated.

As a result the minimum ratios which must be met, including the capital conservation buffer, and which apply from 1 January 2019 are:

a) Minimum CET1 capital ratio 7%; and
b) Total capital adequacy ratio 10.5%.

Additional capital buffers that CRD IV introduces are the following:

a) Countercyclical buffer. The purpose of this buffer is to counteract the effects of the economic cycle on banks' lending activity, thus making the supply of credit less volatile and possibly even reduce the probability of credit bubbles or crunches. Credit institutions are required under the CRD IV to build up an additional buffer of 0 - 2.5% of CET1 during periods of excess credit growth, according to national circumstances. According to BoG Executive Committee Acts, the countercyclical buffer was set at 0% for 2019.
b) Global systemic institution buffer (G-SIIs). CRD IV includes a mandatory systemic risk buffer of CET1 for banks that are identified by the relevant authority as globally systemically important, which is not applicable to Greek banks.
c) Other systemically important institutions buffer. On 20.03.2019 European Banking Authority (EBA) published the updated list of Other Systematically Important Institutions (O-SIIs) in the EU. O-SIIs are those institutions which are deemed systematically relevant in addition to G-SIIs, already identified. This list reflects also the additional capital buffers that the relevant authorities have set for the O-SIIs. The identification of institutions as O-SIIs is based on 2018 data and the list is disclosed on an annual basis, along with the definition of any CET1 capital buffer requirements which may need to be set. In case of higher capital requirements, these become applicable at least one year after the publication of the O-SIIs list, to give institutions enough time to adjust to the new buffer requirements.

   The EBA methodology has been applied to compute the scores for all the institutions operating in Greece using consolidated data. Based on the above scoring system, all Greek O-SIIs are classified in bucket 4 which corresponds to a capital buffer of 1% which will be phased in until 2022. The date of activation was 1 January 2016 and BoG's Executive Committee Act- 151/30.10.2018 set the O-SII buffer for Greek Institutions for the year 2019 at 0.25%

1.2 Regulatory developments

On 25 February 2019 BCBS published the Minimum capital requirements for market risk. The revised market risk framework will take effect as of 1 January 2022.

On 17 April 2019, the European Parliament and the Council published the Regulation (EU) 2019/630 amending Regulation (EU) 575/2013 as regards minimum loss coverage for non performing exposures (NPEs).

On the basis of a common definition of non-performing loans, the proposed new rules introduce a "prudential backstop" that is, a minimum loss coverage for the amount banks need to set aside to cover losses caused by future loans that turn to non-performing . Different coverage requirements will apply depending on the classification of the NPEs as "unsecured" or "secured" and whether the collateral is movable or immovable.

The prudential backstop will be applied at an exposure-by-exposure level. For unsecured NPEs, a calendar of three years should apply, while for NPEs secured by immovable collateral and residential loans guaranteed by an eligible protection provider, a calendar of nine years should apply. For other secured NPEs a calendar of seven years should apply in order to build up full coverage.

Insufficient provisions for NPEs will require corresponding deductions from the Bank's CET 1 capital (Pillar 1 measure).

The table below shows the level of minimum loss coverage (in %) which should be applied to exposures from the first until the last day of a given year following its classification as NPE:

At the year	Unsecured	Secured by immovable property	Secured by credit protection	Secured - Export Credit Agencies exposures
1	-	-	-	-
2	-	-	-	-
3	35%	-	-	-
4	100%	25%	25%	-
5		35%	34%	-
6		55%	55%	-
7		70%	80%	-
8		80%	100%	100%
9		85%		
10		100%		

1.3 Scope of pillar 3

The purpose of Pillar 3 report is to provide updated information the Group's risk management practices, risk assessment processes and regulatory capital adequacy ratios.

Pillar 3 disclosures consist of both qualitative and quantitative information and are provided on a consolidated basis. They have been prepared in accordance with Part 8 of the Capital Requirements Regulation within CRD IV (Regulation 2013/575/EU) and according to the regulatory consolidation framework, which is described in the following section.

In December 2016 EBA published EBA/GL/2016/11 guidelines on revised Pillar 3 disclosures requirements to improve the consistency and comparability of institutions' regulatory disclosures. These guidelines are applied from 31 December 2017. Even though these guidelines do not change the substance of the regulatory disclosures, they update the presentational aspect of disclosures by introducing the use of specific tables for qualitative information and templates for quantitative information. Moreover, the guidelines harmonise the frequency of disclosures and update the list of requirements to be considered for more frequent disclosures.

According to the above guidelines, for templates that require the disclosure for current and previous reporting periods, the previous reporting period is always referred to as the last data disclosed according to the frequency of the template. When the disclosure is being reported for the first time, the data of the previous period is not required.

In December 2018 EBA published EBA/GL/2018/10 guidelines, which include enhanced disclosure formats for credit institutions for disclosures related to non-performing exposures, forborne exposures and foreclosed assets. Some templates are applicable to significant credit institutions that have a gross NPE ratio of 5% or above.

Even though these guidelines apply from 31 December 2019, institutions under the scope of application of the templates subject to the 5% gross NPE have to comply with the guidelines prior to the disclosure reference date.

1.3.1 Location, timing and frequency of disclosures

Pillar 3 disclosures are provided on a quarterly basis, following the relevant recommendation of EBA Guidelines 2016/11, which do not change the approach in the EBA Guidelines 2014/14 but update the list of requirements to be considered for more frequent disclosures.

Pillar 3 disclosures are provided with reference date (corresponding period) the close of the previous quarter and in conjunction with the date of publication of the financial statements. Equivalent disclosures made by the Group under accounting, listing or other requirements are deemed to constitute compliance with the requirements of the aforementioned Regulation (EU) No 575/2013 (Part Eight) taking into consideration any existing relevant implementing Regulations as well as the European Banking Authority (EBA) guidelines.

Pillar 3 disclosures are provided in a designated location on the Bank's website (www.eurobank.gr/en/group/investor-relations/financial-results) in chronological order and cover both quantitative and qualitative information.

Quantitative information, which is included in the Group's Consolidated Financial Statements, is also provided at the above location. In this way, the Bank secures easy access of the market participants to continuous and complete information without cross-reference to other locations or media of communication.

The information contained in the Pillar 3 Disclosures has been verified by the Audit Committee.

1.4 Regulatory versus accounting consolidation

From 2017 there is no difference between regulatory and accounting consolidation.

ERB Hellas Funding Ltd and ERB Hellas Plc are included in the calculation of the non-consolidated capital requirements and regulatory own funds of the Bank (solo consolidation).

List of all subsidiary undertakings can be found in the Interim Condensed Consolidated Financial Statements note 17.

The table below shows the Group's regulatory and accounting Balance Sheet as at 31 March 2019 and 31 December 2018.

Table 1: Regulatory and accounting Balance Sheet

Balance sheet per published financial statements and per regulatory consolidation	Ref.	31 March 2019 € million	31 December 2018 € million
Assets			
Cash and Balances with central banks		2,102	1,924
Due from credit institutions		2,614	2,307
Securities held for trading		54	43
Derivative financial instruments		2,057	1,871
Loans and advances to customers		36,214	36,232
Investment securities		7,568	7,772
Investments in associates and joint ventures		129	113
Property, plant and equipment		708	353
Investment property		309	316
Intangible assets	*a*	186	183
Deferred tax asset		4,920	4,916
of which deferred tax assets that rely on future profitability	*b*	68	63
of which deferred tax credit		3,909	3,927
of which deferred tax assets arising from temporary differences	*c*	943	926
Other assets		1,973	1,934
Assets of disposal group classified as held for sale		-	20
Total assets		**58,834**	57,984
Liabilities			
Due to central banks		1,250	2,050
Due to credit institutions		6,662	6,376
Derivative financial instruments		2,290	1,893
Due to customers		39,424	39,083
Debt securities in issue		2,918	2,707
Other liabilities		1,211	844
Total liabilities		**53,755**	52,953
Equity			
Ordinary share capital		656	655
Share premium		8,056	8,055
Reserves and retained earnings		(3,675)	(3,721)
of which cash flow hedge reserves	*d*	(43)	(37)
Preferred securities	*e*	42	42
Total equity	*f*	**5,079**	5,031
Total equity and liabilities		**58,834**	57,984

2. Capital Management

2.1 Regulatory Capital

The table below shows the composition of the Group's regulatory capital as at 31 March 2019 and 31 December 2018 which is calculated according to CRD IV rules.

Table 2: Regulatory capital

	Ref.	31 March 2019 (1) € million	31 March 2019 € million	31 December 2018 € million
Total equity	*f*	5,079	5,079	5,031
Less: Preferred securities	*e*	(42)	(42)	(42)
Regulatory adjustments				
Part of interim or year-end profit not eligible		-	(20)	-
Cash flow hedge reserves	*d*	43	43	37
Adjustments due to IFRS 9 transitional arrangements		897	897	1,003
Fixed assets' revaluation reserve		-	-	-
Intangible assets	*a*	(186)	(186)	(183)
IRB shortfall of credit risk adjustments to expected losses		(51)	(51)	(63)
Deferred tax assets that rely on future profitability (unused tax losses)	*b*	(68)	(68)	(63)
Deferred tax assets arising from temporary differences (amount above 10% threshold)	*c*	(334)	(336)	(202)
Prudent Valuation Adjustments		(10)	(10)	(9)
Other regulatory adjustments		(10)	(10)	-
Common Equity Tier I capital		**5,317**	**5,296**	5,509
Preferred Securities subject to phase-out	*e*	12	12	17
Regulatory adjustments		-	-	-
Total Tier I capital		**5,330**	**5,308**	5,526
Tier II capital - subordinated debt		950	950	950
Fixed assets' revaluation reserve		-	-	-
IRB Excess of impairment allowances over expected losses eligible		40	40	25
Total Regulatory Capital		**6,320**	**6,298**	6,501
Risk Weighted Assets		**39,149**	**39,144**	38,849
Ratios				
Common Equity Tier I		**13.6%**	**13.5%**	14.2%
Tier I		**13.6%**	**13.6%**	14.2%
Total Capital Adequacy Ratio		**16.1%**	**16.1%**	16.7%

(1) Including interim profits (1/1/2019-31/3/2019) € 20 million.
(2) The pro-forma Common Equity Tier 1, Tier 1 and Total Capital Adequacy ratios as at 31 March 2019, with the completion of Grivalia Properties REIC merger would be 15.7%, 15.7% and 18.2% respectively. The Group's Common Equity Tier 1 Capital as at 31 March 2019, based on the full implementation of the Basel II rules in 2024 (fully loaded CET1), would be 11.2% (31 December 2018:11.3%) and the respective pro-forma ratio with the completion of Grivalia Properties REIC merger would be 13.4%.

As depicted in table above, CET1 ratio has decreased compared to 31 December 2018, mainly due to IFRS 9 transitional rules applied in the first quarter of each year (from 95% to 85%).

2.2 IFRS 9 capital impact

Regarding IFRS 9 adoption from 1.1.2018 and according to Regulation (EU) 2017/2395 of the European Parliament and the Council, a five year transition period is introduced, which allows banks to add back to their CET 1 capital 95% of IFRS 9 impact in 2018 and 85%, 70%, 50% and 25% in the subsequent four years. The full impact is expected as of 1 January 2023.

The Group has elected to apply the phase in approach for mitigating the impact of IFRS 9 transition on the regulatory capital.

Table 3: EU IFRS-FL: Template on the comparison of Institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

Available capital	31 March 2019 [1] € million	31 March 2019 € million	31 December 2018 € million
Common Equity Tier 1 (CET1) capital	5,317	5,296	5,509
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,346	4,324	4,325
Tier 1 capital	5,330	5,308	5,526
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,346	4,324	4,325
Total capital	6,320	6,298	6,501
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5,399	5,377	5,379
Risk weighted assets			
Total risk-weighted assets	39,149	39,144	38,849
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	38,869	38,863	38,354
Capital ratios			
Common Equity Tier 1 (as a percentage of risk exposure amount)	**13.6%**	**13.5%**	14.2%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**11.2%**	**11.1%**	11.3%
Tier 1 (as a percentage of risk exposure amount)	**13.6%**	**13.6%**	14.2%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**11.2%**	**11.1%**	11.3%
Total capital (as a percentage of risk exposure amount)	**16.1%**	**16.1%**	16.7%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**13.9%**	**13.8%**	14.0%
Leverage ratio			
Leverage ratio total exposure measure	60,504	60,789	60,267
Leverage ratio	**8.81%**	**8.73%**	9.17%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**7.19%**	**7.16%**	7.24%

[1] *Including interim profits (1/1/2019-31/3/2019) € 20 million.*

2.3 Capital requirements under Pillar 1

The table below shows the Group's risk weighted assets (RWAs) and capital requirements as at 31 March 2019 and 31 December 2018. The minimum capital requirements under Pillar 1 are calculated as 8% of RWAs.

Table 4: EU OV1 – Overview of RWAs

	31 March 2019 RWAs € million	31 December 2018 RWAs € million	31 March 2019 Minimum capital requirements € million
Credit risk (excluding CCR)	**33,049**	32,574	**2,644**
Of which the standardised approach	15,882	15,442	1,271
Of which the foundation IRB (FIRB) approach	8,320	8,243	666
Of which the advanced IRB (AIRB) approach	8,567	8,596	685
Of which equity IRB under the simple risk-weighted approach or the IMA	280	293	22
Counterparty Credit Risk	**597**	575	**48**
Of which mark to market	120	111	10
Of which original exposure	-	-	-
Of which the standardised approach	371	387	30
Of which internal model method (IMM)	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Of which CVA	106	77	8
Settlement risk	-	-	-
Securitisation exposures in the banking book (after the cap)	**17**	18	**1**
Of which IRB approach	17	18	1
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	-	-	-
Market risk	**847**	855	**68**
Of which the standardised approach	271	197	22
Of which IMA	576	658	46
Large exposures	-	-	-
Operational risk	**3,175**	3,175	**254**
Of which basic indicator approach	-	-	-
Of which standardised approach	3,175	3,175	254
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	**1,459**	1,652	**117**
Floor adjustment	-	-	-
Total	**39,144**	38,849	**3,132**

[(1)] The increase of the RWAs compared to 31 December 2018, is mainly due to IFRS 16 adoption.

3. Credit Risk

In June 2008, the Group received the approval of BoG to use the Internal Ratings Based (IRB) approach to calculate the capital requirement for credit risk. Therefore, with effect from 1 January 2008 the Group applies:

- The Foundation IRB approach to calculate risk weighted assets for the corporate loans' portfolio of Eurobank Ergasias S.A. in Greece
- The Advanced IRB for the majority of the retail loans' portfolio of the Bank, i.e. mortgages, small business lending, credit cards and revolving credits in consumer lending.
- From September 2009 the Foundation IRB approach was applied for the corporate loans' portfolio of Eurobank Ergasias Leasing S.A. in Greece.
- From March 2010 the Advanced IRB approach was applied for the Bank's portfolio of personal and car loans.

The implementation of IRB covers 78.1% of the Group's lending portfolio excluding portfolio segments which are immaterial in terms of size and risk profile as well as, permanent exemptions.

There is a permanent exemption from the IRB approach, up to 10% of Risk Weighted Assets, for which the Standardised approach is applied. In addition to the exemption of up to 10% of Risk Weighted Assets, permanent exemption has been granted for the following exposure classes as prescribed in the CRD:

- exposures to/or guaranteed by central governments and central banks;
- exposures to/or guaranteed by credit and financial institutions; and
- exposures to administrative bodies and non-commercial undertakings.

The following table shows the main changes in capital requirements of credit risk exposures under the IRB approach as at 31 March 2019.

Table 5: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

	31 March 2019	
	RWA amounts € million	**Capital requirements € million**
RWAs as at 31 December 2018	16,839	1,346
Asset size	(29)	(2)
Asset quality	55	4
Model updates	-	-
Methodology and policy	-	-
Acquisitions and disposals	-	-
Foreign exchange movements	28	2
Other	(6)	-
RWAs as at 31 March 2019	**16,887**	**1,350**

Note:
Asset size: Under this item the changes in RWAs due to the changes in EAD are reported. These changes can be due to new originations or repayments of the loans.
Asset quality: The changes to the RWAs due to the borrower risk (i.e. rating grade migration) are reported under this item.
Model updates: The changes to the RWAs due to updates in risk parameters following the annual validation process or regulatory reviews.
Methodology and policy: Under this item, the changes in RWAs for defaulted exposures are presented. In line with the positive evolutions in the Greek macro-environment and the recent developments in the legal framework, the Bank has re-assessed the appropriate ELbe estimates by examining the most appropriate macro coefficients that affect ELbe.
Foreign exchange movements: The changes to the RWAs due to the foreign currency translation movements are reported.
Other: Under this item the changes in RWAs due to other factors that are used in the calculation of RWAs are reported. These, for example, include changes in total sales of the corporate borrowers and maturity of exposures.

4. Market Risk

The Bank uses its own internal Value at Risk (VaR) model to calculate capital requirements for market risk in its trading book, for the Bank's activities in Greece. The Bank received the official validation of its model for market risk by the BoG in July 2005. The model is subject to periodic review by the regulator.

In 2011, the Bank updated its models and systems in order to fully comply with the BoG Governor's Act 2646/2011 for the trading book capital. The Bank calculates the capital for stressed VaR and IRC (incremental risk capital charge) since 31.12.2011.

For the measurement of market risk exposure and the calculation of capital requirements for the Bank's subsidiaries in Greece and in International operations, the Standardised approach is applied.

Furthermore, the Bank calculates and monitors the market risk of the banking book for its operations in Greece on a daily basis using the internal VaR model. For its operations abroad, Eurobank applies sensitivity analysis, whereas the VaR methodology is applied on a monthly basis.

The following table summarises the components of the capital requirement, under the IMM approach applied by the Bank as at 31 March 2019.

Table 6: EU MR2-B – RWA flow statements of market risk exposures under the IMA

	31 March 2019						
	VaR € million	Stressed VaR € million	IRC € million	Comprehensive risk measure € million	Other € million	Total RWAs € million	Total capital requirements € million
RWAs at 31 December 2018	149	385	124	-	-	658	53
Regulatory adjustment	-	-	-	-	-	-	-
RWAs at the previous quarter-end (end of the day)	149	385	124	-	-	658	53
Movement in risk levels	(51)	(25)	(6)	-	-	(82)	(7)
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
RWAs at the end of the reporting period (end of the day)	98	360	118	-	-	576	46
Regulatory adjustment	-	-	-	-	-	-	-
RWAs at 31 March 2019	**98**	**360**	**118**	**-**	**-**	**576**	**46**

5. Counterparty Risk

5.1 Definition

Counterparty risk is the risk that a counterparty in an off balance sheet transaction (i.e. derivative transaction) defaults prior to maturity and the Bank has a claim over the counterparty (the market value of the contract is positive for the Bank).

5.2 Mitigation of counterparty risk

To reduce the exposure towards single counterparties, risk mitigation techniques are used. The most common is the use of closeout netting agreements (usually based on standardised ISDA contracts), which allow the bank to net positive and negative replacement values in the event of default of the counterparty.

Furthermore, the Bank also applies margin agreements (CSAs) in case of counterparties. Thus, collateral is paid or received on a daily basis to cover current exposure. In case of repos and reverse repos the Bank applies netting and daily margining using standardised GMRA contracts.

5.3 RWA flow statements of CCR exposures under IMM

Table 7 EU CCR7 - RWA flow statements of CCR exposures under the IMM is not included as the Bank does not use an internal model for the calculation of the RWAs of CCR exposures.

6. Leverage ratio

The new regulatory framework has introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector.

The leverage ratio is defined as Tier 1 capital divided by the total exposure measure.

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

The level of the leverage ratio with reference date 31 March 2019 on consolidated basis was at 8.73% (31 December 2018: 9.17%), according to the transitional definition of Tier 1 capital, significantly over the 3% minimum threshold applied by the competent authorities.

In the table below, the detailed disclosures on the Group's leverage ratio are presented with reference date 31 March 2019 and 31 December 2018:

CRR Leverage Ratio - Disclosure Template

Summary reconciliation of accountng assets and leverage ratio exposures

	31 March 2019 **€ million**	31 December 2018 € million
Total assets as per published financial statements	58,834	58,013
Adjustment for entities which are consolidated for accountng puroses but are outside the scope of regulatory consolidation	-	-
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting frameworkbut excluded from the leverage ratio exposure measure to article 429(11)of Regulation (EU)NO 575/2013	-	-
Adjustments for derivative financial instruments	(338)	(320)
Adjustments for securities financing transactions	1,865	1,889
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,503	1,505
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	-
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
Other adjustments	(1,076)	(820)
Total leverage ratio exposure	**60,789**	60,267

Leverage Ratio

Leverage ratio common disclosure

	31 March 2019 CRR leverage ratio exposures € million	31 December 2018 CRR leverage ratio exposures € million
On - balance sheet exposures (excluding derivatives and SFT's)		
On-balance sheet items (excluding derivatives and SFT's, but including collateral)	56,316	55,798
Asset amounts deducted in determining Tier I capital	(618)	(483)
Total on-balance sheet exposures (excluding derivatives and SFT's)	**55,698**	55,315
Derivative exposures		
Replacement cost associated with derivatives transactions	1,428	1,248
Add-on amounts for PPE associated with derivatives transactions	294	310
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
(Exempted CCP leg of client-cleared trade exposures)	-	-
Adjusted effective notional amount of written credit derivatives	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
Total derivative exposures	**1,722**	1,558
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
Counterparty credit risk exposure for SFT assets	1,865	1,889
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of client-cleared SFT exposure)	-	-
Total securities financing transaction exposures	**1,865**	1,889
Off-balance sheet exposures		
Off-balance sheet exposures of gross notional amount	4,513	4,510
Adjustments for conversion to credit equivalent amounts[1]	(3,010)	(3,005)
Total off-balance sheet exposures	**1,503**	1,505
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance		
(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
Capital and Total Exposures	-	
Tier I capital	5,308	5,526
Total leverage ratio exposures	60,789	60,267
Leverage Ratio		
Leverage Ratio	8.73%	9.17%
Choise on transitional arrangements and amount of derecognised fidiciary items	-	-
Choice on transitional arrangements for the definition of capital measure	Transitional	Transitional
Amounts of derecognised fiduciary items in accordance with the Article 429(11) of Regulation (EU) NO 575/2013		

Split-up on balance sheet exposures (excluding derivatives and SFT's)

	CRR leverage ratio exposures 31 March 2019 € million	CRR leverage ratio exposures 31 December 2018 € million
Total on-balance sheet exposures (excluding derivatives and SFT'S) of which:	56,316	55,798
Trading book exposures	0	-
Banking book exposures of which:	56,316	55,798
Covered bonds	171	162
Exposures treated as sovereigns	14,030	14,043
Exposures to regional goverments,MOB, international organisations and PSE NOT treates as sovereigns	0	-
Institutions	2,818	2,516
Secured by mortgages of immovable properties	11,127	11,133
Retail exposures	4,800	4,840
Corporate	12,441	12,308
Exposure in default	7,938	8,099