

1. General information

1.1. Basel II framework

On January 1, 2008, EFG Group adopted the revised capital framework of the Basel Committee on Banking Supervision - Basel II - which introduced new amended capital requirements for the different types of risks and revised the calculation of eligible capital.

The Swiss Financial Market Supervisory Authority (FINMA)¹⁾ issued on September 29, 2006 an Ordinance on Capital Adequacy (CAO) and a series of circulars specifying the provisions of the above regulations.

1.2. Implementation of the Basel II framework at EFG Group

For credit risk, EFG Group applied either the internal ratings based approach (IRB) or the international standardised approach (SA-BIS) depending on the business line.

For market risk, EFG Group used the standardized method defined by the Swiss Financial Market Supervisory Authority (FINMA).

For operational risk, EFG Group used the standardized approach.

1.3. Scope of Pillar 3

The EFG Group is a worldwide banking and financial institution, operating through two subgroups:

- EFG International, a global private banking and asset management organisation based in Zurich and listed on SIX Swiss Exchange; (detailed information on EFG International Pillar III are available on its own web site: www.efginternational.com)
- Eurobank EFG, a leading banking and financial institution in Greece, based in Athens and listed on the Athens stock exchange, offering all banking, asset management, insurance and other related services in Greece and Central, Eastern and South-Eastern Europe and with offices in London and Luxembourg (detailed information on Eurobank EFG Pillar III are available on its own web site: www.eurobank.gr).

1.4 Regulatory versus accounting consolidation

1.4.1 Accounting consolidation

The accounting consolidation of the Group is based on the International Financial Reporting Standards (IFRS) and more specifically IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures, as well as SIC-12 Consolidation - Special Purpose Entities.

Subsidiary undertakings are all entities over which the Group, directly or indirectly, has the power to exercise control over the financial and operating policies. Usually the Group holds more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date when control ceases.

Investments in joint ventures (contractual agreements whereby the Group and other parties undertake an economic activity that is subject to joint control) and investments in associates (investments in which the Group has a significant influence, but which it does not control, generally holding between 20% and 50% of the voting rights) are also part of the accounting consolidation scope, but are accounted for using the equity method.

The Group sponsors the formation of special purpose entities, which may or may not be directly owned subsidiaries for the purpose of asset securitisation. These companies are bankruptcy-remote entities and are consolidated in the Group's Financial Statements when the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group.

1.4.2 Regulatory consolidation

The regulatory consolidation applied for reporting to the FINMA follows the principles used for the accounting consolidation with certain differences, which are described below:

- Participations in insurance companies are excluded from regulatory consolidation and are accounted for using the equity method and under certain conditions partly deducted from equity
- The investment in the associated undertaking Dias S.A. is fully consolidated under the regulatory consolidation framework.
- Financial institutions with a holding percentage of more than 10% but less than 20% are deducted from equity for the calculation of Basel II regulatory capital.
- Special purpose entities for the purpose of asset securitisation are included in the regulatory consolidation except from Karta 2005 -1 PLC, Karta APC Ltd, Karta Holdings Ltd, Karta LNI 1 Ltd and Karta Options Ltd, which fall under the securitisation framework (refer to note 6).

¹⁾ Former Swiss Federal Banking Commission (SFBC).

The following table presents a list of the Group's subsidiaries and associated undertakings at December 31, 2008 for which regulatory consolidation is different compared to the accounting consolidation:

	Regulatory consolidation			Accounting consolidation		Description of business
	Full consolidation	Equity method	Deduction from equity	Full consolidation	Equity method	
Subsidiary undertakings						
EFG Eurolife General Insurance S.A. (100%)		x	x	x		Insurance services
EFG Eurolife Life Insurance S.A. (100%)		x	x	x		Insurance services
EFG Insurance Services S.A. (100%)		x		x		Insurance brokerage
S.C. EFG Eurolife Asigurari De Viata S.A (100%)		x	x	x		Insurance services
S.C. EFG Eurolife Asigurari Generale S.A (100%)		x	x	x		Insurance services
Activa Insurance S.A. (100%)		x	x	x		Insurance services
Bancpost Fond de Pensii S.A. (77,55%)		x		x		Pension fund
Karta 2005 -1 PLC				x		Special purpose financing vehicle (SIC-12)
Karta APC Ltd				x		Special purpose financing vehicle (SIC-12)
Karta Holdings Ltd				x		Special purpose financing vehicle (SIC-12)
Karta LNI 1 Ltd				x		Special purpose financing vehicle (SIC-12)
Karta Options Ltd				x		Special purpose financing vehicle (SIC-12)
Associated undertakings						
Dias S.A. Investment Company (25,11%)	x				x	Closed-end investment fund

2. Capital Management

2.1 Regulatory Capital - Definition

The Pillar 1 regulatory capital of EFG Group is calculated on the basis of IFRS figures and according to the rules set by the FINMA.

The available regulatory capital is classified under two main categories: Tier I and Tier II capital. Tier I consists of Core and Supplementary Tier I capital. Core Tier I capital is composed of Ordinary shareholders' equity and regulatory minority interests, after deduction of:

- proposed dividends;
- unrealised gains and losses on cash flow hedge derivatives;
- unrealised gains on market valuation of AFS equities and bonds
- unrealised gains on market valuation of liabilities designated as fair-value-through-profit-or-loss attributable to own credit risk;

Supplementary Tier I capital includes Preferred shareholders' equity and requires the following deductions:

- goodwill (net of deferred purchase consideration)
- intangible assets (excluding software)
- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 10% in not fully consolidated credit or other financial institutions;
- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 20% in insurance companies acquired or established after December 31, 2006;
- 50% of the set-off reserve account of securitisations; and
- 50% of provision shortfall (i.e. accounting provision shortage compared to IRB measurement of Expected Loss).

Expected Losses (EL) derived under Basel II rules represent losses that would be expected in a downturn scenario over a 12 month period. This definition differs from accounting loan impairment allowances, which only address losses incurred within lending portfolios at the balance sheet date and are not permitted to recognise the additional level of conservatism that the regulatory measure requires by the adoption of through-the-cycle, downturn conditions that may not exist at the balance sheet date.

Tier II capital is composed of the following items:

- long term subordinated loans that meet certain regulatory specified criteria;
- 45% of unrealised gains on market valuation of AFS equity securities and bonds.

Further to the above the following items are deducted from Tier II capital:

- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 10% in not fully consolidated credit or other financial institutions;
- 50% of participating interests and subordinated loans (and other capital instruments qualifying as own funds) of more than 20% in insurance companies acquired or established after December 31, 2006;
- 50% of provision shortfall;
- 50% of the set-off reserve account of securitisations; and
- 100% of participating interests of more than 20% in insurance companies acquired or established before December 31, 2006.

2.2 Capital base

The table below shows the Group's eligible capital.

<i>(All figures in millions of CHF except otherwise stated)</i>	Dec. 31, 2008
Statutory shareholder's equity	8,725
Less : goodwill (net of deferred purchase consideration) and intangibles	(2,465)
Less: other regulatory adjustments	(665)
Total Eligible Adjusted Tier I capital	5,595
Tier II capital - mainly subordinated debt	1,868
Less: other regulatory adjustments	(62)
Total Eligible capital	7,401

Risk Weighted Assets - including capital floor⁽¹⁾	83,249
Risk Weighted Assets - excluding capital floor⁽¹⁾	78,874
Ratios :	%
Ratio - including capital floor⁽¹⁾	8.9%
Ratio - excluding capital floor⁽¹⁾	9.4%
Proforma ratio - including CHF 1.4bn (Euro 950 million) of new preference shares to be issued to the Hellenic Republic (see below⁽²⁾)	11.2%

(1) For banks using the IRB approach for credit risk, there are statutory limits to the percentage by which the capital requirement may be reduced in the first two years of implementation. In 2008, the requirement may not be reduced by more than 10% of the requirement under the Basel I rules, whereas in 2009 not more than 20%. As of January 1, 2009, this "capital floor" no longer affects the total Risk Weighted Assets calculated for the Group.

(2) On January 12, 2009 the EFG Eurobank Ergasias SA Extraordinary General Meeting approved the issue of 345,500,000 non-voting, non-listed, non-transferable 10% preference shares, with nominal value € 2.75 each, under Law 3723/2008 'Greek Economy Liquidity Support Program' which will be subscribed to by the Greek Government. The proceeds of the issue total CHF 1,411 million (€ 950 million) and are expected to be paid shortly.

2.3 Regulatory Capital Requirement under Pillar I

Pillar I defines the minimum regulatory capital requirements, based on principles, rules and methods specifying and measuring credit, market and operational risks. These requirements are covered by regulatory own funds, according to the rules and specifications of Pillar I.

(All figures in millions of CHF)

Dec. 31, 2008

Credit risk	
Pursuant international standardised approach	2,867
Sovereigns	262
Institutions - banks & securities dealers	209
Institutions - other institutions	10
Corporates	1,165
Retail	1,087
Equity	30
Other exposures	104
Pursuant IRB approach	2,213
Corporates - specialised lending	56
Corporates - without specialised lending	1,358
Retail - secured by real estate	80
Retail - qualifying revolving	400
Retail - other retail	278
Equity	28
Securitisation	13
Non-counterparty-related risks	158
Market risk - pursuant standard approach	395
<i>of which on interest-rate instruments (general and specific market risk)</i>	<i>209</i>
<i>of which equity-type securities</i>	<i>10</i>
<i>of which on currencies and precious metals</i>	<i>175</i>
<i>of which on commodities</i>	<i>1</i>
Operational risk - pursuant standardised approach	677
Total	6,310
Additional Swiss capital requirements for non-counterparty-related risks and credit risks multipliers effect	646
Total	6,956
Capital Ratios	
Ratio of eligible/required capital under Swiss law	106.4%
BIS ratios:	
Eligible core capital (incl. "innovative" instruments)	7.1%
Eligible capital	9.4%

2.4. Capital requirement under Pillar II

Pillar II addresses the internal processes for assessing overall capital adequacy in relation to risks. Pillar II also introduces the Supervisory Review & Evaluation Process which assesses the internal capital adequacy of credit institutions.

The Internal Capital Adequacy Assessment Process aims at identifying risks that are inherent in the Group's business model, assess their materiality and allocation on an entity level basis, evaluate risk monitoring and mitigation processes and quantify the relevant internal capital charge where appropriate.

3. Risk Management

For an overview of the general principles, responsibilities and the organisational structure of risk management within the EFG Group in respect of credit, market and operational risks, refer to note 4 Financial Risk Management and note 5 Operational risk in the 2008 EFG Group's annual report.

EFG Group does not carry any material risks except from those arising directly from its two sub-groups EFG International and Eurobank EFG. Detailed information as to the risk assessment and risk management of the two sub-groups are available on EFG International and Eurobank EFG web sites being www.efginternational.com and www.eurobank.gr respectively.

4. Credit exposures

4.1. Geographic analysis

The table below shows the geographical breakdown of the Group's credit exposures at December 31, 2008, as disclosed for IFRS purposes, according to the debtor's country of domicile:

<i>(All figures in millions of CHF)</i>	Switzerland	Greece	Other Western countries	New Europe countries	Other countries	Total
Loans and advances to banks	892	2,297	5,551	711	998	10,449
Loans and advances to customers:						
- Wholesale lending	-	21,933	1,439	8,393	277	32,042
- Consumer lending	260	12,449	1,565	5,459	3,674	23,407
- Mortgage lending	54	15,593	1,108	6,009	702	23,466
- Small business lending	-	10,517	-	2,980	-	13,497
Debt securities	124	6,647	9,039	5,924	1,505	23,239
Derivative financial instruments	85	759	1,364	126	374	2,708
Other assets	84	723	75	134	-	1,016
As at 31 December 2008	1,499	70,918	20,141	29,736	7,530	129,824

The following table presents the geographical breakdown of total past due and impaired loans and advances to customers at December 31, 2008:

<i>(All figures in millions of CHF)</i>	Total loans and advances to customers	Past due more than 90 days	Impaired exposures
Switzerland	314	-	-
Greece	60,492	2,652	2,722
Other Western countries	4,112	-	-
New Europe countries	22,841	668	598
Other countries	4,653	-	-
Total	92,412	3,320	3,320

4.2. Industry sector analysis

The table below shows the industry break down of the Group's credit exposures as disclosed for IFRS purposes at December 31, 2008:

<i>(All figures in millions of CHF)</i>	Commerce and services	Private individuals	Manufactur ing	Shipping	Construc tion	Other	Total
Loans and advances to banks	10,449	-	-	-	-	-	10,449
Loans and advances to customers:							
- Lending to medium size and large	18,460	722	7,899	1,616	2,553	792	32,042
- Consumer lending	2,567	20,423	159	-	14	244	23,407
- Mortgage lending	466	22,988	5	-	7	-	23,466
- Small business lending	10,751	56	1,363	33	996	298	13,497
Debt securities	8,688	-	50	-	1	14,500	23,239
Derivative financial instruments	2,620	-	4	39	-	45	2,708
Other assets	717	65	3	1	1	229	1,016
At December 31, 2008	54,718	44,254	9,483	1,689	3,572	16,108	129,824

4.3. Standardised approach

The Group applies the standardised approach for all exposures, except from the wholesale and a for a part of the retail loans at Eurobank EFG which are under the IRB methodology (see note 4.4. IRB approach). Moreover, the standardised approach is applied for credit exposures with sovereign and institutional counterparties, as well as with corporate bond issuers.

Credit ratings are obtained from External Credit Assessment Institutions (ECAIs), such as Moody's, Standard & Poor's or Fitch. In the cases where more than one rating is available, the second better rating is used.

ECAIs are not used for loans' portfolios directly, but only in cases when they are guaranteed by central governments or institutions (risk substitution). In such a case the ECAIs used are the same as the ones described above.

In the case of corporate bond issues, the corresponding issue rating by these agencies is used. In case that an issue rating is not available, rating for other issues by the same issuer is used, if they relate to an exposure with equal or better seniority. Furthermore, the issuer's rating is used if the seniority of the corporate bond exposure is higher than that of a senior unsecured issue.

The table below presents the credit exposures (after credit risk mitigation, i.e. collaterals) for which the standardised approach is applied, at December 31, 2008, broken down by supervisory risk weights:

<i>(All figures in millions of CHF)</i>	Supervisory risk weightings							Total
	0%	20%	35%	50%	75%	100%	150%	
Sovereigns	16,522	156	-	196	-	3,147	-	20,021
Institutions - banks & securities dealers	3,876	7,993	-	1,285	-	363	8	13,525
Institutions - other institutions	79	73	-	135	-	45	-	332
Corporate	42	1,054	598	1,701	-	12,970	218	16,583
Retail	-	-	4,466	585	15,536	682	114	21,383
Equity	-	-	-	-	-	350	18	368
Other exposures	1,122	164	-	-	-	1,263	-	2,549
Total	21,641	9,440	5,064	3,902	15,536	18,820	358	74,761

4.4. Internal Ratings Based (IRB) approach

4.4.1 Risk classifications

EFG Group, on a consolidated basis, applied the IRB methodology for the following business lines (all at Eurobank EFG):

- rating of large corporate and medium size customers; and
- credit scores assigned to retail customers.

(a) Rating of large corporate and medium size customers

The Bank has decided upon the differentiation of rating models for corporate banking, in order to better reflect the risk for customers with different characteristics. Hence, various rating models are employed for a number of general, as well as specific customer segments:

- Traditional corporate lending:
 - Moody's Risk Advisor (MRA).
 - Internal credit rating for those customers that cannot be rated by MRA.

MRA is a rating system that aggregates quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. It takes into account the company's past and forecasted financial performance, its cashflows, industry sector trends, peers' performance, as well as qualitative assessment of management, the company's status, market and industry structural factors.

MRA is used for the assessment of all legal entities with full financial statements' availability irrespective of their legal form, for both obligors and corporate guarantors. Certain types of companies cannot be analysed with MRA due to the special characteristics of their financial statements such as insurance companies, state owned organisations, brokerage firms, companies active in real estate and start ups.

In such cases an internal credit rating system is applied. It is based on the system employed by the bank prior to MRA implementation and it has been enhanced so as to improve its granularity and comply with borrower rating criteria. It is an expert judgment borrower rating system and, similarly to MRA, it combines quantitative and qualitative assessment criteria.

Customers are classified with respect to their credit worthiness into 11 rating categories. Categories 1 to 3 correspond to low risk customers, whereas categories 4 to 6 to customers with medium credit risk. Categories 7 to 9 apply to customers with higher risk who are monitored more closely. Categories 10 and 11 apply to non-performing exposures and write offs respectively.

- Specialised lending (shipping and project finance): slotting methodology.

For the specialised lending portfolios fulfilling the criteria set out by the Capital Requirements Directives (CRD) i.e. the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of the commercial enterprise, the Bank utilises the slotting method by adapting and refining the new accord criteria to the Bank's risk practices. Customers falling in the specialised lending category (shipping, project finance) are classified in 5 categories: strong, good, satisfactory, weak and default. Each of the 5 categories is associated with a specific risk weight and expected loss (EL) percentage.

The fundamental standards underlying the Group's centralised loan approval and rating processes are to review the global exposure of the customer and to use the 'four-eyes' principle, which requires each credit limit/rating to be evaluated by more than one individual. Ratings are approved by Credit Committees according to the level of exposure involved and each committee has its own specific approval limit. Ratings of customers whose exposure exceed Credit Committees' thresholds are reviewed by the Group's Central Committee. The Credit Committees are composed of senior managers from different business units, as well as from risk management and each committee has its own independent chairman.

As a general rule, each corporate customer is rated separately. For major corporate customers – where it is customary to assign a rating based on the customer's affiliation to a group or parent company – the rating of the parent company is transferred to the subsidiaries, if the Group believes that the parent company can and will guarantee the fulfilment of the obligations of its subsidiaries.

The rating systems described above are an integral part of the corporate banking decision making and risk management processes. The ratings and associated probabilities of default are crucial in:

- the credit approval process, both at the origination and review process;
- the calculation of Economic Value Added (EVA) and risk-adjusted pricing; and
- the quality assessment of issuers of cheques prior to their pledge as collateral.

(b) Credit scores assigned to retail customers

The Bank assigns credit scores to its retail customers. A number of statistically based models have been developed to predict, on the basis of available information, the probability of default, loss given default and credit exposure as defined for regulatory purposes.

Apart from the application scorecards that have been in use for over a decade by the Bank in retail lending, behavioral scoring models have been developed per product category as follows:

- Credit cards
- Open line (consumer lending unsecured revolving credits)
- Small business loans
- Mortgages

All of the above processes are centralised and based on the 'four-eyes' principle.

Retail exposures are grouped into homogeneous pools (refer to credit risk measurement in note 4.4.3 (e)).

4.4.2. Rating process and models' monitoring

The Bank considers the process and periodic review of credit policy implementation to be of critical importance, as they enable both the integration of the latest market information and analysis into the decision process and ensure the necessary uniformity in the face of the customer. Accordingly, a comprehensive credit policy manual is utilised on the extension and monitoring of credit, detailing the guiding principles, as well as specific rules relating to lending policies.

Credit exposure is subject to detailed reviews by the appropriate approval level of the Bank based on the respective ratings. Low risk corporate customers are reviewed at least once a year, whereas higher risk customers are reviewed either on a semi annual (watchlist, e.g., deterioration of financial conditions of the customer or market, delays in payments of principal/interest) or quarterly basis (substandard and distressed). High risk corporate customers with an exposure over €1 million rated as distressed are followed up by the Non-Performing & Special Handling Sector. Moreover, corporate customers rated as watchlist or substandard are monitored by the business units with the collaboration of the Corporate Risk Monitoring Division, which is under the Corporate Banking Sector. All high risk corporate customers with exposures over €5 million are reviewed by the Special Handling Committee on a weekly basis.

The credit rating process is also monitored by the Credit Control Sector in the following ways: with a member's voting right, in cases of downgrading or upgrading the customer's rating (thus ensuring its accuracy) while attending Credit Committees and with post approval control and evaluation of all credit portfolios. Credit Control Sector evaluates the quality of the portfolios through field reviews (case by case) for corporate lending and statistical analysis for retail lending.

Credit Control Sector also independently monitors the capacity of rating models and scoring systems to classify customers according to risk, as well as to predict the number of defaults, loss given default and credit exposure as defined for regulatory purposes.

The Bank's validation policy follows a procedure that complies with the recommendations of the Committee of European Banking Supervisors (CEBS). The Bank verifies the validity of the rating models and scoring systems on an annual basis and the validation includes both quantitative and qualitative aspects.

The quantitative validation includes statistical tests relating to the following:

- Model stability reports such as population stability, comparison of actual and expected score distributions and characteristic analysis.
- Discriminatory power of rating models i.e. the ability to distinguish default risk on a relative basis.
- Accuracy, i.e. comparison of ex ante probabilities of default and other risk parameters and ex post observed default/loss/credit exposure as defined for regulatory purposes level.

The validation of risk parameters is based on historical in house data utilising confidence intervals or market data/benchmarks, where such benchmarks exist. The qualitative assessment includes the use of the models, data, model design, structures and processes underlying the rating systems. In addition to the annual validation of the models, the Bank has established a quarterly monitoring procedure to assess the significance of any changes.

Procedures are documented and regularly reviewed. Group Internal Audit reviews the validation yearly.

4.4.3 Credit risk measurement

The credit risk framework is articulated around two measures: expected loss (EL) and unexpected loss (UL) for credit risk.

- EL is the expected annual credit loss over an economic cycle.
- UL is defined as the volatility (or one standard deviation) of annual losses. If losses always equalled their expected levels then there would be no uncertainty. UL outlines the risk arising from volatility in loss levels and thus in earnings.

The core credit risk parameters included in the estimation of expected loss, unexpected loss and credit risk weighted assets are: Probability of Default (PD), Loss Given Default (LGD), credit exposure as defined for regulatory purposes (EAD) and Effective Maturity (M).

(a) Probability of Default (PD)

The PD represents the probability that a customer will default on his credit obligation within the next 12 months. The definition of default used by the Bank is consistent with the requirements of the CRD and Bank of Greece.

The Bank's historical default data have been used in developing PD estimates. For each grade or pool, the long term average default rate is used as reference when assessing the PD values.

Under the Bank's validation framework, models are validated at least annually and in particular, the expected versus actual PDs are calculated on a monthly basis. This back testing is performed in order to timely identify possible misalignments of the model or possible reverse trends of the PDs. In this way, the Bank reassures that the PDs used are representative of the portfolios' quality and no underestimation underlies the information disclosed.

(b) Loss Given Default (LGD)

LGD represents the loss on an exposure after a customer defaults. It is expressed as a percentage of the exposure that the Bank expects to lose at the point of default .

The first step in the development process of behavioral LGD models or segments for the Retail portfolios of the Bank was to calculate realised (historical) LGD. Data was collected and realised losses were calculated taking into account the concept of economic loss. To calculate historical LGD values for retail exposures, the workout LGD method was employed.

The statistical modelling technique employed for the development of behavioral LGD models for consumer lending was Stepwise Linear Regression. This technique is used to first select the most predictive characteristics, and then to determine the weights for each variable. For the remaining portfolios the segmentation approach was used for estimating the LGD, based on material loss drivers.

When determining the final parameter, the Bank allows for uncertainty in the data and also applies an additional margin for economic downturn, by reference to external data.

For corporate lending which is under Foundation IRB, the supervisory LGD parameters are applied.

(c) Credit exposure as defined for regulatory purposes (EAD)

For estimating credit exposures for regulatory purposes, future draw downs are taken into account through the use of Credit Conversion Factors (CCFs).

This is meaningful only for products with a risk of drawings that is loan commitments, credit cards and the like, as ordinary loans do not involve a risk of future drawings. Conversion factors are influenced by the Bank's ability to identify slow paying borrowers at an early stage and reduce their access to additional drawings.

CCF estimates for the retail portfolios of the Bank are based on the Bank's historical data. As in the LGD estimation, the Bank employed statistical modelling techniques for consumer lending products (credit cards and open line) and segmentation analysis for small business revolving and overdraft facilities, based on key drivers.

It is noted that in some cases credit exposure as defined for regulatory purposes is observed to be lower than the current balance outstanding. In these cases a capping has been applied at the pool design stage and credit exposure as defined for regulatory purposes has been set to equal current balance outstanding, as stipulated by CRD, thus allowing for an additional margin of conservatism.

For corporate lending which is under Foundation IRB, the supervisory CCF parameters are applied.

(d) Effective Maturity (M)

For corporate lending which is under Foundation IRB, the supervisory parameter is applied (i.e. 2.5 years).

(e) Pools (retail asset classes)

For retail lending portfolios, after building the models, ratings have been defined for the risk parameters (PD, LGD and CCF) with the purpose of smoothing out fluctuations by score in the development sample and help the derivation of statistically reliable estimates of the relationship between the score and PD, LGD and CCF, respectively.

The functional relationship between the score and the risk parameter was used to create a harmonised rating scale of PD, LGD and CCF across all retail portfolios. For example, the harmonised PD Rating 1 corresponds to the same PD range regardless of unit, product or scorecard in use.

Rated exposures have been assigned into particular pools, each containing groups of sufficiently homogenous exposures to allow for accurate and consistent estimation of loss characteristics at pool level.

Pools' setting for the retail lending portfolios was driven by a number of segmentation variables (product, financial status, time on books, current delinquency status, etc), as well as the score. All these provide for a meaningful differentiation of risk as the score is based on the assessment of numerous variables (borrower and transaction characteristics).

Back testing and comparison analysis with external data, where available, are conducted at least annually to validate the risk parameters' estimations and pools, as described in rating process and models' monitoring in note 4.4.2.

Eurobank EFG has received approval for using the internal rating models and all detailed validations of the parameters were submitted to and reviewed by the regulator (Bank of Greece), as part of the IRB approval process.

The following table shows the credit exposures after guarantees' deduction as defined for regulatory purposes, subject to the IRB approach, broken down by supervisory asset classes at December 31, 2008:

Credit risk (pursuant IRB Approach)

(All figures in millions of CHF)

Dec. 31, 2008

Corporate customers	
- Specialized lending	1,240
- Without specialised lending	20,890
Retail exposures	
- Secured by real estate	13,646
- Qualifying revolving	8,654
- Other retail	12,244
Equity	116
Securitisations	1,789
Credit risk total, IRB approach	58,579

The following table shows credit exposures after guarantees' deduction as defined for regulatory purposes and the corresponding weighted average risk weight, weighted average probability of default (PD) or weighted average expected loss (EL), broken down by PD band at December 31, 2008:

PD bands	Corporates exposures (Foundation IRB)		
	Dec. 31, 2008	Weighted average PD %	Weighted average risk weight %
		CHF million	
0.00% - 0.03%	0.03%	3,954	13%
0.03% - 0.50%	0.31%	2,047	45%
0.50% - 1.00%	0.98%	2,628	79%
1.00% - 2.00%	1.87%	2,256	95%
2.00% - 3.00%	-	-	-
3.00% - 4.00%	3.06%	3,655	97%
4.00% - 5.00%	4.36%	2,697	106%
5.00% - 10.00%	8.36%	2,333	134%
10.00% - 20.00%	16.50%	430	161%
20.00% - 30.00%	21.61%	65	206%
30.00% - 50.00%	-	-	-
50.00% - 99.99%	-	-	-
Sub total - non defaulted	2.91%	20,065	77%
100.00%	-	825	0%
Total	-	20,890	77%

The table below presents the specialised lending credit exposures (shipping and project finance) broken down by supervisory risk weights:

(All figures in millions of CHF)

Dec. 31, 2008

Weights	
50%	671
70%	447
90%	122
115%	-
250%	-
Total	1,240

4.4.4. Segmentation of credit risks - IRB approach

The following table shows credit exposures as defined for regulatory purposes and the corresponding weighted average risk weight and weighted average expected loss (EL), broken down by PD band at December 31, 2008:

PD bands	Retail exposures secured by real estate		
	Dec. 31, 2008	Weighted average risk	
		CHF million	weight %
0.00% - 0.03%	2,978	1%	0.003%
0.03% - 0.10%	4,808	1%	0.005%
0.10% - 0.50%	2,934	4%	0.02%
0.50% - 1.00%	664	9%	0.06%
1.00% - 2.00%	453	13%	0.11%
2.00% - 3.00%	431	29%	0.26%
3.00% - 4.00%	-	-	-
4.00% - 5.00%	272	10%	0.45%
5.00% - 10.00%	296	9%	0.82%
10.00% - 20.00%	138	20%	1.61%
20.00% - 30.00%	247	11%	2.01%
30.00% - 50.00%	104	26%	3.66%
50.00% - 99.99%	116	24%	8.11%
100%	205	-	10.00%
Total	13,646	7%	0.35%

PD bands	Qualifying revolving retail exposures		
	Dec. 31, 2008	Weighted average risk	
		CHF million	weight %
0.00% - 0.03%	210	1%	0.01%
0.03% - 0.10%	313	2%	0.02%
0.10% - 0.50%	1,016	8%	0.15%
0.50% - 1.00%	1,817	14%	0.34%
1.00% - 2.00%	835	31%	0.89%
2.00% - 3.00%	1,125	51%	1.69%
3.00% - 4.00%	481	60%	2.16%
4.00% - 5.00%	459	77%	3.08%
5.00% - 10.00%	804	104%	4.85%
10.00% - 20.00%	647	149%	9.22%
20.00% - 30.00%	152	201%	17.84%
30.00% - 50.00%	147	216%	27.11%
50.00% - 99.99%	277	175%	45.43%
100%	371	-	83.99%
Total	8,654	55%	7.64%

PD bands	Other retail exposures		
	Dec. 31, 2008	Weighted average risk	
		CHF million	weight %
0.00% - 0.03%	511	1%	0.004%
0.03% - 0.10%	512	2%	0.005%
0.10% - 0.50%	1,136	11%	0.06%
0.50% - 1.00%	1,609	19%	0.16%
1.00% - 2.00%	2,019	28%	0.34%
2.00% - 3.00%	900	36%	0.68%
3.00% - 4.00%	348	26%	0.62%
4.00% - 5.00%	779	39%	1.18%
5.00% - 10.00%	1,196	31%	1.37%
10.00% - 20.00%	921	44%	3.27%
20.00% - 30.00%	410	52%	5.09%
30.00% - 50.00%	617	60%	8.03%
50.00% - 99.99%	527	36%	11.16%
100%	759	-	41.23%
Total	12,244	27%	4.30%

The following table presents the equity exposures, broken down by risk weights at 31 December 2008:

	Dec. 31, 2008
Weights	
190%	13
290%	103
370%	-
Total	116

(All figures in millions of CHF)

5. Credit risk mitigation

A key component of the Group's business strategy is to reduce risk by utilising various risk mitigating techniques. The most important risk mitigating means are collaterals' pledges, guarantees and netting arrangements in master agreements for derivatives.

Internal policies include specific instructions for the collateral types that could be accepted:

- residential real estate, commercial real estate and land;
- receivables (trade debtors), and post dated cheques (Greece);
- financial collateral, listed shares, listed bonds and other specific securities accepted;
- deposits;
- guarantees and letters of support;
- insurance policies; and
- machinery and equipment, vehicles and vessels.

For Treasury exposures (i.e. repos, reverse repos, derivatives, etc) the Group accepts only cash or liquid bonds as collaterals.

The table below shows collateral received broken down by primary type of collateral at December 31, 2008:

Dec. 31, 2008

<i>(All figures in millions of CHF)</i>	Recognised financial collateral	Real estate property	Guarantees	Other collaterals	Credit derivatives	Total
Credit risk (pursuant Standardised approach)						
Sovereign	15,579	-	-	-	-	15,579
Institutions - banks & securities dealers	8,138	-	190	-	-	8,328
Institutions - banks & other institutions	1	-	-	-	-	1
Corporates	3,759	1,874	64	-	-	5,697
Retail	2,716	5,041	45	-	-	7,802
Credit risk total, standardised approach	30,193	6,915	299	-	-	37,407
Credit risk (pursuant IRB approach)						
Corporate customers						
- Corporates exposures	1,357	3,185	-	1,819	-	6,361
Retail exposures						
- Secured by real estate	61	19,177	-	-	-	19,238
- Other retail	925	8,282	-	1,158	-	10,365
Credit risk total, IRB approach	2,343	30,644	-	2,977	-	35,964
Credit risk total	32,536	37,559	299	2,977	-	73,371

Note:

1. The value of collaterals shown above is the allocated value of securities.
2. For real estate property the lower between market value and the pledged amount is considered.
3. Specialised lending exposures covered by vessels of CHF 751 million are not included in the table above.

6. Securitisations

The Group (all at Eurobank EFG) has securitised various financial assets. Up to August 2007 the objective of the Bank in each of its securitisation transactions was to convert illiquid receivables to "tradeable" securities, to be placed with investors for long-term funding. Since then the objective of the Bank in each securitisation transaction is to convert illiquid receivables to 'tradeable' securities that are eligible for European Central Bank (ECB) financing.

The Bank applies the Ratings Based Approach (RBA) for the risk weighting of asset backed securities. According to this approach the risk weight factor that applies is a function of the rating and seniority of the security.

The following table presents the securitised initial exposures of the Group, as well as the outstanding balance of the notes issued at December 31, 2008:

	Dec. 31, 2008	
	Securitised initial exposures	Outstanding balance
Credit Card Asset Backed Securities (Karta - July 2005)	1,114	1,498

	Dec. 31, 2008		
	Impaired or contractually past due exposures		
	Retained exposures	Not retained exposures	Losses incurred
Credit Card Asset Backed Securities (Karta - July 2005)	-	56	53

	Dec. 31, 2008	
	Investor interest	Transferor interest
Credit Card Asset Backed Securities (Karta - July 2005)	1,114	385

	Dec. 31, 2008
Risk weight: to 10%	1,412
Risk weight: over 12% to 18%	284
Risk weight: over 20% to 35%	4
Risk weight: over 50% to 75%	39
Risk weight: over 100% under 250%	2
Total	1,741

For securitisation exposures the Bank uses one or more of the following external rating agencies: Moody's, Standard & Poor's and Fitch.

7. Market risk

The Bank uses the standardised approach to calculate capital requirements for the reporting to FINMA.

The following table presents the capital charge, per risk factor, under the standardised approach for the Group's trading book at December 31, 2008:

<i>(All figures in millions of CHF)</i>	Dec. 31, 2008
Foreign exchange risk	175
Interest rate risk	209
Equity risk	10
Commodities	1
Total	395

Market risk is measured in several ways within the EFG Group

- Market risk in Switzerland is managed and monitored using Value at Risk (VaR) and alternative sensitivity analyses for the following financial assets, which are not covered by VaR:

- i) Designated at fair value through the profit and loss, which includes Structured products, Private equity and Hedge funds
- ii) Available for sale - Life insurance policies

Market risk in Greece and in Poland is managed and monitored using Value at Risk (VaR) methodology

Market risk in New Europe excluding Poland is managed and monitored using nominal limits and sensitivity analyses.

Information is presented separately as it originates from significantly different economic environments with different risk characteristics.

i) VaR summary

VaR is a methodology used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR that the Group measures is an estimate based upon a 99% confidence level and a holding period of 10 days and the methodology used for the calculation is the Monte Carlo simulation (full repricing) for Greece and in Switzerland both the delta based parametric approach and full valuation historical VaR approach.

The VaR models are designed to measure market risk in a normal market environment. It is assumed that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated using the average of 6 - 12 months historical data.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. Given this, actual outcomes are monitored regularly, via back testing process (where appropriate), to assess the validity of the assumptions and the parameters used in the VaR calculation.

Since VaR constitutes an integral part of the Group's market risk control regime, VaR limits have been established for all (trading and non-trading portfolio) operations and actual exposure is reviewed daily by management. However, the use of this approach does not prevent losses outside of these limits in the event of extraordinary market movements

7.1 Sensitivity analysis - New Europe excluding Poland

Sensitivity analyses used for monitoring market risk in New Europe excluding Poland do not represent worse case scenarios.

<i>(All figures in millions of CHF)</i>	Dec. 31, 2008		
	Sensitivity of income statement	Sensitivity of equity	Total sensitivity
Interest Rate			
+100 bps parallel shift	4	(7)	(3)
Equities / Equity Indices / Mutual Funds			
-10% decrease on prices	-	-	-
Foreign exchange			
-10% depreciation of functional currency over foreign currencies	43	(120)	(77)

7.2 Alternative Sensitivity analysis – Switzerland (for those products not captured under VaR)

The following risks exist for positions at December 31, 2008.

Dec. 31, 2008

<i>(All figures in millions of CHF)</i>	Sensitivity of income statement	Sensitivity of equity	Total sensitivity
Price risk			
Available for sale			
Unlisted equities		(3)	(3)
-10% price decrease			
Financial assets designated at fair value			
Life insurance companies	(21)		(21) *
-10% price decrease			
Financial liabilities at fair value			
Synthetic life insurance exposure	21		21 *
+10% increase in revenue			
Liabilities to purchase minority interests	(2)		(2)
+20% increase in revenue			
Interest rate risk			
Financial assets designated at fair value			
Life insurance policies	(18)		(18)
+100 bps increase in IRR **			
Synthetic life insurance exposure			
Available-for-sale			
Life insurance policies		(18)	(18)
+100 bps increase in IRR **			
Life expectancy (actual changes based on actuarial evidence)			
Financial assets designated at fair value			
Life insurance policies	(64)		(64)
1 year increase			
Available-for-sale			
Life insurance policies	(66)		(66)
1 year increase			

* Assets and liability fair value's are linked and thus a loss on the asset will be offset by a gain on the liability.

** Including changes in the market perception of changes in life expectancies that may arise (i.e. excluding actual changes in life expectancy based on actuarial evidence).

8.3. Credit derivatives

The Group has a limited portfolio of Credit Default Swaps (CDSs) which are mainly used for hedging part of its corporate bond portfolio or for trading purposes.

The following table summarises the notional amount per type of protection:

- Protection Buyer : CHF 505 million
- Protection Seller : CHF 149 million

9. Operational risk

Operational risk is the risk of loss or business suspension resulting from failures in business processes, systems and people, or from external causes.

EFG Group's operational risk profile largely derives from the business activities carried out by its two subgroups, their geographical spread and their organisational structure and operational model.

Operational risk is the subject of a documented Board-level and management monitoring framework at both Group and subgroup levels as part of their corporate governance. In this framework, operational risk is monitored and assessed regularly by Audit or Risk Board-delegated committees, which review operational losses (nature, size, location, trend over time) and key operational risk-related control issues as reported by independent operational risk and audit functions. In addition, Group and subgroup directives define qualitative and reporting requirements in the area of operational risk.

At business unit level, operational risk has been limited through organisational measures, process automation, internal controls, security measures, authorisation frameworks, written procedures, legal documentation and support, the monitoring of operational risk parameters and compliance checks under the responsibility of management. Management committees and operational risk management units have been set up as appropriate to address business line specific risks. Business continuity and IT disaster recovery plans are in place to ensure adequate continuity of critical business and operating systems in the event of unexpected disrupting factors.

Risk transfer mechanisms exist through insurance, covering some specific operational risks.

Operational risk management and monitoring is subject to internal and external audits.

For capital adequacy purposes, the EFG Group applies the Standardised Approach as defined by the Basel Committee and Swiss Financial Market Supervisory Authority FINMA to determine its capital charge for operational risk.