EFG Group

Pillar 3 report

Consolidated Capital Adequacy Disclosures

for the year ended 31.12.2011

EFG Group
Consolidated Pillar 3 Report

1. General information

The Group is a worlwide banking and financial institutions which, as at December 31, 2011, operated through two subgroups:

- EFG International SA and its subsidiaries ("EFG International"), is a leading global private banking group, offering private banking and asset manangement services, It is incorporated in Switzerland and its shares are listed on SIX Swiss Exchange.

- EFG Eurobank Ergasisas SA and its subsidiaries ("Eurobank"), are active in retail, corporate and private banking, asset management, insurance and other services. It is incorporated in Greece and its shares are listed on the Athens Stock Exchange.

During the entire year ended December 31, 2011, the Group was supervised on a consolidated basis by the Bank of Greece, until July 23rd, 2012, when the EFG Group disposed of its controlling investment in EFG Eurobank Ergasias SA, which was deconsolidated. From that point onward, ultimate consolidated supervision of the EFG Group is exercised by the Swiss Financial Market Supervisory Authority (FINMA) at the level of EFG Bank European Financial Group SA, Geneva, and in particular inrespect of all consolidated regulatory returns as at and for the year ended December 31,2012.

These consolidated Pillar 3 disclosures are made at the level of European Financial Group EFG Ltd, Malta, which is EFG Group's highest holding company established within the European Union.

1.1 Basel II framework

In 1988, the Basel Committee on Banking Supervision developed a set of rules (the Basel Capital Accord, or Basel I) regarding the capital adequacy requirements for Banks. The main focus of Basel I was on credit risk with banks being required to hold capital of at least 8% of the risk weighted assets and off balance sheet commitments. Additional rules related to trading risk were added in 1996, in a European directive related to market risk.

The need for a more risk sensitive approach to capital requirements, as well as the need to enhance the soundness and stability of the international banking system, led the Basel Committee on Banking Supervision to design a new worldwide framework known as Basel II. The new framework introduced a three pillar concept that seeks to align regulatory requirements with the economic principles of risk management.

The Basel II framework is based on three mutually re-inforcing 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 Pillar 1.
• Pillar 2 addresses the internal processes for assessing overall capital adequacy in relation to risks (Internal Capital Adequacy Assessment Process - ICAAP). 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 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 of credit institutions.

In June 2006 the European Parliament and the Council, published in the Official Journal of the European Union the Capital Requirements Directive (CRD), which comprises of the following two directives:
• Directive 2006/48/EC on the taking up and pursuit of the business of credit institutions; and
• Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions.

In August 2007 and following adoption of the Banking Law, which transposed the above Directives into Greek law, the Bank of Greece (BoG) issued a series of facts specifying the provisions of the above law and transposing the remaining provisions of the above Directives into the New Legal and Regulatory Framework.

In November 2010 the European Parliament and the Council, published the Directive 2010/76/EU, effective from 31 December 2011, amending the Directives 2006/48/EC and 2006/49/EC regarding capital requirements for the trading book, for re-securitisations and the supervisory review and disclosures of remuneration policies.

Based on the above, during 2011 BoG issued the following Governor's Acts:
• BoG Governor's Act 2645/2011 regarding capital requirements for securitisations, effective from 31.12.2011
• BoG Governor's Act 2646/2011 regarding capital requirements for the trading book, effective from 31.12.2011; and
• BoG Governor's Act 2650/2012 regarding remuneration policy, effective from 1.1.2011.

In February 2012, BoG issued the Governor's Act 2654/2012 where it amends the definition of Core Tier I capital and the minimum required limits. Thus, from 30.9.2012 the Core Tier I ratio should be at least equal to 9% of the risk weighted assets and off balance sheet commitments and from 30.6.2013 should be at least equal to 10%.

1.2 Implementation of the Basel II framework at the EFG Group

1.2.1 Credit risk

For credit risk, the Group applies either the internal ratings based approach (IRB), only at Eurobank EFG or the international standardised approach (SA-BIS) depending on the business line.
In June 2008, Eurobank EFG received the approval of Bank of Greece 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 EFG Eurobank Ergasias S.A. in Greece (the "Bank").

• 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 EFG Leasing S.A. in Greece.

• From March 2010, the Advanced IRB approach was also applied to the banks portfolio of personal and car loans.

The implementation of IRB covers approximately 80% of the Eurobank EFG's lending portfolio, excluding portfolio segments which are immaterial in terms of size and risk profile. Further increase of the coverage depends on certification by BoG of the IRB application for the loan portfolios of Romanian and Bulgarian subsidiaries.

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 Standardised approach is applied for these exposures.

EFG International uses the International Standardised Approach to determine which risk weight to apply to all its credit risk.

1.2.2 Market risk

The EFG Eurobank Ergasias SA 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 and Poland. The Bank received the official validation of its model for market risk by the Bank of Greece in July 2005. The model is subject to periodic review by the regulator.

In 2011, EFG Eurobank Ergasias SA updated its model and systems in order to fully comply with the new BoG Governor's Act 2646/2011 for the trading capital book. EFG Eurobank Ergasias SA now calculates the capital for stressed VaR and IRC (incremental risk capital charge) beginning on 31.12.2011.

For the measurement of market risk exposure and the calculation of capital requirements for the EFG Eurobank Ergasias SA's subsidiaries in Greece and New Europe, as well as for EFG International, the Standardised approach is applied.

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

Market risk in Switzerland is managed and monitored using VaR and alternative sensitivity analyses for certain financial instruments, which are not covered by VaR.

1.2.3 Operational risk

Capitalising on the provisions of Directive 2006/48/EC (Annex X, part 4.2), the Group uses the Standardised approach (STA) to calculate the Pillar 1 regulatory capital charge for operational risk for its consolidated operations.

1.3 Scope of Pillar 3

Pillar 3 disclosures are provided on a consolidated basis, in a summary format, based on Bank of Greece Act 2592/2007, 2632/2010, 2655/2012 and according to the regulatory consolidation framework, which is described in the following paragraph.

Detailed information on Eurobank EFG's full Pillar 3 disclosures as at December 31, 2011 are available on its own web site: www.eurobank.gr

Detailed information on EFG International's full Pillar 3 disclosures as at December 31, 2011, in accordance with the rules of FINMA, are available on its own web site: www.efginternational.com

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.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 that 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. The entities may acquire assets directly from the Group's subsidiaries. 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 Bank of Greece 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 (refer to paragraph 2.1).

• Participatjion in 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.

The following table presents a list of the Group's subsidiaries and associated undertakings at 31 December 2011 for which regulatory consolidation is different compared to the accounting consolidation:

	Regulatory consolidation			Accounting consolidation		
	Full consolidation	**Equity method**	**Deduction from equity**	**Full consolidaton**	**Equity method**	**Description of Business**
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

Above listed insurance services companies are deducted from equity, based on the application of the method "Deduction and aggregation", which is referenced as method 2 in Law 3455/2006, article 25, chapter V (Bank of Greece Governor's Act 2630/29.10.2010). There are no insurance companies where capital falls below of the minimum required capital.

Based on the Greek law 3601/1.8.2007 article 32 (solo consolidation), EFG Hellas Funding Ltd and EFG Hellas Plc are included in the calculation of the non-consolidated capital requirements and regulatory own funds of EFG Eurobank Ergasias SA.

Based on the terms of the Investment Agreement signed with the Raiffeisen Bank Internationl AG (RBI) in February 2011, Eurobank EFG has recorder the disposal of its Polish operations as of 31 March 2011. Additional information regarding the discontinued operations in Poland can be found in the Consolidated Financial Statements Note 16.

List of all subsidiary undertakings can be found in Note 25, of the Group's Consolidated Statutory Financial Statements.

1.5 Impediments to the prompt transfer of capital

At Eurobank EFG, subordinated loans given by the Bank to its subsidiaries, financial institutions operating outside Greece, are subject to local regulations and subsequently restrictions set by local laws and supervisory authorities. The most common of all restrictions is minimum duration (5 to 7 years in most cases) with no possibility of prepayment without prior permission by the respective supervisory authority.

At EFG International, subordinated loans given by the Group to its banking subsidiaries, are subject to local regulations and subsequently restrictions set by local laws and supervisory authorities. The most common of all restrictions is minimum duration with no possibility of prepayment without prior permission by the respective supervisory authority.

1.6 Compliance with Basel II Pillar 3 disclosures

In order to ensure consistent and continuous compliance with the Pillar 3 disclosures requirements, under the Bank of Greece Act 2592/2007, the Group operates as follows:

- Pillar 3 disclosures are provided on a consolidated basis, including all those subsidiaries supervised by the Bank of Greece on that basis.
- The Group includes in its disclosures all information deemed necessary to provide users with a clear, complete and accurate view of the Group’s structure, capital management, risk management system and remuneration policy pratices.
- The Group has opted to present the full set of Pillar 3 disclosures in a separate document “Consolidated Basel II Pillar 3 Disclosures”, which is published annually on the Group’s website.
- The Group re-examines the extent and type of information provided at each disclosure date and revises its policy as necessary.

2. Capital management

The amount and quality of the capital held by the Group is subject to certain rules and guidelines. The composition of the Group's available regulatory capital under Pillar 1 is as follows:

2.1 Regulatory capital - definition

The Pillar 1 regulatory capital of the Group at consolidated level is calculated on the basis of IFRS figures and according to the rules set by the Bank of Greece, in line with the Capital Requirements Directive (CRD).

The available regulatory capital is classified under two main categories: Tier I and Tier II capital. Tier I comprises Core Capital (ordinary shareholders' equity and regulatory minority interests), preferreds shares and hybrid instruments issued, after deduction of:

• proposed dividends;
• unrealised gains and losses on market valuation of available-for-sale (AFS) bonds and cash flow hedge derivatives;
• unrealised gains on market valuation of AFS equities;
• unrealised gains and losses on market valuation of liabilities designated as fair-value-through-profit-or-loss attributable to own credit risk;
• part of non controlling interests where the regulatory capital of the subsidiary exceeds significantly its capital requirements;
• goodwill and intangible assets;
• 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 31 December 2006 and
• 50% of loan impairment allowances' 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 loan impairment allowances, which only address losses incurred within the 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 liabilities that meet certain regulatory specified criteria.
• 45% of unrealised gains on market valuation of AFS equities;

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 31 December 2006;
• 50% of loan impairment allowances' shortage compared to IRB measurement of Expected Loss and
• 100% of participating interests of more than 20% in insurance companies acquired or established before 31 December 2006.

2.2 Impairment losses on Greek sovereign exposure

2.2.1 Greek sovereign debt exchange programme

On 21 July 2011 the Heads of State of Governments of the Euro-area and European Union (EU) institutions agreed to an integrated assistance plan for Greece, including a voluntary debt exchange programme for the Private Sector and a debt buy back programme (Private Sector Involvement – PSI). The July PSI plan was not implemented and EU authorities formulated a new package to support Greece and enhance its debt sustainability. At the European Summit on 26 October 2011, the Eurozone Heads of State agreed on a comprehensive set of measures, including a voluntary bond exchange with a nominal discount of 50% on the face value of debt held by private investors (the new PSI programme, PSI+) and a new reform programme for the Greek economy supporting growth. On 21 February 2012 the Euro-area finance ministers finalised the second support programme for Greece, including financial assistance from the Official Sector and an agreement with the Private Sector for the voluntary debt exchange forgiving 53.5% of the face value of Greek debt.

Following these developments, in February 2012 the Group exchanged Greek Government Bonds and other eligible securities of face value EUR 7,336m and, in accordance with International Financial Reporting Standards, recognized in 2011 an impairment loss of EUR 5,779m before tax.

Additional information regarding Credit exposure to Greek sovereign debt can be found in the Consolidated Financial Statements Note 4.

2.2.2 Recapitalization Framework and Process

Given the severity of the Greek bond exchange programme (PSI+), on 21 February 2012, the Euro–area finance ministers allocated a total of EUR 50bn of the second support programme for Greece specifically for the support of the Greek Banking system. The first EUR 25bn of these funds were remitted to Greece in April 2012 in the form of European Financial Stability Fund (EFSF) bonds.

Eurobank's EFG capital needs as determined by the BoG (including the Black Rock diagnostics) amount to EUR 5.8bn, which EFG Eurobank Ergasias SA will receive through the recapitalisation process and which roughly corresponds to the capital losses that stem from its participation in the PSI exercise.

Banks considered viable are given the opportunity to apply for and receive EBA Core Tier I-eligible capital from the HFSF under a certain process. Capital may take the form of ordinary shares, contingent convertible bonds or ordinary shares with restricted voting rights. Ordinary shares with restricted voting rights will only be available if private investors contribute at least 10% of the capital raising. The Greek Law 4051/2012, which regulates the above, underlines that among its main objectives are to incentivise the participation of private investors and to maintain the business autonomy of the banks.

EFG Eurobank Ergasias S.A. was confirmed as a viable bank by BoG. Following that, the Bank, the HFSF and the EFSF have signed on May 28th a trilateral presubscription agreement based on which HFSF advanced to the Bank EFSF notes of face value EUR 3.97bn as an advance payment of its participation in the future share capital increase of the Bank. The said advance qualifies as Tier I capital and brings the total Capital Adequacy ratio above the current minimum level of 8%.

More detailed information regarding Recapitalisation framework and process can be found in Consolidated Financial Statements Note 4.

2.3 Capital base

The table below shows the Group's eligible capital as at 31 December 2011 and 2010:

(All figures in millions of EUR except otherwise stated)	**Dec. 31, 2011** Pro-forma (1)	**Dec. 31, 2011** Before impairment losses on Greek sovereign exposure	Dec. 31, 2010
Ordinary share capital	**1,500**	**1,500**	1,500
Reserves from retained earnings	**(2,155)**	**27**	200
Non controlling interests	**5,717**	**4,568**	5,015
of which hybrid instruments	***745***	***745***	*791*
of which preferred shares	***950***	***950***	*950*
Total statutory shareholders' equity	**5,062**	**6,095**	6,715
Less : goodwill (net of deferred purchase consideration) and intangibles	**(682)**	**(682)**	(1,137)
Less: other regulatory adjustments	***(276)***	***(276)***	(425)
Total Eligible Adjusted Tier I capital	**4,104**	**5,137**	5,153
Tier II capital - mainly subordinated debt	**468**	**468**	799
Less: other regulatory adjustments	***(337)***	***(337)***	(253)
Total Eligible capital	**4,234**	**5,267**	5,699
Risk Weighted Assets	**48,002**	**48,002**	52,121
Ratio :	**8.8%**	**11.0%**	10.9%

(1) Includes the impairment losses on Greek sovereign exposures and the HSFS's advance payment of EUR 3.97 billion.

Loan impairment allowances' shortage amounts to EUR 516 million (2010: EUR 507 million), which is 50% deducted from Tier I capital and 50% from Tier II capital.

Other than the risks related to Greek sovereign exposure and capital erosion resulting from their impariment (PSI+), the Group has sought to maintain an actively managed capital base to cover risks inherent in the business.

The Group as a whole at consolidated level and each regulated entity of the Group at the individual level, excluding the impact of PSI+, has complied with their respective capital adequacy requirement throughout the year.

During the last two years the Group focused on the organic strengthening of its capital position and, excluding the impact of PSI+, managed to maintain capital ratios at levels comfortably above minimum required. This was achieved by generating and retaining profits and by active derisking of lending portfolios through tighter credit policies and change in the portfolio mix in favour of more secured loans. In addition, it proceeded to two strategic initiatives, namely the partnership in Poland (note 16) and the merger with Dias S.A., which increased Capital Adequacy and Tier I ratios by more than 100 bps.

In February 2012, the Eurobank EFG group successfully completed a liability management exercise buying back preferred securities and Lower Tier II notes, which generated a gain for the Group and increased its Core Tier I capital by EUR 250 million.

In April 2012 the Group announced the agreement for the sale of its Turkish operations to Burgan Bank S.A. This transaction, which is expected to complete in the autumn of 2012, will increase Tier I ratio (capital equivalent of approximately EUR 300 million). Please refer to Consolidated Financial Statements note 43).

Full details of Eurobank EFG's and EFG International's individual capital mangement is disclosed in their own Annual Reports and Pillar III reports, available on their respective web sites www.eurobank.gr and www.efginternational.com

2.4 Regulatory Capital requirement under Pillar 1

The table below shows the Group's capital requirements at 31 December 2011 and 2010. The capital requirement under Pillar 1 is calculated as 8% of risk weighted assets:

(All figures in millions of EUR except otherwise stated)	**Dec. 31, 2011**	Dec. 31, 2010
Credit risk (pursuant Standardised approach)		
Central governments and central banks	**172**	167
Administrative bodies & non-commercial undertakings	**10**	5
Credit and financial institutions	**126**	175
Corporate customers (excluding past due and secured by real estate property)	**528**	554
Retail customers (excluding past due and secured by real estate property)	**243**	387
Secured by real estate property (excluding past due)	**118**	199
Past due items	**95**	86
Exposures in the form of covered bonds	**3**	6
Shares in undertakings for collective investment in transferable securities (UCITS)	**5**	9
Exposures belonging to high risk regulatory categories	**71**	90
Other items [(*)]	**222**	198
Credit risk total, Standardised approach	**1,593**	1,876
Credit risk (pursuant IRB approach)		
Corporate customers	**1,106**	1,169
Retail exposures		
- Residential real estate property retail exposures	**152**	104
- Qualifying revolving retail exposures	**128**	178
- Other retail exposures	**151**	164
Equity	**6**	13
Assets back securitsation	**19**	6
Credit risk total, IRB approach	**1,562**	1,634
Credit risk total	**3,155**	3,510
Counterparty risk	**52**	63
Market risk (pursuant Standardised approach)		
- Interest rate instruments in the trading book	**49**	32
- Equity instruments in the trading book	**3**	8
- Currencies and gold	**48**	56
Internal model approach (Value at Risk)	**96**	31
Market risk total	**197**	127
Operational risk	**438**	470
Total capital requirement 31 December	**3,841**	4,170
Regulatory Capital 31 December (excluding PSI Impact)	**5,267**	5,699
Pro-forma Regulatory Capital 31 December including PSI Impact and HSFS's advance payment of EUR 3.97 billion	**4,234**	

(*) other items include mainly fixed assets and other assets

2.5 Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) aims to identify and assess risks that are inherent in the Group's business model, determine their materiality, evaluate risk monitoring and mitigation processes and quantify the relevant internal capital charge where appropriate so as to ensure the ongoing capital adequacy of the Group versus its risk profile. To accomplish these objectives, the ICAAP leverages upon and integrates well-established activities of the Group on risk, capital, performance and liquidity management, including in particular planning and monitoring, while also continuously refining its approach to ensure high standards of capital assessment and management.

The conclusion of the 2011 internal capital adequacy assessment process is that the Group maintains high and relatively stable pre-provision earnings and robust risk management practices while the capital actions already executed or underway and the recapitalisation by the Hellenic Financial Stability Funds will allow the Group to meet the new EBA Core Tier I ratio minima that will be gradually phased-in. As a result, the Group will be in a position to support the risk profile of its balance sheet and its business operations going forward, even under further extreme adverse conditions, should they materialize.

3. Risk management overview

3.1 Risk management

For an overview of the general principles, responsibilities and the organisational structure of risk management within the Group in respect of credit and market risks, refer to note 5 Financial Risk Management in the 2011 Group's annual report.

The Group does not carry any material risks except from those arising directly from Eurobank EFG and EFG International. 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 and www.eurobank.gr and www.efginternational.com respectively.

4. Credit Risk

4.1 Credit exposures

Credit exposures for regulatory purposes before any credit risk mitigation are significantly differentiated from equivalent balances presented in IFRS financial statements, due to different basis of consolidation (refer to par. 1.4.2), inclusion of off balance sheet exposures and potential future exposures for derivative financial instruments, as well as inclusion of repos' collaterals.

The table below shows the Group's credit exposures (before any credit risk mitigation) for regulatory purposes at 31 December 2011 and 2010:

(All figures in millions of EUR)	**Average of 2011**	**2011**	Average of 2010	2010
Credit risk (pursuant Standardised approach)				
Central governments and central banks	**45,172**	**45,098**	35,642	45,245
Administrative bodies & non-commercial undertakings	**1,148**	**323**	1,470	2,606
Credit and financial institutions	**12,896**	**11,840**	16,683	13,951
Multilateral development banks	**159**	**260**	-	-
Corporate customers (excluding past due and secured by real estate property)	**10,564**	**10,548**	10,736	10,579
Retail customers (excluding past due and secured by real estate property)	**8,796**	**8,763**	9,032	8,829
Secured by real estate property (excluding past due)	**6,485**	**6,473**	6,275	6,496
Past due items	**982**	**1,013**	941	1,050
Exposures in the form of covered bonds	**205**	**141**	357	308
Shares in undertakings for collective investment in transferable securities (UCITS)	**180**	**58**	240	230
Exposures belonging to high risk regulatory categories	**790**	**675**	777	843
Other items (*)	**5,211**	**6,214**	3,880	4,207
Credit risk exposures relating to off balance sheet items	**905**	**854**	896	956
Credit risk total, Standardised approach	**93,491**	**92,260**	86,926	95,300
Credit risk (pursuant IRB approach)				
Corporate customers				
- Corporate exposures (Foundation IRB approach)	**15,401**	**15,166**	15,121	15,552
- Retail exposures that exceed EUR 1 million (Advanced IRB approach)	**478**	**463**	490	505
Retail exposures				
- Residential real estate property retail exposures	**10,208**	**10,432**	9,650	9,998
- Qualifying revolving retail exposures	**3,211**	**2,848**	3,988	3,606
- Other retail exposures	**8,472**	**8,263**	8,198	8,657
Equity	**50**	**28**	66	63
Securitisation	**693**	**611**	853	780
Credit risk exposures relating to off balance sheet items	**2,099**	**1,926**	2,574	2,212
Credit risk total, IRB approach	**40,612**	**39,737**	40,940	41,373
Credit risk total	**134,103**	**131,997**	127,866	136,673

The off balance sheet items included in the above exposures consist of the credit equivalent of:

- letters of guarantee;
- standby letters of credit; and
- undrawn credit facilities.

At Eurobank EFG, central governments and central banks exposures above include bonds issued by the EFG Eurobank Ergasias SA Euro 17,776 million under the second stream of the Greek Governments Liquidity Support Program and covered bonds of Euro 4,450 million. Both issues are fully retained by the Bank and are used as repos' collaterals.

(*) Other items include mainly cash, fixed assets and other assets.

4.1.1 Geographic analysis

The table below shows the geographical break down of the Group's credit exposures at 31 December 2011 and 2010, as disclosed for IFRS purposes, according to the debtor's country of domicile:

Dec. 31, 2011

(All figures in millions of EUR)	**Luxembourg**	**Switzerland**	**Greece**	**Other West. European countries**	**New Europe countries**	**Other countries**	**Total**
Balances with central banks	**68**	**519**	**1,489**	**16**	**1,241**	**410**	**3,743**
Loans and advances to banks	**76**	**337**	**74**	**5,440**	**2,099**	**751**	**8,777**
Loans and advances to customers:							
Wholesale lending	**-**	**-**	**15,347**	**913**	**5,880**	**345**	**22,485**
Consumer lending	**136**	**128**	**5,619**	**1,314**	**1,595**	**4,271**	**13,063**
Mortgage lending	**12**	**60**	**11,821**	**1,113**	**2,150**	**753**	**15,909**
Small business lending	**-**	**-**	**6,683**	**-**	**1,246**	**-**	**7,929**
Debt securities	**147**	**129**	**5,870**	**4,578**	**2,976**	**2,436**	**16,136**
Derivative financial instruments	**1**	**82**	**741**	**961**	**32**	**444**	**2,261**
Other assets	**4**	**64**	**741**	**111**	**102**	**17**	**1,039**
Total exposures	**444**	**1,319**	**48,385**	**14,446**	**17,321**	**9,427**	**91,342**

Dec. 31, 2010

(All figures in millions of EUR)	Luxembourg	Switzerland	Greece	European countries	New Europe countries	Other countries	Total
Balances with central banks	50	468	1,639	14	1,343	117	3,631
Loans and advances to banks	73	334	1,037	4,442	318	750	6,954
Loans and advances to customers:							
Wholesale lending	-	-	16,717	705	5,894	176	23,492
Consumer lending	125	136	6,457	1,569	2,517	3,736	14,540
Mortgage lending	2	50	11,438	910	5,617	693	18,710
Small business lending	-	-	7,039	-	1,946	10	8,995
Debt securities	27	835	9,789	4,174	3,266	3,801	21,892
Derivative financial instruments	22	183	393	817	44	264	1,723
Other assets	-	119	621	52	113	22	927
Total exposures	299	2,125	55,130	12,683	21,058	9,569	100,864

4.1.2 Industry analysis

The table below shows the industry break down of the Group's credit exposures, as disclosed for IFRS purposes at 31 December 2011 and 2010:

Dec. 31, 2011

(All figures in millions of EUR)	**Commerce and services**	**Private indivuals**	**Manufacturing**	**Shipping**	**Construction**	**Other**	**Total**
Balances with central banks	**3,743**						**3,743**
Loans and advances to banks	**8,771**		**1**			**5**	**8,777**
Loans and advances to customers:							**0**
Wholesale lending	**12,918**	**548**	**4,922**	**1,033**	**2,294**	**770**	**22,485**
Consumer lending	**2,550**	**10,251**	**233**	**-**	**27**	**2**	**13,063**
Mortgage lending	**749**	**15,147**	**4**	**-**	**9**	**-**	**15,909**
Small business lending	**6,563**	**257**	**631**	**-**	**414**	**64**	**7,929**
Debt securities	**6,644**	**-**	**25**	**-**	**54**	**9,413**	**16,136**
Derivative financial instruments	**1,432**	**23**	**52**	**77**	**60**	**617**	**2,261**
Other assets	**591**	**3**	**1**	**-**	**-**	**444**	**1,039**
Total exposures	**43,961**	**26,229**	**5,869**	**1,110**	**2,858**	**11,315**	**91,342**

Dec. 31, 2010

(All figures in millions of EUR)	Commerce and services	Private indivuals	Manufacturing	Shipping	Construction	Other	Total
Cash and balances with central banks	3,631	-	-	-	-	-	3,631
Loans and advances to banks	6,954	-	-	-	-	-	6,954
Loans and advances to customers:							
Wholesale lending	13,365	538	5,264	1,295	2,305	725	23,492
Consumer lending	2,588	11,730	196	-	21	5	14,540
Mortgage lending	590	18,101	5	-	5	9	18,710
Small business lending	7,448	137	806	-	506	98	8,995
Debt securities	7,783	-	79	-	68	13,962	21,892
Derivative financial instruments	1,345	1	40	65	34	240	1,725
Other assets	491	8	1	-	1	424	925
Total exposures	44,195	30,515	6,391	1,360	2,940	15,463	100,864

Credit exposure to other industry sectors includes mainly sovereign assets.

4.1.3 Maturity analysis

The table below shows the maturity break down of the Group's credit exposures (before any provisions for impairment losses on loans) for regulatory purposes, at 31 December 2011 and 2010. Items without contractual maturities (i.e. overdraft loans) are presented in the "less than 1 month" time bucket.

Dec. 31, 2011

(All figures in millions of EUR)	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**> 1 year**	**Total**
Credit risk exposures relating to on balance sheet assets:					
Cash and balances with Central banks	4,244	0	0	6	**4,250**
Loans and advances to banks	1,996	3,341	81	774	**6,192**
Loans and advances to customers	17,632	4,185	4,471	33,094	**59,382**
Debt securities	1,651	3,203	2,448	12,815	**20,117**
Other assets	67	40	179	653	**939**
On balance sheet exposures	**25,590**	**10,769**	**7,179**	**47,342**	**90,880**
Contracts under ISDA and CSA (Derivatives) and contracts under GMRA (repos and reverse repos)	1,253	24	65	108	**1,450**
Other Contracts (derivatives and repos outside ISDA, CSA,GMRA)	76	58	60	342	**536**
Credit risk exposures relating to off balance sheet items	**1,329**	**82**	**125**	**450**	**1,986**
Total exposures	**26,919**	**10,851**	**7,304**	**47,792**	**92,866**

Dec. 31, 2010

(All figures in millions of EUR)	Up to 1 month	1 to 3 months	3 months to 1 year	> 1 year	Total
Credit risk exposures relating to on balance sheet assets:					
Cash and balances with Central banks	4,223	0	0	0	4,223
Loans and advances to banks	2,556	558	475	1,049	4,638
Loans and advances to customers	18,262	3,323	4,638	39,466	65,689
Debt securities	1,042	627	1,678	15,207	18,554
Other assets	124	42	190	465	821
On balance sheet exposures	26,207	4,550	6,981	50,933	93,925
Contracts under ISDA and CSA (Derivatives) and contracts under GMRA (repos and reverse repos)	834	9	12	34	889
Other Contracts (derivatives and repos outside ISDA, CSA,GMRA)	99	29	34	298	460
Credit risk exposures relating to off balance sheet items	933	38	46	400	1,349
Total exposures	27,140	4,588	7,027	51,333	95,274

Credit exposures shown above do not include deferred tax, fixed assets, intangible assets and goodwill. Equities in Available-for-sale portfolios are also excluded since they are presented in paragraph 5.4

4.2 Past due and impaired loans

4.2.1 Past due exposures

A financial asset is past due if a counterparty has failed to make a payment when contractually due. Exposures more than 90 days past due presented in the table below (refer to paragraph 4.2.2) include the assets for which counterparties have failed to make a contractual payment for more than 90 days, irrespective of whether the asset is considered as impaired or not.

4.2.2 Impaired exposures

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

4.2.3 Non-performing loans

Non-performing loans are defined as the loans delinquent for a given period determined in accordance with the Group's policy. In Eurobank EFG, where the Group has the majority of its credit exposures, mortgages are considered as non-performing when they are delinquent for more than 180 days and consumer loans for more than 90 days. Loans to corporate entities are considered as non-performing when they are transferred to non accrual status which occurs when the loans are delinquent for more than 180 days or earlier in the case of a material credit event.

The table below presents as at 31 December 2011and 2010, analysis of credit exposures, broken down by major asset class, as disclosed for IFRS purposes:

	Dec. 31, 2011 Credit exposure			Dec. 31, 2010 Credit exposure		
(All figures in millions of EUR)	**Total loans and advances to customers**	**Past due more than 90 days**	**Impaired exposures**	Total loans and advances to customers	Past due more than 90 days	Impaired exposures
Wholesale	**22,485**	**2,293**	**2,264**	23,492	1,501	1,623
Mortgage	**15,909**	**1,407**	**1,193**	18,710	1,074	815
Consumer	**13,063**	**1,976**	**1,999**	14,540	1,516	1,536
Small business	**7,929**	**2,247**	**2,404**	8,995	1,614	1,721
Total	**59,386**	**7,922**	**7,860**	65,737	5,705	5,695

The following table presents the geographic break down of total, past due, impaired loans and non performing loans and advances to customers at 31 December 2011 and 2010:

	Dec. 31, 2011				Dec. 31, 2010			
(All figures in millions of EUR)	**Total loans and advances to customers**	**Past due more than 90 days**	**Impaired exposures**	**Non Performing loans**	Total loans and advances to customers	Past due more than 90 days	Impaired exposures	Non Performing loans
Luxembourg	**148**	**-**	**-**	**-**	127	-	-	-
Switzerland	**188**	**-**	**1**	**-**	186	-	-	-
Greece	**39,470**	**6,476**	**6,384**	**5,111**	41,651	4,284	4,280	3,467
Other Western European Countries	**3,340**	24	3	25	3,184	70	4	70
New Europe Countries	**10,871**	**1,422**	**1,469**	**1,112**	15,974	1,351	1,411	1,067
Other Countries	**5,369**	**-**	**2.63**	**-**	4,615	-	-	-
Total	**59,386**	**7,922**	**7,860**	**6,248**	65,737	5,705	5,695	4,604

4.2.4 Past due but not impaired exposures

Loans that are past due may not be impaired in case there is no objective evidence substantiating such an action. Based on past experience, consumer and small business loans less than 90 days past due - for mortgage loans and fully collareralised wholesale loans and Lombard loans180 days past due - are not considered impaired, unless specific information indicates to the contrary.

4.3 Provision for impairment losses

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

The table below presents as at 31 December 2011 and 2010, analysis of provisions for impairment losses, broken down by major asset class, as disclosed for IFRS purposes:

	Dec. 31, 2011			Dec. 31, 2010	
	Provision for impairment losses			Provision for impairment losses	
(All figures in millions of EUR)	**Balance of impairment**	**Impairment charges**	**Additional collective provision for Greek sovereign risk**	Balance of impairment	Impairment charges
Wholesale	**903**	**233**	**157**	560	175
Mortgage	**270**	**133**	**-**	161	78
Consumer	**1,361**	**636**	**-**	992	862
Small business	**870**	**333**	**1**	620	244
Total	**3,404**	**1,335**	**158**	2,333	1,359

The table below presents the movement of the provision for impairment losses on loans and advances for the year ending 31 December 2011 and 2010:

	Dec. 31, 2011		
(All figures in millions of EUR)	**Individual impairment**	**Collective impairment**	**Total impairment**
Balance at 1 January 2011	**917**	**1,416**	**2,333**
Impairment losses on loans and advances charged in the year	552	783	1,335
Additional collective provision for Greek sovereign risk	158	-	158
Amounts recovered during the year	37	27	64
Loans written off during the year as uncollectible	(69)	(131)	(200)
Foreign exchange differences and other movements	(77)	(123)	(200)
Disposal of foreign operations	(21)	(65)	(86)
Balance at 31 December 2011	**1,497**	**1,907**	**3,404**

	Dec. 31, 2010		
(All figures in millions of EUR)	Individual impairment	Collective impairment	Total impairment
Balance at 1 January 2010	656	1,098	1,754
Impairment losses on loans and advances charged in the year	345	1,014	1,359
Amounts recovered during the year	5	26	31
Loans written off during the year as uncollectible	(71)	(638)	(709)
Foreign exchange differences and other movements	(18)	(84)	(102)
Balance at 31 December 2010	917	1,416	2,333

4.4 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 4.5. 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 retrieved from External Credit Assessment Institutions (ECAIs), such as Moody's or 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 31 December 2011 and 2010, broken down by supervisory risk weights:

Dec. 31, 2011

				Supervisory risk weightings				
(All figures in millions of EUR)	**0%**	**10% - 20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Credit risk (pursuant Standardised approach)								
Central governments and central banks	20,844	226		240		1,840	117	**23,267**
Administrative bodies & non-commercial undertakings	0	36	-	5	-	117	0	**158**
Credit and financial institutions	3,334	4,672	-	1,052	-	355	37	**9,450**
Multilateral development banks	102	0	-	0	-	0	0	**102**
Corporate customers	-	312	575	642	0	5,784	206	**7,519**
Retail customers	-	-	-	-	6,056	-	-	**6,056**
Secured by real estate property	-	-	5,253	1,186	61	-	-	**6,500**
Past due items	-	-	-	4	-	1,017	111	**1,132**
Exposures in the form of covered bonds	-	127	-	0	-	14	-	**141**
Shares in undertakings for collective investments in transferable securities (UCITS)	-	-	-	0	-	58	-	**58**
Exposures belonging to high risk regulatory categories	-	-	-	-	-	393	330	**723**
Other items	3,350	118	-	-	-	2,739	7	**6,214**
Total	**27,630**	**5,491**	**5,828**	**3,129**	**6,117**	**12,317**	**808**	**61,320**

Dec. 31, 2010

				Supervisory risk weightings				
(All figures in millions of EUR)	0%	10% - 20%	35%	50%	75%	100%	150%	Total
Credit risk (pursuant Standardised approach)								
Central governments and central banks	20,692	33		140		2,066	0	22,931
Administrative bodies & non-commercial undertakings	0	372		129		2	0	503
Credit and financial institutions	2,032	7,184		1,229		434	13	10,892
Corporate customers		172	461	560		6,431	36	7,660
Retail customers					6,454			6,454
Secured by real estate property			5,328	1,146	65			6,539
Past due items				17		941	86	1,044
Exposures in the form of covered bonds		278		30		0		308
Shares in undertakings for collective investments in transferable securities (UCITS)	0	150		0		80		230
Exposures belonging to high risk regulatory categories						252	590	842
Other items	1,690	65				2,436	16	4,207
Total	24,414	8,254	5,789	3,251	6,519	12,642	741	61,610

Credit exposures shown in the above table do not include goodwill, intangible assets and participations in insurance companies that are deducted from regulatory own funds.

4.5 Internal Ratings Based (IRB) approach

4.5.1 Risk classifications

The 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.

The table below shows the maping of MRA internal rating to ICAP (ECAI) ratings:

Mapping of internal (MRA) ratings to ECAIs	
ICAP ratings	MRA ratings
AA, A	1 - 2,3
BB, B	2,4 - 3,1
C, D	3,2 - 4,4
E	4,5 - 6,5
F	6,6 - 8,8
G, H	8,9 - 9,9

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 characteritsics of their financial statements such as insurance companies, state owned organisations, brokerage firms and start ups.

In such cases an internal credit rating system is applied. It is an expert judgment borrower rating system and, similarly to MRA, it combines quantitative and qualitative assessment criteria (such as size, years in business, credit history, industry sector etc).

Customers are classified with respect to their credit worthiness to 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, real estate and project finance): slotting methodology.

For the specialised lending portfolios fulfilling the criteria set out by 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, real estate and 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 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 probablities 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 are 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)
• Car loans
• Personal loans
• Small business loans
• Mortgages

The models were developed in cooperation with specialised companies with international presence, based on the Bank's historical data and credit bureau data. Behavioral scores are calculated automatically on a monthly basis, thus ensuring that credit risk assessments are up to date.

The models are used in the credit approval process, in credit limit management, as well as in the collections' process for the prioritisation of the accounts in terms of handling. Furthermore, the models have been often used for the segmentation of the customers for various marketing activities (i.e. cross-selling, up-selling). They are also utilised for risk based pricing in particular segments or new products introduced.

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 paragraph 4.5.3(e)).

4.5.2 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). Moreover, corporate customers rated as watchlist, substandard and distressed with an exposure over EUR 1 million are monitored by the business units with the collaboration of the Corporate Risk Monitoring Division, which is under Corporate Banking Sector. All high risk corporate customers with exposures over EUR 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 upgarding 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/backtesting, 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.

4.5.3 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 expanding over a 6 years period 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 from 1997 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 paragraph 4.5.2.

The Group has received approval for using the internal rating models and all detailed validations of the parameters were submitted to and reviewed by the regulator, as part of the IRB approval process.

4.5.4 Exposures subject to IRB approach

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 31 December 2011 and 2010:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Credit risk (pursuant IRB Approach)		
Corporate customers		
- Corporate exposures (Foundation IRB approach) and specialised lending (Slotting methodology)	**15,438**	15,948
- Retail exposures that exceed EUR 1 million (Advanced IRB approach)	**460**	500
Retail exposures		
- Residential real estate property retail exposures	**10,432**	9,998
- Qualifying revolving retail exposures	**3,955**	4,847
- Other retail exposures	**8,111**	8,392
Equity	**28**	63
Asset backed securitisation	**611**	780
Credit risk total, IRB approach	**39,035**	40,528

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 31 December 2011 and 2010:

	Dec. 31, 2011				**Dec. 31, 2011**		
	Corporate exposures (Foundation IRB)				**Retail exposures that exceed EUR 1 million (Advanced IRB)**		
(All figures in millions of EUR except if otherwise stated)	**Weighted average PD - %**		**Weighted average risk weight - %**	**Weighted average LGD**		**Weighted average risk weight - %**	**Weighted average EL - %**
PD bands							
0.00% - 0.03%	**0.03%**	**356**	**15%**	**45%**	**-**	**-**	**-**
0.03% - 0.10%	**0.05%**	**1,771**	**20%**	**44%**	**-**	**-**	**-**
0.10% - 0.50%	**0.37%**	**681**	**54%**	**40%**	**0**	**24%**	**0.06%**
0.50% - 1.00%	**0.80%**	**1,021**	**76%**	**41%**	**22**	**27%**	**0.13%**
1.00% - 2.00%	**1.64%**	**695**	**80%**	**37%**	**6**	**34%**	**0.30%**
2.00% - 3.00%	**2.31%**	**901**	**107%**	**43%**	**36**	**34%**	**0.34%**
3.00% - 4.00%	**3.50%**	**1,812**	**114%**	**42%**	**27**	**39%**	**0.52%**
4.00% - 5.00%	**-**	**-**	**-**	**-**	**26**	**39%**	**0.68%**
5.00% - 10.00%	**6.82%**	**1,720**	**132%**	**40%**	**71**	**50%**	**1.26%**
10.00% - 20.00%	**12.84%**	**1,965**	**154%**	**38%**	**113**	**66%**	**2.57%**
20.00% - 30.00%	**22.76%**	**736**	**188%**	**39%**	**12**	**72%**	**3.89%**
30.00% - 50.00%	**-**	**-**	**-**	**-**	**11**	**68%**	**5.50%**
50.00% - 99.99%	**-**	**-**	**-**	**-**	**29**	**54%**	**9.78%**
Sub total - non defaulted	**5.53%**	**11,658**	**101%**	**41%**	**353**	**52%**	**2.33%**
100.00%		**1,706**	-	**40%**	**104**	-	**25.92%**
Total		**13,364**	**88%**	**41%**	**457**	**40%**	**7.65%**

	Dec. 31, 2010				Dec. 31, 2010		
	Corporate exposures (Foundation IRB)				Retail exposures that exceed EUR 1 million (Advanced IRB)		
(All figures in millions of EUR except if otherwise stated)	Weighted average PD - %		Weighted average risk weight - %	Weighted average LGD		Weighted average risk weight - %	Weighted average EL - %
PD bands							
0.00% - 0.03%	0.03%	1,344	14%	44%	0	7%	0.00%
0.03% - 0.50%	0.07%	1,187	23%	43%	4	18%	0.05%
0.50% - 1.00%	0.67%	1,421	68%	41%	117	25%	0.12%
1.00% - 2.00%	1.69%	1,070	94%	41%	113	32%	0.28%
2.00% - 3.00%	2.87%	810	96%	40%	3	51%	0.59%
3.00% - 4.00%	3.03%	1,452	107%	39%	40	35%	0.54%
4.00% - 5.00%	-	-	-	-	27	41%	0.69%
5.00% - 10.00%	6.80%	4,481	126%	39%	41	43%	0.99%
10.00% - 20.00%	14.79%	1,905	170%	39%	28	57%	2.10%
20.00% - 30.00%	-	-	-	-	19	68%	3.73%
30.00% - 50.00%	-	-	-	-	11	59%	4.50%
50.00% - 99.99%	-	-	-	-	34	44%	8.87%
Sub total - non defaulted	4.99%	13,670	100%	40%	437	37%	1.39%
100.00%		1,053		39%	63		28.31%
Total		14,723	91%	40%	500	32%	4.78%

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

(All figures in millions of EUR)	Dec. 31, 2011	Dec. 31, 2010
Weights		
0%	**116**	-
50%	**131**	373
70%	**374**	265
90%	**689**	545
115%	**748**	35
250%	**15**	7
Total	**2,073**	1,225

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 31 December 2011 and 2010:

	Residential real estate property retail exposures			Qualifying revolving retail exposures			Other retail exposures		
(All figures in millions of EUR except if otherwise stated)		Weighted average risk weight - %	Weighted average EL - %		Weighted average risk weight - %	Weighted average EL - %		Weighted average risk weight - %	Weighted average EL - % Dec. 31, 2011
PD bands									
0.00% - 0.03%	**1,121**	**1%**	**0.004%**	**10**	**1%**	**0.02%**	**171**	**1%**	**0.004%**
0.03% - 0.10%	**2,466**	**2%**	**0.01%**	**495**	**2%**	**0.04%**	**269**	**2%**	**0.01%**
0.10% - 0.50%	**2,571**	**5%**	**0.02%**	**465**	**9%**	**0.16%**	**606**	**11%**	**0.05%**
0.50% - 1.00%	**503**	**12%**	**0.08%**	**236**	**20%**	**0.48%**	**798**	**23%**	**0.19%**
1.00% - 2.00%	**513**	**21%**	**0.17%**	**665**	**33%**	**0.90%**	**437**	**29%**	**0.37%**
2.00% - 3.00%	**514**	**30%**	**0.31%**	**217**	**49%**	**1.53%**	**517**	**29%**	**0.46%**
3.00% - 4.00%	**216**	**41%**	**0.53%**	**207**	**65%**	**2.25%**	**217**	**36%**	**0.86%**
4.00% - 5.00%	**-**	**-**	**-**	**65**	**72%**	**2.61%**	**568**	**28%**	**0.82%**
5.00% - 10.00%	**726**	**63%**	**1.05%**	**359**	**98%**	**4.30%**	**632**	**34%**	**1.63%**
10.00% - 20.00%	**605**	**73%**	**1.83%**	**158**	**147%**	**8.73%**	**452**	**43%**	**3.13%**
20.00% - 30.00%	**264**	**103%**	**4.77%**	**83**	**186%**	**15.13%**	**612**	**51%**	**5.08%**
30.00% - 50.00%	**88**	**80%**	**5.52%**	**66**	**203%**	**25.48%**	**267**	**54%**	**7.32%**
50.00% - 99.99%	**107**	**40%**	**10.55%**	**81**	**157%**	**42.99%**	**634**	**40%**	**12.33%**
100%	**739**	**-**	**14.39%**	**849**	**-**	**68.94%**	**1,931**	**-**	**35.77%**
Total	**10,433**	**18%**	**1.52%**	**3,956**	**41%**	**17.60%**	**8,111**	**23%**	**10.56%**

	Residential real estate property retail exposures			Qualifying revolving retail exposures			Other retail exposures		
(All figures in millions of EUR except if otherwise stated)		Weighted average risk weight - %	Weighted average EL - %		Weighted average risk weight - %	Weighted average EL - %		Weighted average risk weight - %	Weighted average EL - % Dec. 31, 2010
PD bands									
0.00% - 0.03%	1,287	1%	0.004%	14	1%	0.02%	251	1%	0.004%
0.03% - 0.10%	2,734	2%	0.01%	428	2%	0.04%	310	2%	0.01%
0.10% - 0.50%	2,854	5%	0.02%	497	8%	0.14%	786	9%	0.05%
0.50% - 1.00%	488	11%	0.07%	617	18%	0.41%	1,113	22%	0.17%
1.00% - 2.00%	354	20%	0.16%	822	30%	0.80%	1,026	29%	0.36%
2.00% - 3.00%	404	28%	0.29%	313	48%	1.46%	374	38%	0.71%
3.00% - 4.00%	164	38%	0.48%	288	59%	2.02%	452	29%	0.70%
4.00% - 5.00%	-	-	-	199	70%	2.53%	255	29%	0.77%
5.00% - 10.00%	323	48%	0.75%	504	99%	4.37%	816	36%	1.52%
10.00% - 20.00%	547	74%	1.92%	211	150%	9.19%	578	42%	3.00%
20.00% - 30.00%	160	77%	3.34%	100	190%	16.16%	273	54%	5.28%
30.00% - 50.00%	85	74%	5.05%	86	206%	26.57%	371	53%	8.23%
50.00% - 99.99%	110	36%	9.40%	106	172%	41.08%	443	44%	12.20%
100%	488	-	12.47%	662	-	67.15%	1,344	-	37.80%
Total	9,998	13%	0.98%	4,847	46%	12.25%	8,392	24%	7.75%

The following table shows undrawn credit facilities before Credit Conversion Factors (CCF) and the corresponding CCF.

(All figures in millions of EUR except if otherwise stated)	Off Balance sheet before CCF	Credit conversion factor	Off Balance sheet before CCF	Credit conversion factor
	Dec. 31, 2011		Dec. 31, 2010	
Qualifying revolving retail exposures	**10,355**	**11%**	10,193	12%
Other retail exposures	**1,116**	**7%**	1,458	8%
Retail exposures that exceed EUR 1 million	**16**	**12%**	20	13%

The following table presents the impairment losses, by asset class subject to the IRB approach, charged in the year ending 31 December 2011 and 2010:

(All figures in millions of EUR)	Residential real estate property retail exposures	Qualifying revolving retail exposures	Other retail exposures	Corporates / Retail exposures that exceed EUR 1 million	Total
31 December 2011	**95**	**267**	**290**	**164**	**816**
31 December 2010	52	306	209	102	669

The following table presents the equity exposures, broken down by risk weights at 31 December 2011 and 2010:

(All figures in millions of EUR)	Dec. 31, 2011	Dec. 31, 2010
Weights		
190%	**10**	16
290%	**18**	46
370%	**0**	1
Total	**28**	63

4.6 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;
- 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.

4.6.1 Analysis of collaterals

The table below show collateral received broken down by primary type of collateral at 31 December 2011 and 2010:

	Dec. 31, 2011					
(All figures in millions of EUR)	Recognized financial collateral	Real estate property	Guarantees	Other collaterals	Credit Derivatives	Total
Credit risk (pursuant Standardised approach)						
Central governments and central banks	**23,253**	**-**	**0**	**-**	**-**	**23,253**
Administrative bodies & non-commercial undertakings	**202**	**-**	**0**	**-**	**-**	**202**
Credit and financial institutions	**3,167**	**-**	**2**	**-**	**-**	**3,169**
Multi developments banks	**168**	**-**	**-**	**-**	**-**	**168**
Corporate customers (excluding past due and secured by real estate property)	**3,550**	**-**	**89**	**-**	**-**	**3,639**
Retail customers (excluding past due and secured by real estate property)	**2,990**	**-**	**86**	**-**	**-**	**3,076**
Secured by real estate property (excluding past due)		**6,074**	**0**	**-**	**-**	**6,074**
Past due items	**4**	**366**	**7**	**-**	**-**	**377**
Exposures belonging to high risk regulatory categories	**0**	**109**	**1**	**-**	**-**	**110**
Credit risk total, Standardised approach	**33,334**	**6,549**	**185**	**0**	**0**	**40,068**
Credit risk (pursuant IRB approach)						
Corporate customers						
- Corporate exposures	**753**	**4,193**	**139**	**1,061**	**0**	**6,146**
- Retail exposures that exceed EUR 1 million	**21**	**419**	**5**	**5**	**0**	**450**
Retail exposures						
- Residential real estate property retail exposures	**27**	**10,406**	**-**	**-**	**0**	**10,433**
- Other retail exposures	**436**	**4,439**	**234**	**144**	**0**	**5,253**
Credit risk total, IRB approach	**1,237**	**19,457**	**378**	**1,210**	**0**	**22,282**
Credit risk total	**34,571**	**26,006**	**563**	**1,210**	**0**	**62,350**

	Dec. 31, 2010					
(All figures in millions of EUR)	Recognized financial collateral	Real estate property	Guarantees	Other collaterals	Credit Derivatives	Total
Credit risk (pursuant Standardised approach)						
Central governments and central banks	25,950		-	-	-	25,950
Administrative bodies & non-commercial undertakings	2,031	-	292	-	-	2,323
Credit and financial institutions	4,209	-	2	-	-	4,211
Corporate customers (excluding past due and secured by real estate property)	3,267	-	145	-	-	3,412
Retail customers (excluding past due and secured by real estate property)	2,652	-	101	-	-	2,753
Secured by real estate property (excluding past due)		9,749	-	-	-	9,749
Past due items	5	370	2	-	-	377
Exposures belonging to high risk regulatory categories	1.00	158	0	-	-	159

Credit risk total, Standardised approach	38,115	10,277	542	-	-	48,934
Credit risk (pursuant IRB approach)						
Corporate customers						
- Corporate exposures	1,163	3,702	145	1,411	-	6,421
- Retail exposures that exceed € 1 million	24	442	8	19	-	493
Retail exposures						
- Residential real estate property retail exposures	28	9,970	-	-	-	9,998
- Qualifying revolving retail exposures	-	-	-	-		-
- Other retail exposures	539	4,084	382	228	-	5,233
Credit risk total, IRB approach	1,754	18,198	535	1,658	-	22,145
Credit risk total	39,869	28,475	1,077	1,658	-	71,079

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 EUR 697 million (2010: EUR 685 million) are not included in the table above.

4.7 Asset Backed Securities

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 financing.

The Bank has not proceeded with any synthetic securitisation and re-securitsation.

For the purchased securities exposures 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 risk weights of the purchased securitised exposures of the Group, based on the IRB approach, at 31 December 2011 and 2010:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Risk weight: to 10%	390	660
Risk weight: over 12% to 18%	113	95
Risk weight: over 20% to 35%	67	22
Risk weight: over 50% to 75%	9	2
Risk weight: 425%	30	0
Risk weight: 650%	-	1
Risk weight: 1250%	3	-
Total	**612**	780

For securitisation exposures the Group uses one or more of the following external rating agencies: Moody's, Standard & Poor's and Fitch (refer to par. 4.4).

5. Market Risk

5.1 Definition and policies

Market risk is the potential loss occuring from changes in interest and foreign exchange rates, equities and commodity prices, as well as market volatilities.

In order to ensure the efficient monitoring of market risks that emanate from its overall activities, the Group adheres to certain principles and policies. The objectives of the market risk policies applied by the Group are to:
• establish an effective market risk monitoring and management framework at Group level;
• ensure regulatory compliance; and
• create a competitive advantage over competition through more accurate assessment of the risks assumed.

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 instruments, which are not covered by VaR:

i) Trading assets and designated at fair value through the profit and loss, which includes Life insurance policies, Structured products and unquoted equities

ii) Available for sale - Life insurance policies

iii) Financial liabilities – Life insurance policies and liabilities to purchase non controlling interest

- Market risk in Greece and Cyprus is managed and monitored using Value at risk (VaR) methodology.

- Market risk in New Europe is managed and monitored using mainly sensitivity analyses.

5.2 Internal model - Value at Risk (VaR) model

The Value at Risk (VaR) computation is a risk analysis tool designed to statistically estimate the maximum potential periodic loss from adverse movements in interest rates, foreign currencies and equity prices, under normal market conditions. VaR is calculated using statistically expected changes in the market parameters for a given holding period at a specific confidence level.

In Eurobank (Greece and Cyprus) the VaR that is measured is an estimate based upon a 99% confidence level and a holding period of 1 day and the methodology used for the calculation is the Monte Carlo simulation (full repricing). This means that the model covers all types of non linear instruments (i.e. options).

	Dec. 31, 2011				Dec. 31, 2010			
(All figures in millions of EUR)	**Average**	**Min.**	**Max.**	**As at**	Average	Min.	Max.	As at
Interest rate risk [1]	**32**	**13**	**65**	**49**	45	21	87	25
Curency risk	**3**	**1**	**4**	**2**	2	1	3	2
Equity risks	**9**	**4**	**13**	**4**	12	8	18	9
Total VaR	**36**	**17**	**68**	**49**	52	29	95	29

[1] *Interest rate volatility applied to all portfolios. Credit spread volatility applied to Trading and Available-for-sale positions*

The aggregate VaR of the interest rate, foreign exchange and equities VaR benefits from diversification effects.

At EFG International, during the year, it has been decided to change the VaR computation methodology moving from a delta based parametric approach to a full valuation historical VaR approach. Because the historical VaR approach includes periods of volatility which exceed those predicted by the normal distribution, the change to the historic VaR has resulted in higher reported VaR figures in 2011 as compared to 2010. The EFGI Group has also amended the perimeter of its VaR calculation to include certain balance sheet items wich were previously excluded from Var, which further increased th estimated VaR. The EFGI Group's subsidiary EFG Financial Products AG computes VaR figures and assumes a 1-day holding period with a 301-day observation period. While the rest of the EFGI Group produces its VaR figures with an In-house tool using a 10-days holding period with a 201-day observation period.

	Dec. 31, 2011				Dec. 31, 2010			
(All figures in millions of EUR)	**Average**	**Min.**	**Max.**	**As at**	Average	Min.	Max.	As at
Interest rate risk	**4**	**2**	**6**	**4**	2	1	2	2
Curency risk	**1**	**0**	**2**	**1**	1	0	1	1
Equity risks	**3**	**1**	**4**	**4**	2	2	4	2
Total VaR	**9**	**4**	**12**	**9**	5	3	8	5

The Group, all at Eurobank EFG, uses its own, validated by the Bank of Greece since 2005, internal VaR model to calculate capital requirements for market risk in its trading book, for the Eurobank EFG's activities in Greece, Poland and Cyprus. VaR is a statistical risk measure of the maximum loss that the Group may, under normal market conditions, incur over a certain period of time with a certain confidence level. For example, a 99% 1 day VaR of EUR 1 million means that there is a 99% probability that the Group will not lose more than EUR 1 million within the next day. In other words, there is a 1% probability that the Group will incur a loss exceeding EUR 1 million within the next day.

The internal model described above covers the following risks:
• Interest rate risk: the risk of losses because of changes in interest rates.
• Foreign exchange risk: the risk of losses on foreign currency positions because of changes in exchange rates.
• Equity risk: the risk of losses because of changes in equity prices.
• Commodity risk: the risk of losses because of changes in commodity prices.
• Volatility risk: the risk of losses on option positions because of changes in implied volatility levels.

The Group uses the VaR model for its operations in Greece and Cyprus on a daily basis and is preparing for future implementation of the model in subsidiary banks abroad.

VaR models are designed to measure market risk under normal market environment. It is assumed that any changes in the risk factors follow a normal distribution.

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.

The Group's exposure to commodities and volatilities is immaterial.

The following table presents the capital requirements for the Bank's trading book per risk factor, in relation to VaR and after the application of the relevant multiplier at 31 December 2011 and 2010. According to regulatory requirements the calculation is performed on 99% confidence level, for a 10 day holding period.

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Interest rate risk	**11**	25
Foreign exchange risk	**24**	13
Equity risk	**4**	3
Volatility risk	**6**	4
Total capital requirements on total diversified position	**32**	31

Total Capital requirements figure is less than the sum of the individual figures for FX, Interest Rate, Equities and Volatility, due to diversification.

From 30.12.2011 the Group all at Eurobank EFG, implemented the Stressed VaR and Incremental Risk Charge (IRC). Total Capital requirements (including Stressed Var and IRC) as of 30.12.2011 stands at EUR 96 million.

5.2.1 Stress testing

Given that the VaR approach does not cover extreme market conditions, the Group has been applying stress tests, to simulate the effect of many standard deviation movements of risk factors and the breakdown of historical correlations.

The main types of stress tests performed include:

• Historical stress tests, which are based on selected historical scenarios in financial markets since 1990 (September 11th (Sept '01), Greek Elections (Apr '00), Nato attack on Serbia (Mar '99), Russian crisis (Aug '98), Asian Crisis (Jul '97), GBP devaluation (Sept '92), Desert Storm (Jan '91), Kuwait Invasion (Aug '90)).

• Subjective stress tests, where the portfolios are exposed to scenarios for risk factors that are deemed particularly relevant (depreciation of foreign currencies, yield curves parallel shift, credit spread increase, equities prices reduction).

• Sensitivity tests, which are conducted on interest rates (+100bps, +200bps parallel shift, long term steepening, 10σ shift upwards), equity prices (-10%, -25% reduction), foreign exchange rates (10% depreciation) and implied volatilities (+100%, -50% volatility).

5.2.2 Back testing

Eurobank EFG employs back testing controls in order to test the calibration and predictive capabilities of its internal risk assessment model. Back testing is applied through comparison of daily VaR readings to portfolio value changes. Back testing for 2011 revealed eleven exception out of a total of 260 working days. The aforementioned exceptions cans be summarised as follows: Two (2) are attributd to Fy rates, four (4) to Greek credit spreads and one (1) is statistical. According to the regulatory framework this number of exceptions results to a multiplier (4) for capital adequacy calculations for market risk.

5.3 Standardised approach for market risk

The Group uses the Standardised approach for the measurement of market risk exposure and capital requirements of Eurobank EFG's subsidiaries in Greece and New Europe and at EFG International. The following table summarises the capital requirements for market risk per risk factor, based on the Standardised approach, at 31 December 2011 and 2010:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
General and specific risks of traded debt instruments	**49**	32
General and specific risks of equities	**3**	8
Foreign exchange risk	**48**	56
Total	**101**	96

5.4 Equity exposures not included in the trading book

Available-for-sale equity investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices. Purchase and sales of equity available-for-sale investments are recognised on trade date, the date on which the Group commits to purchase or sell the equity investment. Initial recognition is at fair value plus transaction costs. Derecognition occurs when the rights to receive cash flows from those investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale equity investments are subsequently carried at fair value. Gains and losses arising from changes in fair value are recognised directly in equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If the market for an equity is not active (and for non-listed securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

In case of equites classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that equity investment previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement.

As a result of adverses macroeconomic conditions in Greece, the Group recongnised impairment losses on equity securities, the main part of which are listed in the Athens Stock Exchange, amounting to Euro 410 million, for which the decline in their fair value below cost is considered to be significant or prolonged.

The following table presents equity holdings belonging to the available-for-sale portfolio and included in regulatory exposures at 31 December 2011 and 2010:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Held for:		
Strategic investments	**18**	75
Equity investments for capital appreciation	**265**	503
Total	**283**	578
Listed	**134**	443
Non-listed	**150**	135
Total	**283**	578

The table below presents the realised gains/(losses) after tax from disposal of available-for-sale equity investments, as well as the unrealised gains/(losses) from revaluations, at 31 December 2011 and 2010:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Realised gains/(losses)	**(1)**	(2)
Unrealised gains/(losses)	**(166)**	(243)

The amount of unrealised losses of available-for-sale equity investments, recognised in reserves as at 31 December 2011 and 2010 is deducted from Tier I capital.

5.5 Interest rate risk not included in the trading book

Eurobank EFG calculates and monitors the interest rate risk of the banking book for operations of the bank in Greece and Cyprus on a daily basis, using the internal VaR model. For Eurobank EFG's New Europe operations applies sensitivity analysis and is preparing to implement the same methodology in subsidiary banks.

The system takes into account all assets, liabilities and off balance sheet items, which are sensitive to interest rates. The interest rate exposure is calculated using the contractual maturity dates or the next repricing dates in case of floating rate instruments. This is also applied to lending instruments, where no prepayment adjustments are made since this type of risk is immaterial. The major part of non maturity accounts has a short term repricing structure and therefore treated accordingly.

In Eurobank EFG (Greece and Cyprus), at 31 December 2011 the average interest rate VaR for 2010 for a 99% confidence level and a holding period of 1 day was as follows:

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Interest rate VaR of the banking book	**32**	44
Total interest rate VaR (trading and banking book)	**32**	45

At EFG International, during the year, it has been decided to change the VaR computation methodology moving from a delta based parametric approach to a full valuation historical VaR approach. Because the historical VaR approach includes periods of volatility which exceed those predicted by the normal distribution, the change to the historic VaR has resulted in higher reported VaR figures in 2011 as compared to 201. The EFGI Group has also amended the perimeter of its VaR calculation to include certain balance sheet items which were previously excluded from Var, which further increased th estimated VaR. The EFGI Group's subsidiary EFG Financial Products AG computes VaR figures and assumes a 1-day holding period with a 301-day observation period using a commercial too. While the rest of the EFGI Group produces its VaR figures with an In-house tool using a 10-days holding period with a 201-day observation period.

(All figures in millions of EUR)	**Dec. 31, 2011**	Dec. 31, 2010
Interest rate VaR of the banking book	**n/a**	n/a
Total interest rate VaR (trading and banking book)	**4**	2

Furthermore, the Group calculates sensitivity on interest rates applying 100 bps parallel shifts on interest rates.

The following table presents the interest rate sensitivity analysis by currency at Eurobank EFG as at 31 December 2011 and 2010:

Dec. 31, 2011

(All figures in million	**TOTAL**	**EUR**	**CHF**	**JPY**	**PLN**	**RON**	**TRY**	**USD**	**OTHERS**
Interest rate risk (banking book):	**256**	**273**	**(6)**	**2**	**0**	**(1)**	**0**	**(13)**	**0**
+100 bps parallel shift									
Interest rate risk (trading and banking book):	**250**	**265**	**(5)**	**2**	**0**	**(1)**	**0**	**(12)**	**0**
+100 bps parallel shift									

Dec. 31, 2010

(All figures in million	TOTAL	EUR	CHF	JPY	PLN	RON	TRY	USD	OTHERS
Interest rate risk (banking book):	145	179	(5)	3	(4)	(2)	(8)	(18)	0
+100 bps parallel shift									
Interest rate risk (trading and banking book):	146	179	(4)	3	(4)	(2)	(8)	(18)	0
+100 bps parallel shift									

The following table presents the interest rate sensitivity analysis by currency at EFG International as at 31 December 2011 and 2010:

Dec. 31, 2011

(All figures in millions of EUR)	**TOTAL**	**EUR**	**CHF**	**JPY**	**GBP**	**USD**
Interest rate risk (banking book):	**(30)**	**(9)**	**(1)**	**1**	**1**	**(22)**
+100 bps parallel shift						
Interest rate risk (trading and banking book):	**(31)**	**(9)**	**(1)**	**1**	**1**	**(23)**
+100 bps parallel shift						

Dec. 31, 2010

(All figures in millions of EUR)	TOTAL	EUR	CHF	JPY	GBP	USD
Interest rate risk (banking book):	(33)	(9)	(2)	0	(2)	(21)
+100 bps parallel shift						
Interest rate risk (trading and banking book):	(31)	n/a	n/a	n/a	n/a	n/a
+100 bps parallel shift						

5.6 Counterparty risk

5.6.1 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 Group has a claim over the counterparty (the market value of the contract is positive for the Group).

5.6.2 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 Group to net positive and negative replacement values in the event of default of the counterparty.

Furthermore, the Group 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 Group applies netting and daily margining using standardised GMRA contracts.

5.6.3 Counterparty risk monitoring

The current exposure for counterparty risk at 31 December 2011 and 2010 is presented in the table below:

Dec. 31, 2011

(All figures in millions of EUR)	**Current exposure before netting**	**Current exposure after netting**	**Netting effect**	**Collateral received / (paid)**	**Total exposure after netting and CSA application**
Contracts under ISDA and CSA (derivatives)	**1,714**	**731**	**870**	**(2,167)**	**901**
Contracts under GMRA (repos and reverse repos)	**406**	**356**	**51**	**(216)**	**492**
Other contracts (derivatives and repos outside ISDA and CSA, GMRA)	**536**	**536**	**-**	**-**	**536**
Total	**2,656**	**1,623**	**921**	**(2,383)**	**1,929**

Dec. 31, 2010

(All figures in millions of EUR)	Current exposure before netting	Current exposure after netting	Netting effect	Collateral received / (paid)	Total exposure after netting and CSA application
Contracts under ISDA and CSA (derivatives)	1,408	286	985	(1,660)	370
Contracts under GMRA (repos and reverse repos)	544	452	92	(95)	519
Other contracts (derivatives and repos outside ISDA and CSA, GMRA)	460	460	0	-	460
Total	2,411	1,198	1,077	(1,755)	1,349

Notes:

1. Netting and collateral posting is applied per counterparty only for contracts under ISDA, CSA or GMRA.
2. Repo and reverse repos with central banks (Bank of Greece, European Central Bank, etc) are excluded.
3. In case of exposure caclulation on transactions under GMRA, haircuts are taken into account and increase the exposure.
4. In case of exposure calculation on transactions under CSA threshold amounts are taken into account and increase the exposure.

5.6.4 Wrong way risk

The Group prevents the initiation of derivative transactions in cases that the value of the underlying instrument is highly correlated with the credit quality of the counterparty. Nevertheless, if there is any transaction that exposes the Group to wrong way risk the Group treats it as an outright on-balance sheet transaction assuming that the current exposure is equal with its notional.

5.6.5 Implications under rating downgrade

The Group financial collateral agreements (CSAs covering derivative transactions) with other banks contain in some cases rating triggers. For these agreements, the minimum exposure level (threshold amount) for further posting of collateral will be lowered in case of a downgrading. The total effect is considered immaterial.

5.6.6 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.

6. Operational risk

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

The 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 Committee-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), whether actual or potential, 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 for major operations 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 Group applies the Standardised Approach as defined by the Basel Committee to determine its capital charge for operational risk.

7. Remuneration policy

7.1 Corporate Governance

The Group' remuneration policy forms an integral part of the Group's corporate governance. The Group, operating through its two subgroups Eurobank EFG and EFG International, developed the remuneration policy in detail at the level of the two subgroups.

At Eurobank EFG,

7.2 Remuneration policy scope

The Remuneration Policy is applied to all Bank employees.

More specifically, the Remuneration Policy is also applied to top management executives, risk takers, individuals whose total remuneration takes them into the same remuneration level as the aforementioned categories, individuals who perform control duties, individuals whose professional activities have a significant impact on the Bank's risk profile and individuals who render their services to the Bank as employees or members of staff based in an off-shore company or third country or a company which is not supervised by the BoG (if any).

The above employee categories fall into the scope of the Remuneration Policy and in particular their remuneration is subject to the rules set in section 7.6 below.

The Remuneration Policy covers employees' total remuneration.

7.3 Remuneration policy basic principles

The Bank has established a competitive compensation framework in order to attract, engage and retain its employees. Its basic principles are to:

- Safeguard that the compensation is sufficient to retain and attract executives with appropriate skill and experience;
- Monitor that internal equity between Business Units is applied;
- Avoid excessive risk behavior; and
- Link compensation with long-term performance.

7.4 Remuneration policy governance

Non-executive members of the Bank's Board of Directors ("BoD") adopt the Remuneration Policy, following the proposal from the Remuneration Committee. For this purpose, the BoD has delegated to the Supervisory Remuneration Committee the responsibility to approve, maintain and oversee the implementation of the remuneration policy both at Bank and Group level. The Supervisory Remuneration Committee consists of up to four non executive members of the BoD. The members are appointed biennially by the BoD. The Supervisory Remuneration Committee meets and reaches valid decisions when the majority of the members are present, while the Chairperson's presence is mandatory. Decisions are adopted by majority of votes of members present. In case of a tie, the Chairperson of the Committee has a casting vote.

For the drafting of the Remuneration policy, the Remuneration Committee collaborates with BoD Committees (Risk Committee and Audit Committee) and ensures that the appropriate input is provided by Risk Management, Compliance, Internal Audit, Human Resources and Strategy Units.

The Remuneration Policy is subject to annual internal audit review from Internal Audit Unit. Internal Audit's findings and proposals for potential revision of the Remuneration Policy are reported to the Remuneration Committee. The Supervisory Remuneration Committee reviews and approves the Remuneration Policy following the proposal from the Remuneration Committee.

The continuous monitoring of market trends and best practices at local and international level creates a competitive Remuneration Policy that is transparent and promotes internal equity. In this context, data from Compensation and Benefits Surveys, provided from external consultants, are used as benchmark.

The remuneration of CEO, Deputy CEOs and BoD members is approved by the General Assembly, as requested by law, following the proposal from Supervisory Remuneration Committee.

The remuneration of the non-executive members of the BoD is fixed and linked to their responsibilities, the time dedicated to performing the duties assigned, and should not be determined by the individual financial performance of the business area they monitor. Incentive based mechanisms are excluded from the remuneration of non-executive members of the BoD. If such mechanisms are to be provided for, they must be strictly tailored to the assigned monitoring and control tasks, reflecting the individual's capabilities and achieved results. If instruments are granted appropriate measures should be taken, such as retention periods until the end of the mandate, in order to preserve the independent judgment of those members of the BoD.

The remuneration of top management executives and highest paid individuals are approved by Supervisory Remuneration Committee following recommendations of the Remuneration Committee.

The basic principles of the Remuneration Policy are accessible to all employees through the Bank's intranet site.

7.5 Remuneration committee

The BoD has delegated to the Remuneration Committee the responsibility to provide specialized and independent advice for matters relating to remuneration policy and its implementation at Bank and Group level.

The Remuneration Committee, in carrying out its duties, is accountable to Supervisory Remuneration Committee.

The Remuneration Committee consists of up to four non executive members of the BoD. The majority of the members are independent directors. One member has sufficient expertise and professional experience concerning risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to institutions' risk and capital profiles. The members are appointed biennially by the BoD.

The Chairperson of the Remuneration Committee is appointed by the BoD and must be a non-executive independent director.

The Remuneration Committee meets and reaches valid decisions when all members are present. Decisions are adopted by majority of votes. In case of a tie, the Chairperson of the Remuneration Committee has a casting vote. The members of the Remuneration Committee are not allowed to hold positions and conduct transactions through which a conflict regarding the Remuneration Committee's mission might arise. The members of the Remuneration Committee can participate in other BoD Committees.

No individual is present when their own remuneration is being considered.

The Remuneration Committee appoints its secretary.

The Remuneration Committee's key responsibilities are presented in the Corporate Governance Code which is available at the Bank's official website.

7.6 Remuneration

Remuneration plays a significant role in attracting and retaining talent whose contribution in the Bank's result is deemed critical. Remuneration mechanisms incorporate principles that take into account employees' skills and performance while supporting at the same time long term business objectives. Employees' total remuneration consists of **fixed and variable components.**

Fixed remuneration reflects the educational level, experience, accountability, position evaluation in comparison with peers, and the position's functional requirements.

In this context, the Bank has developed fixed renumeration ranges that differ among hierarchical levels and nature of business. Ranges are reviewed annually taking into consideration market trends and current legal requirements.

Salary and other fixed remuneration elements represent significant proportion of total remuneration.

Potential fixed remuneration increases are accommodated during the Annual Salary Review Process.

Individual increases proposals are based on market data and employee performance.

Variable remuneration is designed to ensure total remuneration competitiveness and to reward employee performance in alignment with unit and / or Bank performance taking into consideration the general principles set below.

It is upon Bank's discretion to award variable remuneration to employees as long as financial sustainability is maintained. The Bank has the right to partly or fully revoke the distribution of variable remuneration to its employees.

The Bank ensures alignment between employees' personal objectives and the desirable risk appetite. In this context, the incentives schemes that are in place for employees in the Bank's networks (branch network, business centers, private banking units, etc.), have incorporated drivers linked to assessment of the business results over time, as well as risk related goals (i.e. maximum level of bad debt provisions) which are set in collaboration with risk management units. If the risk requirements are not met, no amount can be cashed out through these schemes. Moreover, qualitative targets are in place, such as compliance to internal audit findings, etc.

The Bank's total variable remuneration pool as well as the distribution parameters used for its allocation among different business units, are approved by the Remuneration Committee based on the following rules:

• To avoid excessive risk taking by ensuring that total remuneration consists of a higher proportion of fixed versus variable component which is linked to specific performance;

• To determine the variable component based on the following:

> The Bank's and business units' profitability;

> The cost of tied-up capital which is associated to risks undertaken (credit risk, market risk, operational risk) and is calculated based on Basel II regulatory framework;

> Key developments in terms of credit risk, liquidity risk, market risk further adjust the Bank's total variable remuneration pool; and

> Additional criteria for measuring effectiveness and efficiency include risk management principles and qualitative factors (qualifications, skills, contribution to the unit's performance, and personal competencies such as business thinking, continuous improvement, initiative, adaptability, customer orientation, team spirit and people management).

The variable remuneration pool allocated to each business unit, is adjusted through additional risk parameters (i.e. provisions for non performing loans, Value at Risk, credit, market and liquidity risk, losses incurred by fraud, etc.).

• More specifically for the employee categories of section 7.2, and provided that variable remuneration is awarded to them, subject to current laws and regulations, the following rules should apply:

> At least 40% of the variable remuneration awarded is deferred over a period of no less than 3 years and no more than 5, in order to ensure that the risks undertaken have been assessed over a multi – year framework and to avoid short term benefits;

At least 50% of the variable remuneration is paid in shares or other instruments in order to ensure that performance as well as current and future risks related to the award, are assessed over several years;

Variable remuneration (deferred and non deferred) is awarded or vested when the financial performance of the Bank as well as the individual and business unit performance are considered satisfactory;

When the Bank has declining or negative financial performance, the deferred remuneration can be reduced (malus). Maluses are applied after taking into consideration Bank and individual performances and assessing the impact of imprudent risk taking. Additionally, the Bank can revoke any vested part of the deferred remuneration.

> Remuneration is directly linked to performance and as a result no guaranteed variable remuneration is awarded to employees.

> The remuneration of individuals who perform control duties is based on function specific objectives and not determined by the individual financial performance of the area they monitor.

> It is prohibited to use personal hedging strategies or insurance to undermine the risk alignment effects embedded in the remuneration arrangements.

• The Bank can request the refund of any variable remuneration that was awarded if it is proven afterwards that it derived from unethical / criminal actions, acts of negligence, non compliant behaviors to the internal code of conduct or the Remuneration Policy.

7.7 BoD members remuneration

The following table depicts the remuneration received by the non-executive members of the BoD for duties performed from 1.1.2011 – 31.12.2011. The remuneration of the executive members of the BoD is included in the tables of section 7.8 “Targeted Population Remuneration”.

+

No of Directors	Function	Fixed Remune- EUR million	Variable Remuneration Cash	Shares	Other	Deferred Variable Vested	Non Vested
7*	Non-Executive Members of the BoD	0.99	-	-	-	-	-

** Out of 12 Non-Executive Members of the BoD, 7 received fees for their participation as BoD members and / or BoD Committees members for 2011*

7.8 Targeted population remuneration

In compliance with specific regulatory guidelines and as approved by the Supervisory Remuneration Committee upon Remuneration Committee proposal, the employees who fall under the scope of the Remuneration Policy are identified as follows:

- Executive members of the BoD;
- Executive Committee members that are not members of the BoD;
- Individuals whose total remuneration takes them into the same remuneration level as the aforementioned categories;
- Executive positions in Control Functions (Audit, Compliance); and
- Members of staff with material impact on the Bank's risk profile.

The following table shows the aggregated quantitative information on remuneration, broken down by business areas from 1.1.2011 – 31.12.2011:

	2011	2011
Business Area	**Number of executives**	**Total remuneration in EUR million**
Central units	10	3.46
Retail	5	2.02
Risk	4	1.30
Wholesale	11	4.33

The following table shows the aggregated quantitative information on remuneration, broken down by executive members of the BoD, executive committee members that are not members of the BoD and members of staff with material impact on the Bank's risk profile from 1.1.2011 – 31.12.2011:

Number of executives	Function	Fixed Remu-neration EUR million	Variable Remuneration Cash EUR million	Shares	Other Instruments
5	Executive members of the BoD	2.02	-	-	-
9	Executive Committee members that are not members of the BoD	3.59	-	-	-
3	Members of staff with material impact on the Bank's risk profile	0.85	0.01	-	-

Number of executives	Function	Deferred Variable Vested EUR million	Non Vested EUR million	New sign-on and severance payments EUR million	Amounts of severance payments awarded * EUR million
5	Executive members of the BoD	-	-	-	-
9	Executive Committee members that are not members of the BoD	-	-	-	-
3	Members of staff with material impact on the Bank's risk profile	-	-	0.05	0.15

** The amounts were awarded to one incumbent and represent the highest such compensation to a single person*

At EFG International,

Remuneration committee

The remuneration committee is established as a committee of the Board of Directors. Its primary function is to assist the Board of Directors in fulfilling its governance responsibilities by reviewing and ensuring the implementation of:

(i) The general remuneration policy of EFG International and its subsidiaries
(ii) The fixing of the remuneration of members of the Board of Directors of EFG International, its key executives and key executives of subsidiaries
(iii) The annual remuneration review process of EFG International
(iv) An approval process for credit requests pertaining to members of the Board of Directors of EFG International and key executives of EFG International group as well as to related parties
(v) Any other tasks conferred on it by the Board of Directors from time to time

The remuneration committee comprises at least three Board members (Mr. Petalas as Chairman and Messrs. Cuoni, Bussetil and Matthews as members).

The remuneration committee meets annually in the first quarter to review salary and bonus decisions as well as when necessary. Meetings typically last two to three hours and are attended by the Chief Executive Officer (CEO). During 2011, the remuneration committee met eight times: see the details in the table below:

#	Date (dd/mm/yyyy)	P. P. Petalas	J P. Cuoni	H. Matthews	E.L. Bussetil	I.R. Cookson*	CEO EFG International **
1	14.01.2011	X	X	X	E	X	X
2	25.01.2011	X	X	X	X	X	X
3	17.02.2011	X	E	X	X	X	X
4	07.03.2011	X	X	X	X	X	X
5	26.04.2011	X	X	X	X	X	X
6	25.07.2011	X	X	X	X	X	X
7	12.10.2011	X	X	X	X	X	X
8	06.12.2011	X	X	X	X	X	X

"X" – in attendance,
"E" – excused from attending
* Secretary to the Comn"
** Attendee; on June 27, 2011, John Williamson took over as CEO of EFGI from Lawrence D. Howell

The minutes of the remuneration committee are reviewed by the full Board of Directors at its meetings. In addition, an oral report by the Chairman of the remuneration committee is given to the Board of Directors at each of its meetings.

Content and method of determining the compensation and the share-ownership programmes

General

Compensation of the Board of Directors, the CEO and other member of the Executive Committee, as well as other senior executives, is set by the Board of Directors' remuneration committee. The committee convenes at least once a year to set compensation levels for members of the Board of Directors and members of the Executive Committee within parameters established by the full Board of Directors. In addition, special meetings may be convened to approve the remuneration of any new members of the Executive Committee and as required.

The current responsibilities and competencies of the remuneration committee are defined as follows:

- It ensures that management of EFG International and its subsidiaries maintain and observe an up-to-date procedure whereby the provisions of the FINMA Circular 2010/1 are implemented and observed.
- It ensures that the total annual salary increases and variable compensation amounts are within the overall amount fixed by the Board of Directors.
- It ensures that the policy on variable compensation and other variable elements of employee remuneration is not in conflict with client interests, shareholder interests or FINMA Circular 2010/1.
- It decides on the contractual arrangements of the Members and the Chairman of the Board of Directors, the CEO of EFG International and other key executives, including those of the company's subsidiaries, as appropriate.
- It approves all increases to non-key executives, with the exception of those resulting from existing contractual conditions, in cases where the increase places the person into the key executive category.
- It sets the rules for staff loans, in particular for those loans made against shares of EFG International and the thresholds above which any staff loan is to be submitted to the remuneration committee for approval.
- It decides on the granting of loans to members of the Board of Directors and key executives as well as to related parties.
- Decides on EFG International's contribution to pension and social institutions for the Swiss entities and their branches.
- It reviews the overall annual salary, annual increases and variable compensation as proposed by the management for all other staff of EFG International and its subsidiaries.
- It is informed of decisions regarding the waiving the cancellation of rights on EFG International's share options or restricted stock held by staff, who leave for illness or other justifiable cause made by the chairman of the committee.
- The remuneration committee reports annually to the Board of Directors with a formal remuneration report.

The EFG International group has adopted an equity incentive plan for employees and executive officers of EFG International and its subsidiaries on 20 September 2005 (the "Employee Equity Incentive Plan") in order to strengthen the company's ability to furnish incentives for members of the management and other key employees and to increase long-term shareholder value by improving operations and profitability. The Employee Equity Incentive Plan has been reviewed and amended in 2011 and will cover any options granted during the financial years 2005 to 2011 and last up to the point in time that all options and restricted stock units granted under the Employee Equity Incentive Plan have either been exercised or have expired.

The CEO identifies and recommends each year all persons who are eligible to participate in the Employee Equity Incentive Plan to the remuneration committee, which then considers the recommendation and, at its absolute discretion, determines the level of equity incentives to be granted to each eligible person.

Details of the options granted under the Employee Equity Incentive Plan can be found in Note 52 to the Consolidated Financial Statements in the EFG International group annual report for the year ended December 31,2011.

Members of the Board of Directors

The compensation of members of the Board of Directors who receive compensation is determined by the remuneration committee and does not include any cash bonus or other variable component. No employment contracts with Board Members have a "severance payment" foreseen.

Executive Committee and other Members of the Executive Management

The compensation of the members of the Executive Committee and other members of senior management is determined by the remuneration committee. The following elements of compensation are applied at the level of senior management:

- Base salary in cash,
- Variable compensation defined annually,
- Other cash compensations (expenses allowances, etc.),
- EFG International Employee Equity Incentive Plan,
- Pension fund.

Variable compensation for members of senior management other than the CEO is determined entirely within the discretion of the remuneration committee based upon recommendations of the CEO (except in relation to his own variable compensation), including any deferral and/or vesting period. The remuneration committee considers a number of quantitative and qualitative elements such as the performance of EFG International through the year, the relation between variable compensation and key performance indicators, the risk profile of the institution and the individual performance of nior management members.

The fixed and variable compensation review is carried out annually. Whilst there is a strong emphasis on the Personal Contribution when determining the discretionary variable compensation for staff with a modest income, this becomes a strong emphasis on Corporate Performance, in particular profitability, with a corresponding diminution of the impact of Personal Contribution, at the senior management level.

Poor performance of the company can result in a significant reduction, or even elimination, of the discretionary variable compensation for senior executives.

Whilst salary surveys are used to help establish the appropriate remuneration for most members of staff they are rarely used at the highest level of management since an insufficient number of organisations with the same level of international complexity render comparison difficult.

The variable component of pay to members of the executive committee amounted from 0 to 37.5% of the fixed component, averaging at 17.6%.

There is one member of the Executive Committee who benefits from a severance package within his contract; the package covers the payment of his remuneration up until 31st December 2013 in the case of termination without valid reason by the employer. EFG International is currently paying a severance package to a former Executive Committee member until 31st December 2013.

EFG International has decided to implement on a voluntary basis the principles of the FINMA Circular 10/1 "Minimum standards for remuneration schemes of financial institutions" which has been applicable since January 2011.