Additional Risk and Capital Management Disclosures

31 March 2016

1. Credit risk

The Central Bank of Cyprus (CBC) issued to credit institutions the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 (Directive), which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Directive, in addition to those presented in Notes 3 and 44 of the Consolidated Financial Statements for the year ended 31 December 2015 and on Note 26 of the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2016 are set out in the following tables. The tables disclose non-performing exposures (NPEs) based on the definitions of the European Banking Authority (EBA) standards.

According to the EBA standards, NPEs are defined as those exposures that satisfy one of the following conditions:

(i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in Regulation (EU) No 575/2013 Article 178.
(iii) Material exposures (as defined below) which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

- Material arrears/excesses are defined as follows:
  - Retail exposures:
    - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
    - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.
  - Exposures other than retail: Total customer arrears/excesses are greater than €1.000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

1. Credit risk (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

	Gross loans and advances to customers				**Provision for impairment and fair value adjustment on initial recognition**			
31 March 2016	**Group gross customer loans and advances[1]**	**Of which NPEs**	**Of which exposures with forbearance measures**		**Total provision for impairment and fair value adjustment on initial recognition**	**Of which NPEs**	**Of which exposures with forbearance measures**	
			Total exposures with forbearance measures	**Of which on NPEs**			**Total exposures with forbearance measures**	**Of which on NPEs**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
General governments	**112.935**	4.867	5.017	4.693	**2.448**	1.622	1.616	1.563
Other financial corporations	**426.387**	272.094	151.474	129.739	**154.684**	151.082	76.073	75.847
Non-financial corporations	**13.144.053**	8.843.535	6.249.884	5.043.461	**3.605.653**	3.521.130	1.541.777	1.509.853
Of which: Small and Medium sized Enterprises[2]	**7.401.057**	5.106.589	2.585.321	2.156.166	**2.230.626**	2.186.014	692.439	680.899
Of which: Commercial real estate[2]	**10.468.279**	7.453.308	5.559.059	4.545.993	**2.759.231**	2.691.450	1.335.578	1.308.902
Non-financial corporations by sector								
Construction	**3.875.613**	3.245.920			**1.300.305**			
Wholesale and retail trade	**2.191.545**	1.195.900			**503.371**			
Accommodation and food service activities	**1.390.357**	880.507			**264.631**			
Real estate activities	**2.930.931**	1.753.836			**739.238**			
Manufacturing	**803.366**	498.758			**205.735**			
Other sectors	**1.952.241**	1.268.614			**592.373**			
Households	**8.165.875**	4.206.280	2.866.757	2.139.271	**1.265.797**	1.181.436	321.529	305.612
Of which: Residential mortgage loans[2]	**5.503.488**	2.862.392	2.200.128	1.624.440	**607.244**	549.381	175.653	165.814
Of which: Credit for consumption[2]	**1.106.763**	640.175	317.840	268.861	**308.444**	293.465	69.628	66.509
Total on-balance sheet	**21.849.250**	**13.326.776**	**9.273.132**	**7.317.164**	**5.028.582**	**4.855.270**	**1.940.995**	**1.892.875**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

1. **Credit risk** (continued)

31 December 2015	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances[1]	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	**115.358**	4.858	5.241	4.448	**345**	345	1.771	1.518
Other financial corporations	**450.287**	269.232	164.356	141.861	**175.712**	158.570	86.439	85.905
Non-financial corporations	**13.687.340**	9.447.487	6.250.424	5.101.675	**3.938.616**	3.852.385	1.651.274	1.618.835
Of which: Small and Medium sized Enterprises[2]	**7.595.447**	5.361.281	2.724.405	2.254.873	**2.412.273**	2.364.850	752.559	736.962
Of which: Commercial real estate[2]	**10.998.641**	8.009.181	5.684.179	4.661.835	**2.996.289**	2.931.498	1.418.013	1.390.942
Non-financial corporations by sector								
Construction	**4.023.260**	3.440.287			**1.391.760**			
Wholesale and retail trade	**2.286.348**	1.308.725			**552.581**			
Accommodation and food service activities	**1.484.868**	975.111			**329.840**			
Real estate activities	**3.034.255**	1.789.356			**705.072**			
Manufacturing	**809.277**	510.071			**219.188**			
Other sectors	**2.049.332**	1.423.937			**740.175**			
Households	**8.339.490**	4.246.315	2.912.440	2.133.845	**1.286.170**	1.193.223	327.292	310.740
Of which: Residential mortgage loans[2]	**5.565.680**	2.879.120	2.168.251	1.622.346	**614.752**	553.454	181.776	172.587
Of which: Credit for consumption[2]	**1.109.776**	637.137	306.799	255.511	**315.413**	298.330	70.554	66.974
Total on-balance sheet	**22.592.475**	**13.967.892**	**9.332.461**	**7.381.829**	**5.400.843**	**5.204.523**	**2.066.776**	**2.016.998**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

2. Liquidity risk and funding

2.1 Liquidity regulation

In addition to regulatory liquidity ratios disclosed in Note 28 of the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2016, the Group has to comply with the CRR Liquidity Coverage Ratio (LCR). It also monitors its position against the Basel Quantitative Impact Study (QIS) Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The CRR requires phased-in compliance with the LCR standard as from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. In October 2014, the European Commission published a final Delegated Act for the LCR. During 2015, the monthly LCR was calculated as per the CRR and also quarterly as per the Delegated Act (as part of the SREP Short Term Exercise). Starting from January 2016, the LCR is also calculated monthly based on the final published Delegated Regulation (EU) 2015/61. When the Delegated Regulation is enacted in September 2016, the LCR will only be calculated under this Regulation (LCR as per Regulation (EU) 680/2014 will be abandoned).

In October 2014, the Basel Committee on Banking Supervision published a final standard for the NSFR with the minimum requirement to be introduced in January 2018 at 100%. The methodology for calculating the NSFR is based on an interpretation of the Basel standards published in October 2014 and includes a number of assumptions which are subject to change prior to adoption by the European Commission through the CRR.

Based on Regulation (EU) 680/2014 and Basel QIS standards respectively, as at 31 March 2016 the Group had an estimated LCR of 64% (31 December 2015: 76%) and an estimated Basel QIS NSFR of 84% (31 December 2015: 83%). According to the LCR Delegated Regulation (EU) 2015/61, as at 31 March 2016 the LCR ratio was 0%. Under the Delegated Regulation, the ELA funding is deducted from High Quality Liquid Assets, thus resulting in a zero LCR ratio. It should be noted, however, that the Company considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment.

2.2 Liquidity reserves

Composition of the liquidity reserves	**31 March 2016**		31 December 2015	
	Liquidity reserves	**Liquidity reserves of which CRR (Delegated Regulation (EU) 2015/61) LCR eligible Level 1**	Liquidity reserves	Liquidity reserves of which Basel 3 LCR eligible Level 1
	€000	**€000**	€000	€000
Cash and balances with central banks	**1.140.151**	**730.564**	1.421.733	1.002.649
Nostro and overnight loans and advances to banks	**495.009**	**-**	537.722	-
Other loans and advances to banks	**444.045**	**-**	477.604	-
Liquid investments	**238.308**	**211.483**	19.594	2.421
Available ECB Buffer	**29.345**	**-**	178.792	178.792
Other investments	**7.747**	**-**	8.637	-
Total	**2.354.605**	**942.047**	2.644.082	1.183.862

2. Liquidity risk and funding (continued)

2.2 Liquidity reserves (continued)

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes. The minimum reserve amount is included in the balances with central banks under 'Liquidity Reserves' but excluded from the LCR Liquidity Reserves. Moreover, in the LCR Liquidity Reserves, only the part of the overseas units liquids required to maintain a ratio of 100% is included (since any excess is not transferable to be used by other units).

Investments are shown at market value net of haircut in order to reflect the actual liquidity value that can be obtained.

The Liquidity Reserves are managed by Group Treasury. Liquid asset investments are acquired within limits and parameters specified in the Liquid Assets Investment Policy approved by the Board.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade, albeit on a rising trend. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral. This disruption may also lead to higher borrowing costs for the Group. In addition, any weakening of the commitment to fiscal discipline and reform in the future might add to market pressures.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives have approved in January 2016 the issuance of €2,9 billion of guarantees for bonds/loans issued by credit institutions under the 'Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012'. It is expected that the Group will be able to make use of the above guarantees if the need arises, subject to the approval of the Ministry of Finance.

3. Other risks

Political risk

External factors which are beyond the control of the Group, such as political developments and government actions in Cyprus, Russia, the EU and other countries may adversely affect the operations of the Group, its strategy and prospects, either directly or indirectly through their possible impact on the domestic economy.

Important political risk factors include a possible government intervention in the economy that may affect the Group's activities, and social, economic and political developments in overseas countries where the Group operates or maintains exposure, developments in the Eurozone that may lead to a Euro exit of a Eurozone member state, the possible exit of Britain from the EU after the referendum of June 2016, developments in other non-EU countries with which Cyprus maintains significant economic links, the unresolved Cyprus problem, and political and social unrest or escalation of military conflict in neighbouring countries and/or other overseas areas.

Russia is an important economic partner of Cyprus both in terms of tourism and international business flows. Any developments that impact negatively on these linkages will have a negative impact on the economy and will thus affect the Group's operations. The standoff between Russia and the West over Ukraine continues and the United States and the European Union maintain sanctions against Russia. Russia continues its military operations over Syria and relations with Turkey remain complicated. As a result of sanctions and most importantly the steep decline in oil and commodity prices, Russia entered a steep recession in 2015 which continues into 2016.

The Russian economy contracted by 3,7% in 2015 and is expected to contract further by 1,8% in 2016 according to the IMF (World Economic Outlook Data Base, April 2016). Adjusting to lower oil prices requires an ambitious fiscal consolidation programme over the medium term. Monetary policy has been on hold but normalisation can resume once underlying inflation is firmly on a declining path. The anti-crisis measures helped stabilise the Russian banking system and the recapitalisation programme is largely complete.

3. **Other risks** (continued)

Political risk (continued)

In relation to Greece, the economy contracted by 0,2% in 2015 and is expected to contract further in 2016 by 0,6% according to the IMF (World Economic Outlook Data Base, April 2016), before growing by 2,7% in 2017. Greece signed a third Memorandum of Understanding (MoU) with the European Commission in August 2015 for further stability support accompanied by a third economic adjustment programme. The IMF was not part of the agreement initially. The Greek authorities also signed a Financial Assistance Facility Agreement with the European Stability Mechanism (ESM) to specify the financial terms of the loan. The disbursement of funds is linked to progress in delivery of policy conditions, in accordance with the MoU. The Greek government has a slight majority in parliament but has so far been successful in passing important reforms.

Greece and its creditors managed to reach an agreement at the Eurogroup meeting on 25 May 2016. Greece will get €10,3 billion over the next few months of which €7,5 billion in June 2016 allowing it to make due debt repayments in June and July and thus avoid default; creditors promised debt relief but not immediately; Greece will introduce additional spending cuts and reforms within its programme; the IMF suggested it will be back in the programme by the end of the year. In the remaining time until the end of the programme in mid-2018 Greece will have to introduce more austerity and more economic reforms. Political instability will remain on the horizon as also will, social unrest. Opportunities to derail the 25 May 2016 agreement will present themselves.

Unemployment is about 25% in Greece and youth unemployment is in excess of 50%. With a shrinking labour force, low fertility rates and inefficient tax collection, the country will face considerable stresses meeting programme obligations and hence, discontent and social unrest may grow. At the same time, the refugee crisis is straining Greece’s relationship with its European partners and some are calling for the suspension of Greece from Schengen. Social unrest may remain a threat throughout 2016 and with it, political instability will ensue. Early elections cannot be ruled out. In this context, the enforceability of the bailout programme and Greece’s membership in the Eurozone may again come to be questioned.

The UK’s referendum on EU membership and an exit from the EU may impact Cyprus. The UK accounts roughly for 40% of the tourist flow to Cyprus and remains an important trade partner generally. Exit of the UK from the EU might affect both the tourist and trade flows. Outside of the particular linkage between Cyprus and the UK, there might be serious and lasting repercussions on the cohesion of the European Union in the event of UK’s exit. The European Union is already stressed by economic crisis and by the refugee crisis that are creating insular reactions by member states. Even if the UK votes against exit, the negotiation between the UK and the EU on membership, constitute a precedent that may create other problems as other members choose to demand changes along the same lines in the future, in pursuing their own national priorities. These developments may be leading to a more fragmented Europe which may stop and sometimes reverse the process of integration. This may lead to slower growth, reduce intra-EU trade and aggravate the risk of recession.

Global economy risks remain elevated as highlighted by exceedingly easy monetary policies by most central banks, extremely low interest rates, which turned negative in many European countries and Japan, including in some cases, acceleration in credit expansion where credit outstanding is already elevated as in China. Monetary policies have started to diverge between the Federal Reserve on the one hand, set on normalising interest rates, and most of the rest of the world on the other. These divergences are starting to put pressure on exchange rates at a time when the global financial system is particularly sensitive to a dollar appreciation. Changes in monetary policies therefore or loss of confidence in the ability of central banks to manage economic pressures, might lead to financial distress in the emerging world with broader consequences for economic activity in advanced countries.

4. **Capital management**

The primary objective of the Group’s capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

4. Capital management (continued)

The Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework on 1 January 2014. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, and allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase in until 2024.

The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions and in 2014 set the minimum Common Equity Tier 1 capital ratio at 8% on a transitional basis (Pillar I capital requirements). The Group is also subject to additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons). However, the Group's Pillar II add-on capital requirement is a point-in-time assessment and therefore is subject to change over time.

Following the completion of the SREP for year 2015, the ECB notified the Group of the revised minimum required CET1 ratio. The revised Pillar II CET1 capital requirement was determined by the ECB to be at 3,75%, resulting in a total minimum CET1 of 11,75%. The Group's capital position as at 31 March 2016 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group.

Based on the provisions of the Macroprudential Oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the first two quarters of 2016.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0,5% and increasing by 0,5% every year thereafter, until being fully implemented (2,0%) on 1 January 2022.

The capital conservation buffer is 2,5% over the minimum CET1 ratio. The revised Pillar II CET1 minimum capital requirement of the Group was determined by the ECB to be at 11,75% which includes the capital conservation buffer.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

4. Capital management (continued)

4.1 Capital position

The capital position of the Group under CRD IV/CRR basis (after applying the transitional arrangements set by the CBC) is presented below.

	31 March 2016	31 December 2015
Regulatory capital	**€000**	€000
Transitional Common Equity Tier 1 (CET1)[3]	**2.768.669**	2.747.772
Transitional Additional Tier 1 capital (AT1)	**-**	-
Tier 2 capital (T2)	**20.628**	30.290
Transitional total regulatory capital	**2.789.297**	2.778.062
Risk weighted assets – credit risk[4]	**17.326.330**	17.618.578
Risk weighted assets – market risk	**7.417**	7.811
Risk weighted assets – operational risk	**2.039.888**	2.039.888
Total risk weighted assets	**19.373.635**	19.666.277
	%	%
Transitional Common Equity Tier 1 ratio	**14,3**	14,0
Transitional total capital ratio	**14,4**	14,1

During the three months period ended 31 March 2016, the CET1 was positively affected by the profit for the quarter however it was negatively affected by the phasing in of transitional adjustments for mainly deferred tax asset. The reduction of risk-weighted assets is primarily due to the Group's ongoing efforts for risk-weighted assets optimisation. As a result of the above the CET1 ratio increased by 30 bps during the quarter.

The Group is currently participating in the Single Supervisory Mechanism (SSM) SREP stress test, which is performed at the highest level of consolidation. The exercise is based on the methodology of the European Banking Authority (EBA) EU-wide exercise, amended to duly respect the principle of proportionality. This is facilitated by an extensive use of materiality thresholds. The exercise, which started in February of 2016, is expected to conclude early in the third quarter of 2016 and the results will be factored into the SSM's overall SREP assessment of the Group for 2016.

5. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)

Following the March 2013 events, the Group has resumed the preparation and submission to the ECB of both the ICAAP and ILAAP reports as from year 2014. Both reports were approved by the Board of Directors and have been submitted to the ECB.

The Group also undertakes a quarterly review of its ICAAP results. The first such review took place as at 30 September 2015. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). Given completion of the full ICAAP report in April 2016, the first quarterly review for 2016 will be for the period up to the end of June 2016.

[3] CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €51.949 thousand and €35.193 thousand as at 31 March 2016 and 31 December 2015 respectively.

[4] Includes CVA.

5. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP) (continued)

A quarterly review is also performed for the ILAAP through quarterly stress tests submitted to ALCO and Board Risk Committee, as from 2016. The first such review took place as at 31 March 2015. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows.

The ECB, as part of its supervisory role, has been conducting the Supervisory Review and Evaluation Process (SREP) and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things, the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of the SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. Additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time.

Following the completion of the SREP in 2015, the ECB notified the Group of the revised minimum required CET1 ratio of 11,75%. The Group's capital position as at 31 March 2016 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group.

Under article 100 of the Directive 2013/36/EU of the European Parliament, competent authorities shall carry out supervisory stress tests at least annually on institutions they supervise. This supervisory task has also been conferred on the ECB, which shall carry out where appropriate in coordination with EBA, stress tests. In execution of its mandate, the ECB, in close cooperation with the national competent authorities, is running a stress-testing exercise in 2016, the results of which will be factored into its overall assessment within the SREP. The scope of this SSM SREP stress test will complement this year's EU-wide exercise conducted by the EBA. It will therefore address banking groups other than those SSM significant institutions taking part in the EBA exercise.

The Group is currently participating in the Single Supervisory Mechanism (SSM) SREP stress test, which is performed at the highest level of consolidation. The exercise is based on the methodology of the European Banking Authority (EBA) EU-wide exercise, amended to duly respect the principle of proportionality. This is facilitated by an extensive use of materiality thresholds. The exercise, which started in February of 2016, is expected to conclude early in the third quarter of 2016 and the results will be factored into the SSM's overall SREP assessment of the Group for 2016.