Bank of Cyprus Public Company Ltd

Pillar 3 disclosures for the year ended 31 December 2010

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1. Introduction

Bank of Cyprus Public Company Ltd ('the Bank', 'the Company') is the holding company of the Bank of Cyprus Group ('the Group'). The principal activities of the Group are the provision of banking, financial services and insurance business.

This report has been prepared in accordance with Paragraph 70 of Unit A of the Directive to banks for the calculation of the capital requirements and large exposures of banks of 2006 to 2010 ('the Directive') issued by the Central Bank of Cyprus ('CBC', 'the Regulator'). The Directive implements the European Union's Capital Requirements Directive ('CRD')[1].

The Directive describes the Basel II framework which is based on three pillars:

- Pillar 1 has to do with the standards that set out the minimum regulatory capital requirements for credit, market and operational risk and it provides incentives for prudent risk management. It determines the Bank's risk weighted assets ('RWA') with a minimum capital requirement of 8% of the RWA.

- Pillar 2 covers the Supervisory Review Process ('SREP') which assesses the internal capital adequacy processes and provides monitoring and self-assessment of a bank's capital adequacy and internal processes. Banks and supervisors have to evaluate and assess whether a bank should hold additional capital against risks not covered by Pillar 1. The Group, as part of its capital management strategy and with the direct involvement of senior management, critically assesses the level of capital held against the Group's risk profile and its operating environment through the Internal Capital Adequacy Assessment Process ('ICAAP'). The process involves the review of risk management processes, stress testing capital levels through various scenarios of profitability and growth in risk weighted assets as well as the assessment of capital level against risks – in addition to the ones covered under Pillar 1. A report is submitted to the Regulator presenting the Group's position and a dialogue is initiated regarding the adequacy of risk capital.

-Pillar 3 covers transparency and the obligation of banks to disclose meaningful information to the market related to their risks, capital and generally risk management. Banks should be encouraged to implement sound banking practices through a number of disclosure requirements which enhance the degree of transparency in banks' public reporting. This will help market participants better understand the Bank's activities and how it manages its exposures and risks.

The Bank's Pillar 3 disclosures below have been prepared using 31 December 2010 data in accordance with the Directive.

1.1 Scope of Application

The requirements of the Directive, apply to the Bank of Cyprus Group and the Bank of Cyprus Public Company Ltd.

The Group has made a successful application to the CBC in relation to the partial consolidation of Kyprou Leasing S.A, on the grounds that the conditions as laid down in paragraph 14 of Unit A of the Directive are satisfied. Kyprou Leasing S.A. is:

- Substantially funded by the parent company
- The risk management procedures of Bank of Cyprus Public Company Ltd cover Kyprou Leasing S.A.
- Kyprou Leasing S.A. is 100% owned by Bank of Cyprus Public Company Ltd.

Therefore Kyprou Leasing S.A. is included in the calculation of the capital requirements of Bank of Cyprus Public Company Ltd.

Differences in the basis of consolidation for financial reporting and prudential purposes

For Group results and the balance sheet position all subsidiaries are fully consolidated. However, for prudential purposes the book value of subsidiaries of insurance and property and hotel business are deducted from the capital base. The treatment for accounting and prudential purposes of the various group entities is presented in Appendix 1 (p.29) of the report.

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[1] The Capital Requirements Directive (CRD) constitutes the following two directives:
- Directive 2006/48/EC relating to 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.

2. Risk Management Objectives and Policies

2.1 Risk Management Organisation

Risk is inherent to the Group's business and activities. The Group's ability to identify, measure, monitor and manage each type of risk to which the Group is exposed is an important factor for its financial stability, performance, reputation and the achievement of its strategic objectives.

Risk Management Framework

The risk management framework provides a comprehensive approach for identifying, measuring, monitoring and managing each type of risk to which the Group is exposed.

The Group operates in a complex and dynamic international environment and risk is inherent to its business and activities. The implementation of a robust and transparent risk management process is increasingly important in order for the Group to adapt and meet challenges in a structured way so it can continuously align its strategy and business objectives against a background of changing risk and uncertainty.

The risk management framework has been developed to:

- Ensure that the primary objective of the risk management process is achieved which is to ensure that a level of capital adequacy is maintained so that the total risk taken across the Group is no greater than the Group's ability to absorb losses.
- Allow the Group to proactively manage its risks in a systematic and structured way and to continuously refine its processes in order to reduce its risk profile and ultimately its capital requirements.
- Ensure appropriate strategies are in place to mitigate or transfer risks.
- Embed the risk management process and ensure it is an integral part of the Group's process of strategic decision making and capital planning.
- Help create a risk awareness culture at all levels within the Group.
- Engage the Group management's attention to the management, monitoring, reporting and reviewing of identified risks as well as consider new and emerging risks on a continuous basis.

Risk Management Process

The risk management process is integrated within the Group through established internal policies, systems, controls and comprehensive reporting, commensurate with the complexity of the Group's activities and structure. The system of internal controls provides reasonable assurance for the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with applicable laws and regulations. The risk management process provides for the continuous monitoring of the system of internal controls to ensure its effectiveness.

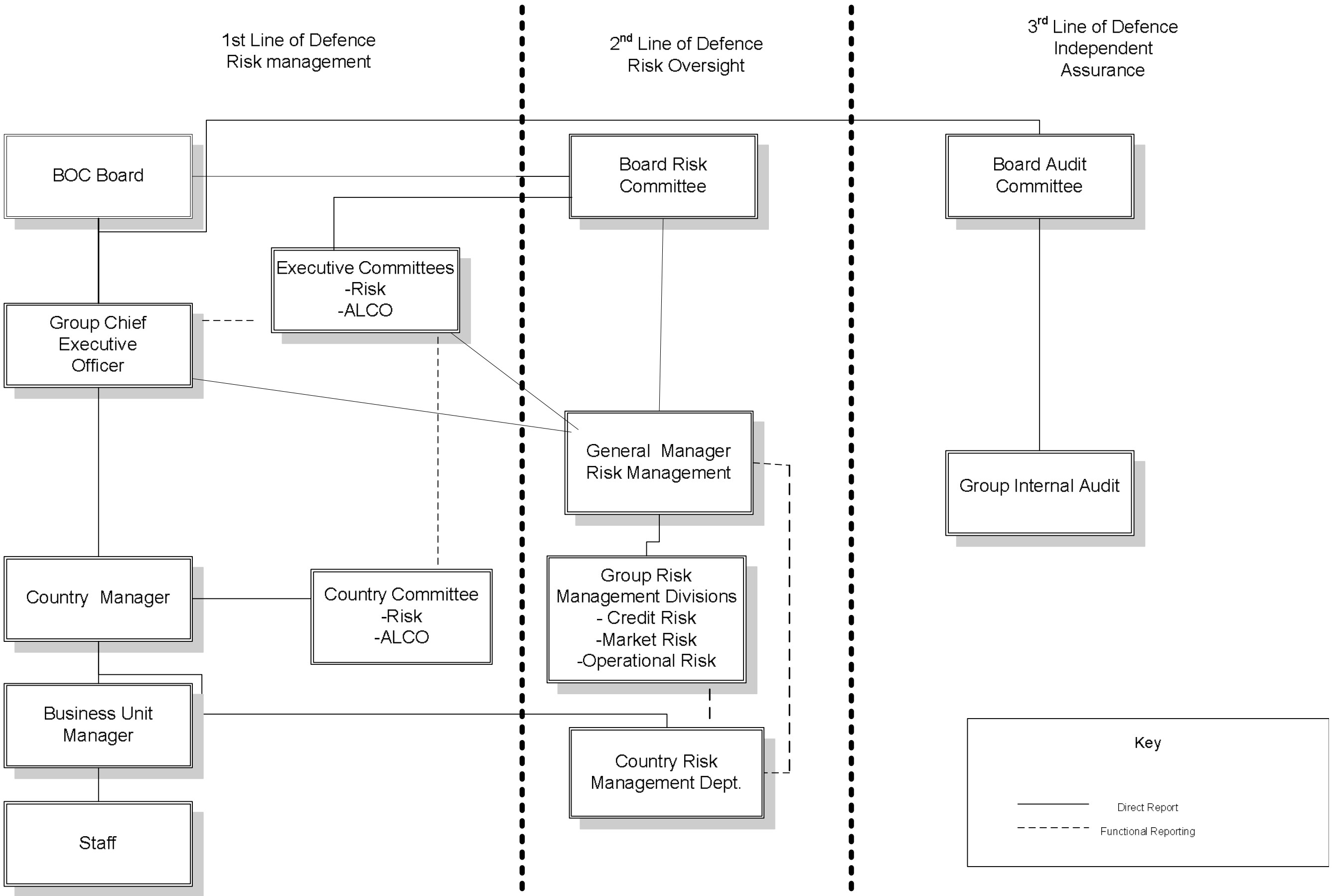
The Group Risk Management Unit is organised into three divisions for credit, market and operational risk management which report to the General Manager Risk Management. The three divisions, each one for its own discipline, are responsible for the following functions within the risk management framework:

- Facilitation of policy setting in line with the strategic and business objectives.
- Development of the framework for appropriate risk governance.
- Co-ordination of risk management activities within the Group.
- Development of risk measurement and monitoring tools.
- Assessment and aggregation of all material risks to ascertain the Group's overall risk position.
- Development of capital adequacy assessment models.

Through the realisation of the above, it is expected that both the losses arising from these risks and the relevant capital requirement, will be reduced. In addition, each division is responsible for ensuring that the Group complies with the Directive in its respective area.

Risk Governance and ownership

The risk governance structure is based on a “three lines of defence model”, which is described below:



- The first line of defence comprises management and staff who have risk ownership and the immediate responsibility of day-to-day risk management. It includes the Bank’s Board of Directors, Group Chief Executive Officer and the Group Executive Committees who have the primary responsibility for the management of risk. It also includes the Business Unit Country Managers, Division managers and the staff of the units/divisions.

- The second line of defence comprises the Board Risk Committee, the General Manager Risk Management, the three Group Risk Management Divisions and the local Country Risk Management functions. Their role is to provide risk oversight and independent and objective challenge to the first line of defence.

- The third line of defence comprises the Board Audit Committee and Group Internal Audit, who provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

Risk related issues are reported to the Group Executive Risk Committee comprising the following members:

- A. Eliades – Group Chief Executive Officer
- Y. Pechlivanidis First Deputy Group Chief Executive Officer
- Y. Kypri – Deputy Group Chief Executive Officer
- V. Shiarly – Group Chief General Manager
- C. Hadjimitsis – Senior Group General Manager
- N. Karydas – Senior Group General Manager
- I. Seiradakis – General Manager Bank of Cyprus Greece
- L. Isodiou – General Manager Information & Organization &Methods
- A. Andreadakis – General Manager Risk Management
- A. Jacovides – Senior Manager Group Operational Risk Management

The Group Executive Risk Committee convenes quarterly. Risk management committees also operate within the banking entities in all countries where the Group operates.

Market risks are reviewed at least monthly by the Group Asset and Liability Committee ('ALCO'). Group ALCO approves the policies and limits relating to management of market and other treasury related risks (such as liquidity risk and counterparty credit risk). At its monthly meeting, the Group ALCO views consolidated reports that indicate the Group's liquidity position and exposure to market risks.

The Board Risk Committee which convenes at least quarterly ratifies all major policies and limits.

The Group's strategies and processes for managing risks, as well as the measurement systems used and the hedging and mitigating strategies are analysed below by type of risk.

2.2 Credit Risk Management

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group places great importance on the effective management of credit risk. Credit risk is monitored through various control mechanisms across the Group in order to prevent undue risk concentrations and to price facilities and products on a risk-adjusted basis. This is achieved through a combination of highly trained and specialized personnel and appropriate systems, through which the creditworthiness of existing and new customers is assessed and the pricing of credit facilities is determined.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy.

Measurement and Assessment

The Group Credit Risk Management unit defines the Group's credit dispensing policies and monitors compliance with the relevant credit sanctioning procedures and controls applicable to each business line (consumer, business and corporate) and to each geographical area where the Group operates. Credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The Group Credit Risk Management unit sets targets and limits for the composition and quality of the loans and advances portfolio and monitors compliance with them. The assessment of the quality of the portfolio is carried out using credit rating and credit scoring systems to determine the creditworthiness of customers.

Portfolio monitoring is carried out on the basis of customers' creditworthiness, sector of the economy and country of operation. Regular audits are carried out by a specialist unit of the Group Internal Audit Division.

One important aspect of credit risk management is the development of new and the constant upgrading of existing systems for the assessment of the creditworthiness of Group customers.

In the Small and Medium-sized Enterprises ('SME') and Corporate Banking divisions, the new upgraded version of the Integrated Rating System was completed during 2009. This system uses a common base (the Moody's Risk Advisor ('MRA') system platform) for the credit risk assessment of both the SME and Corporate sectors. During 2010, this new upgraded version was formally applied based on the new web based version of MRA - Risk Analyst, whereas during 2011 the enhancement of the credit scoring system for retail customers will be completed. In addition, the Group has invested in the purchase of new systems aiming to further improve data automation for management reporting, capital adequacy calculation and risk measurement.

The aim of this new system is to facilitate more accurate calculations of a customer's creditworthiness as well as the calculation of the overall credit risk. Specifically, a Borrower Rating will be calculated; that is an assessment of the creditworthiness of the customer, which is based on the business' financial information, the quality of management, market trends/outlook and the behavior of the business' bank accounts and the bank accounts of the guarantors/ owners of the business. The Transaction Rating will then be calculated taking into account all relevant factors, including any collateral.

The implementation of this new system will enable the more effective forecast of the level of any future provisions for bad and doubtful debts as well as the level of required capital based on the relevant regulations of the supervisory authorities.

Stress Testing

Stress testing is an important tool within the Group credit risk management framework and it is used to enhance risk control and the quantitative measurement of risk. Its importance is emphasised by the strong regulatory focus given to it.

Stress testing required by the CBC, in co-operation with the International Monetary Fund ('IMF'), is performed semi-annually and covers all banking units of the Group – the stress tests include shocks associated with:

- Residential real estate prices fluctuations
- Commercial real estate prices fluctuations
- Non- performing loans ('NPLs') fluctuations and
- Combination of the above factors

Loan Sanctioning Policy

The Group has set specific limits for the various loan approval levels, which are exercised by qualified officers or committees within a predefined framework. There are also appropriate credit risk policies for each market/sector based on an evaluation of the credit risk and changing economic environment. Specific guidelines for the sound growth of the Group's loan portfolio are given by the Credit Risk Policy Management Department on a regular basis. Relevant instructions are also issued to ensure that, as far as possible, loans are properly priced on an individual customer basis. The relevant CBC guidelines are also taken into account which includes lending guidelines for the acquisition of immovable property including residential property.

Efficient Management, Monitoring and Control of Customer Advances

The ultimate objective of the efficient management of the Group's advances portfolio is to enable prompt corrective action to be taken as soon as arrears/irregularities appear on customer debit accounts, so as to restrict loan impairment. In this context, an integrated, automated collection/settlement system is used for the timely handling of overdue accounts in the retail sector. At the same time, all loan portfolios are closely and systematically monitored and controlled centrally by specialised Group departments, as well as regionally by the Business/Corporate Centres, and where necessary appropriate prompt corrective action is taken. Recoveries accounts are also handled effectively at both central and regional level.

The recent economic crisis had an adverse effect on vital sectors of the Cypriot economy especially those of tourism and property development. However, the quality of the Group's loan portfolio was not affected significantly due to the prudent lending policy that was applied to all sectors and to all geographic areas in which the Group operates and especially to the sectors that were hit most by the economic crisis.

The lending criteria that the Group has set, especially in the property sector (mainly the Loan to Value Ratio), are stricter than the minimum lending criteria that have been set by the CBC. In view of the economic crisis, the Group's lending criteria mentioned above have been made stricter where necessary and are continuously monitored according to the changing circumstances of the economy.

Credit Risk with correspondent Banks and Countries

Group Market Risk Management ('GMRM') is responsible for the credit risk that the Group has with correspondent banks and countries. During 2010, the GMRM continued the conservative policy for setting limits with other banks. Limits are based on a detailed assessment of the financials and other data of each bank. The changes in credit ratings, financial and other developments are monitored daily and limits are adjusted wherever considered necessary.

Policies for hedging and mitigating credit risk

The Group has implemented different methods in order to achieve effective mitigation of credit risk. Some of the most important methods are listed below:

- Determining which sectors of the economy the Bank is not willing to finance.
- Setting of sanctioning limits for all line Managers and Credit Committees.
- Setting of thresholds relating to Loan to Value Ratios as well as procedures for taking collaterals especially residential/ commercial mortgage.

- Credit Scoring Rating for retail customers and MRA Credit Rating for corporate customers are linked with approval/ rejection criteria.
- Issuing circulars and guidelines concerning the granting of credit.
- Ad-hoc approvals of corporate clients' lending.

2.3 Market Risk Management

Market risk is the risk of loss from changes in market prices, mainly from changes in interest rates and exchange rates.

GMRM is responsible for measuring and monitoring the following risks at Group level:

- Market risk (interest rate risk and foreign exchange risk).
- Liquidity risk.
- Credit risk with correspondent banks and countries.

The monitoring of these risks at local banking units is carried out by market risk officers in the various countries in which the Group operates, who report directly to GMRM which is responsible for monitoring market risk at Group level.

The Group ALCO sets out the policy for the management of these risks and approves the acceptable level of risk and limits, which are ratified by the Board Risk Committee.

In 2009, the reporting for the monitoring of the market risks of Uniastrum Bank in Russia was established. Limits were also put in place, with the exception of interest rate risk limits. In 2011 it is expected that limits for interest rate risk will also be approved and introduced.

Interest Rate Risk

Interest Rate Risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

In order to control the risk from changes in interest rates, there are limits on the maximum reduction of net interest income of each banking unit that can take place each year, for the next three years. These limits have been set as a percentage of Group capital (1,5%) and as a percentage of Group net interest income (5%) and have been allocated to the various banking units in accordance with their contribution to net interest income. Small limits have also been set for open interest rate positions in the over three-year period.

The GMRM measures the impact of a 2% change in interest rates on the economic value of the Group. The Group ALCO has set a maximum limit for this change equal to 10% of Group regulatory capital (calculated in accordance with CBC provisions).

Exchange Rate Risk

Exchange Rate Risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to limit the risk of loss from adverse fluctuations in exchange rates, the Group ALCO has approved overall open currency position limit for each currency or group of currencies and for the overall open currency position. This limit is very small compared to the maximum permissible by the CBC.

Due to the fact that the Group did not maintain a FX Trading Book during 2010, it stopped calculating and monitoring the Value at Risk ('VaR') on a daily basis. Instead, the VaR is calculated on a monthly basis on the position reported to the CBC (before and after taking into account the net assets of the foreign banking units of the Group). It is also reported to the Group ALCO for information purposes.

Liquidity risk

Liquidity Risk is the risk that the Group is unable to fully or promptly meet payment obligations and potential payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount.

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position.

Group assets are mainly funded by deposits. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the Group monitors the percentage of fixed deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels. The Group relies almost exclusively on stable funding sources in order to finance illiquid assets.

Furthermore, liquidity is monitored daily by GMRM. The responsibility for the management of liquidity rests with the treasury units at each location, in cooperation with Group Treasury.

GMRM monitors the Group's liquidity position and ensures adherence to the various limits (e.g. liquidity mismatch limits) set by the Group ALCO and the regulatory authorities in the countries where the Group operates. The Group ALCO approved the various assumptions and limits of two liquidity crisis scenarios: bank-specific crisis and market crisis.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Furthermore the ratio of liquid assets to total liabilities falling due in the next twelve months is monitored at Group level with the minimum acceptable ratio set at 25%. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities.

Policies for hedging and mitigating market risk

The Group aims to minimize market risks through hedging. Only minimal open positions are allowed for both foreign exchange ('FX') and interest rate risk.

FX risk is mostly hedged in the spot market. The local treasury departments outside Cyprus, hedge their position (arising from customer transactions) with the Group Treasury in Nicosia and only transact with other market participants in limited cases (e.g. when there is a bank holiday in Cyprus). The Group Treasury in Nicosia then covers its FX position by entering into FX deals with other banks. Other instruments used to hedge FX risk include FX forwards and FX swaps.

Interest rate risk is also managed centrally at Group level. The Group Treasury either provides fixed rate funding to other banking units that grant fixed rate loans, or accepts fixed rate funding from banking units to hedge their fixed rate deposits. Interest rate risk is also hedged using interest rate swaps ('IRS') between the various banking units of the Group as well as with external counterparties. The Group also hedges a percentage of non-rate sensitive deposits, such as current accounts, by investing in fixed rate bonds (structural hedging).

Every month, GMRM carries out tests to ensure that hedges fulfill the objective for which they have been set up. For structural hedging the amount of structural hedging assets is compared to the amount that should be hedged (based on the level of deposits and the assumptions approved by the Group ALCO). The average tenor of hedging assets is also compared to the targeted average tenor, in order to ensure that hedging is within the Group ALCO approved parameters.

For over three year positions, there are strict position limits. Any position not hedged is immediately identified since it violates the open position limits.

For cash flow hedges and fair value hedges that have been designated for hedge accounting in accordance with International Financial Reporting Standards, effectiveness is established both prospectively and retrospectively as per the requirements of the relevant standard.

Stress Testing

For market risk a number of stress tests are performed as listed below:

a) Stress testing required by the CBC, in co-operation with the IMF, is performed semi-annually and covers all banking units of the Group – these regulatory stress tests include:

i. interest rate risk
ii. liquidity risk
iii. equity price risk
iv. bond price risk
v. concentration risk from exposures in financial institutions.

b) Monthly stress testing for interest rate risk (2% shock on net interest income and economic value).
c) Monthly crisis scenario on the positions of Bank of Cyprus in Cyprus and in Greece for liquidity risk.
d) Quarterly stress testing on Group interest rate and credit risk positions.

2.4 Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. It includes legal risk but excludes reputation and strategic risks. It is embedded in every business activity within the Group and its management involves the promotion of risk culture and awareness within the organisation as well as the establishment of control policies and procedures.

Potential losses from operational risks may occur in all the Group's activities as a result of inefficiency or failure of internal processes or systems caused either by external events or human error. Consequently, under the umbrella of operational risks a wide range of possible cases are included, which are not easily predictable. Nonetheless, with proper operational risk management it is possible to limit any adverse consequences.

The Group Operational Risk Management Division ('GORM') employs specialised tools and methodologies for identifying, assessing and monitoring operational risk within the Group for the timely identification of any shortcomings. To this effect, the following activities are carried out:

- Collection of data on operational risk events. This data is utilised to improve the management of operational risks and where possible to prevent future losses. Currently, loss event data is collected from all Group entities worldwide with a threshold of €100 of potential loss. For the Ukraine and Russia operations the procedure has just been established. Regular reporting of operational loss data events is made to the Group Executive Risk Committee, Board Risk Committee and the CBC.

- Risk identification and assessment within business units using the Risk Control Self Assessment ('RCSA') Workshop Methodology. This is a self assessment by the managers and personnel involved (risk owners). GORM facilitates the three-stages of this process which are: a) analysis of core processes within business units, b) identification of key risks and the construction of risk maps and; c) formulation of action plans to implement controls for management of the key risks. The RCSA Workshop process is being performed extensively in Cyprus and Greece and is developing in Russia, Ukraine and Romania.

- Collection of Key Risk Indicators ('KRIs') through which there is ongoing monitoring of the Group's operational risks at various departments. Regular reporting of these indicators is made to the Group Executive and Board Risk Committees. The process of enriching the Group's KRI library is ongoing.

- New product approval: operation risk exposures related to the introduction of new products and services are methodically assessed and addressed during the product approval process.

- An education/training program is carried out throughout the Group aiming to promote the right culture and awareness in relation to operational risks thereby enhancing the control environment through employee behaviour and actions.

- Establishment of a network of operational risk management units in all the countries in which the Group operates. In addition a network of liaisons and correspondents is being established in Cyprus, Greece, Russia and Ukraine who act as facilitators in the process of loss data collection, RCSA Workshops and personnel training.

- Adoption of a sound and consistent outsourcing policy for the Group's outsourced needs to ensure monitoring and mitigation of particular risks that are concerned.

Policies for hedging and mitigating operational risk

Part of the mitigation strategies that the Group follows, as far as operational risk is concerned, has appropriate insurance coverage. This is being reviewed each year to ensure that the Group's needs are met. The Group has developed a Business Continuity plan to ensure that services can resume immediately in the case of a disruption.

3. Own funds

The own funds of the Bank of Cyprus Group as at 31/12/2010 were €3.128.504 thousand as shown below:

Original Own Funds (Tier 1)	**€000**
Share Capital	894.948
Share Premium	1.159.819
Reserves	581.674
Hybrid Capital Securities	751.652
Book value of non-banking subsidiaries	(117.265)
Intangible Assets	(385.166)
Total Tier 1	**2.885.662**
Additional Own Funds (Tier 2)	
Revaluation Reserves	185.222
Subordinated Loan Stock	174.885
General Provision	-
Book value of non-banking subsidiaries	(117.265)
Total Tier 2	**242.842**
Total own funds	**3.128.504**

3.1 Original own funds

Share Capital

The share capital of the Bank as at 31 December 2010 comprises of 894.948 thousand shares with a nominal value of €1,00 each.

Hybrid capital securities

The hybrid capital securities have no maturity date, but may be redeemed in whole at the option of the Company, subject to the prior consent of the CBC, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter. The amount of €751.652 thousand included in original own funds consists of:

	2010 €000
Convertible Capital Securities	634.034
Capital Securities 12/2007	117.618
	751.652

On 6 June 2009, the Company issued €645 million Convertible Capital Securities. The Convertible Capital Securities were offered to eligible shareholders of the Company (in the ratio of Convertible Capital Securities with nominal value of €11 for every 10 shares held). The issue proceeds were received through the exchange of Convertible Bonds 2013/2018 with nominal value of €527 million and the remaining €118 million was received in cash.

The Convertible Capital Securities bear a fixed interest rate of 5,50% per annum for the first five years and a floating interest rate of the 6-month Euribor plus 3,00% per annum thereafter. The Convertible Capital Securities may be converted into ordinary shares of the Company at the option of the holders at the conversion price of €5,50 per share. The conversion periods are between 15-30 September of years 2010-2013 and 15-31 March of years 2011-2014.

The Convertible Capital Securities are perpetual, but may be redeemed at the option of the Company, at par together with any accrued interest, on 30 June 2014 or on any other interest payment date thereafter, subject to the prior consent of the CBC.

The Capital Securities 12/2007 were issued in December 2007 in Cyprus pounds.
The interest rate of Capital Securities 12/2007 was fixed at 6,00% per annum for the first six months and floating thereafter, equal to the three-month Euribor plus 1,25%. The Capital Securities 12/2007 are listed on the Cyprus Stock Exchange.

Additional own funds

Subordinated loan stock

The subordinated loan stock issued by the banking companies of the Group is not secured and the rights and claims of loan stockholders are subordinated to the claims of depositors and other creditors of the banking companies, but have priority over those of the shareholders of the Bank.

The subordinated loan stock included in additional own funds amounted to €174.885 thousand and consists of:

		2010
	Contractual interest rate	**€000**
Subordinated Bonds 2011/2016 (€200 million)	Three-month Euribor plus 0,60%	127.315
Convertible Bonds 2013/2018 (€573 million)	7,50% until 30 June 2009 and six-month Euribor plus 1,00% thereafter	40.986
Subordinated Bond in US Dollars 2013/2014/2015	2,5%	6.584
		174.885

Subordinated Bonds

In May 2006, the Company issued €200 million floating rate Subordinated Bonds 2011/2016 in Euro maturing in May 2016. The Company has the option to call the Bonds in whole during or after May 2011. The interest rate of the Bonds was set at the three-month Euribor plus 0,60% until May 2011 and will increase to plus 1,60% thereafter. The issue price of the Bonds was 99,861%. The Bonds are listed on the Luxembourg Stock Exchange.

The Subordinated Bonds denominated in US Dollars 2013/2014/2015 were issued by CB Uniastrum Bank LLC. These bonds mature as follows: US$ 2 millions on 31 December 2013, US$ 2,5 million on 31 December 2014 and US$ 2 million on 31 December 2015. Interest can be changed unilaterally by the lender at any time until maturity.

Convertible Bonds

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with nominal value of €573.410 thousand, maturing in June 2018. The Convertible Bonds bear a fixed interest of 7,50% per annum until 30 June 2009 and floating interest rate thereafter, set at the six-month Euribor plus 1,00% until June 2013 and plus 3,00% thereafter. The bonds can be converted to shares at the price of €8,11 per share. The conversion periods are between 15-31 March for years 2011-2013 and 15-30 September for years 2010-2012. The bonds may be redeemed at the option of the Company on or after September 2013, subject to the prior consent of the CBC. The Convertible Bonds are listed in the Cyprus Stock Exchange.

Impediments to prompt transfer of funds between parent and subsidiaries

In the event of a crisis the parent company may encounter difficulties in drawing dividends from the following overseas subsidiaries:

- Bank of Cyprus (Channel Islands) Ltd
- Bank of Cyprus Australia Pty Ltd
- CB Uniastrum Bank LLC
- PJSB Bank of Cyprus

This may be due to the possible insistence of local regulators for the maintenance, for these subsidiaries, of capital ratios well in excess of these required by the CBC.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent company and its subsidiaries. After taking account of local capital adequacy requirements any distributions beyond this level will be subject to local regulatory authorities' approval.

The own funds for all subsidiaries are more than those required as a minimum by the Directive.

4. Minimum required own funds for credit, market and operational risk

4.1 Group's approach to assessing the adequacy of its internal capital

The methods used to assess the adequacy of internal capital for the different categories of risks are described below.

Credit risk

The necessary mechanism for the capital calculation with the Standardised Approach is implemented. The foundations have been laid for the implementation of the IRB foundation approach for Credit Risk.

The following table shows 8% of the risk-weighted group exposure amounts as at 31/12/2010 for each of the exposure classes specified in paragraph 23 of Unit A of the Directive.

	€000
Central governments or central banks	10.703
Regional governments or local authorities	333
Administrative bodies and non – commercial undertakings	24.097
Institutions	118.134
Corporate	1.137.688
Retail	562.973
Covered bonds	1.973
Securitisation positions	-
Other assets	52.498
	1.908.399

Market risk

The minimum capital requirement calculated in accordance with paragraph 19(b) of Unit A of the Directive for trading book activities[2] is as follows:

	€000
Traded debt instruments	-
Equity shares	207
Foreign Exchange	-
	207

Operational risk

The Group uses the Standardised Approach for the operational risk capital calculation. Nonetheless, certain Group Companies follow a different operation risk capital calculation methodology for the following reasons:

Bank of Cyprus Australia follows the Alternative Standardised Approach as this was requested by the Regulator in Australia. Having in mind the size of the operations in relation to the Group, the CBC accepted this calculation method as satisfactory.

The operations in Ukraine and Russia follow the Basic Indicator Approach, at the moment, for which approval of the CBC has been granted. This is considered to be a temporary arrangement until the necessary mechanisms are in place to adopt the Standardised Approach in these operations as well.

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach (paragraph 48 of Unit A of the Directive) amounts to €193.534 thousand.

Banking Activities	**Capital Breakdown to Business Lines €000**
Corporate Finance (CF)	205
Trading and Sales (TS)	15.677
Retail Brokerage (RBr)	724
Commercial Banking (CB)	123.599
Retail Banking (RB)	40.725
Payment and Settlement (PS)	11.863
Agency Services (AS)	1
Asset Management (AM)	740
	193.534

[2] Minimum capital requirements for trading book activities related to position risk, settlement risk and counterparty risk and where applicable concentration risk.

Capital Adequacy Ratio

	31/12/2010
Core Tier 1	8,12%
Tier 1	10,98%
Tier 2	0,92%
TOTAL	**11,91%**

	31/12/2010
	€million
Capital Base	**3.129**
Statutory Capital	**2.102**
Credit Risk	1.908
Operational Risk	194
Market Risk	-
Risk Weighted Assets	**26.277**
Credit Risk	23.855
Operational Risk	2.419
Market Risk	3
Core Tier 1 Capital	**2.134**
Tier 1	2.886
Tier 2	243
TOTAL CAPITAL	**3.129**

5. Counterparty credit risk

As at 31 December 2010, the Group did not have any outstanding securities or commodities lending or borrowing transactions, long settlement transactions or margin lending transactions. Hence, the section below only discusses credit risk arising from derivative instruments.

5.1 Internal capital and credit limits for counterparty credit exposures

Limits for derivative transactions are assigned for a selected number of counterparties, with either a rating of at least A1 (by Moody's) or with a Credit Support Annex ('CSA') agreement in place. The only exceptions are for: Merril Lynch (A2) and Cyprus Development Bank (Not Rated ('NR')) where Group Treasury is in the process of signing the required CSAs. These limits were approved by the Group ALCO. As a result of the financial crisis and the problems that many banks faced, during 2008 the Group significantly restricted the number of banks with which it maintains limits. The Group no longer follows the internal model that relied mostly on the bank's credit rating. Group Treasury requests additional limits when necessary. GMRM carries out an analysis (based on both qualitative and quantitative factors) and recommends limits for approval to the Group ALCO. It should be noted that limits are allocated to banks that have a significant share of their local market, strong financial position and high probability of obtaining support from their governments in case of a problem.

The derivative limit (for the Expected Replacement Cost ('ERC') of the contract), counts within the overall limit of the counterparty and is set at 15% of the total limit. There is also a limit for the maximum notional amount of contracts with each counterparty, which is 20 times the ERC limit.

Credit risk arising from entering into derivative transactions with counterparties is measured using the mark-to-market method. According to this method, the current replacement cost of all contracts with positive amounts is obtained and an add-on is applied to this amount for potential future credit exposure, according to specific factors depending on the type of transaction and duration. This figure is used both for calculating the capital required for the credit risk of these transactions and for credit limit monitoring.

5.2 Policies for securing collateral and establishing credit reserves

At 31 December 2010, the Group had signed CSAs to the International Swaps and Derivatives Association ('ISDA') agreement with seventeen out of twenty five counterparties (with which the Group maintains derivative limits). In 2011 it is expected that more such agreements will be entered into. As at the year end, the threshold amounts in the CSA with the following counterparties were reached and thus the following amounts were transferred to (where the indicated amount is positive) or obtained from (where the indicated amount is negative) the counterparty:

Counterparty	€000
Societe Generale Paris	7.100
Morgan Stanley	60
UBS	10.600
ING	13.370
RBS	(2.602)
Credit Suisse	(6.131)
Citibank	1.495
HSBC	6.900
BNP	4.770
Barclays	45.250
Nomura	11.570
Deutsche Bank	7.290
JP Morgan	7.597
Total Positive	**116.002**
Total Negative	**(8.733)**

5.3 Policies with respect to wrong-way risk exposures

This risk is not currently measured. It is not anticipated to be significant since a change in market rates (interest rates and FX rates which are the main underlying factors of our derivative transactions) is not expected to materially increase the probability of default ('PD') of the Group's counterparties. It should also be noted that since the Group uses the standardised approach, it does not measure the PD of counterparties.

5.4 Collateral the bank would have to provide given a downgrade in its credit rating

Currently the only instance where the Group would have to provide additional collateral in the event of a downgrade, involves derivative transactions under ISDA agreements, where a CSA has been signed. Out of the seventeen agreements signed, only three such agreements in place provide for additional collateral in the event of a downgrade. In the event of an up to two notch downgrade, the amount of additional collateral to be provided amounts to €2 million (see Table below).

Increase in Collateral in the case of 2 notches downgrade in Rating (ISDA Agreements)				
Bank	**Moody's Rating**	**Min. Transfer Amount (EUR million)**	**Threshold Amount (EUR million)**	**Difference (EUR million)**
Nomura International Plc	A3	1	1	-
	Baa1	0,25	1	0,75
	Baa2	0,25	1	-
BNP Paribas	A3	1	1,5	-
	Baa1	1	1	0,5
	Baa2	1	1	-
Credit Suisse	A3	1,5	-	-
	Baa1	1,5	-	-
	Baa2	1,5	-	-

5.5 Gross positive fair value of contracts

The gross positive fair value of Group derivative contracts (mainly IRS and FX contracts) is presented in the Table below. This is the total of the positive mark-to-market of all contracts (including net accrued interest). It should be noted that there are no legally enforceable netting agreements in place. The collateral agreement with RBS and Credit Suisse has reached the threshold amount (thus collateral of €2.6 million and €6.1 million has been provided). Thus, the "Net derivatives credit exposures" is €67,545 thousand that is to say equal to the "Gross positive fair value" after taking into account the collateral amount provided.

	Gross Positive Fair Value as at 31 Dec 2010
	€000
Cyprus	50.396
Greece	25.546
UK	336
Other	-
Group	**76.278**

5.6 Mark-to-market method and exposures

The mark-to-market of IRSs is calculated using the Bloomberg system. The methodology used is as follows:

- The fixed payments are calculated for all future payment dates based on the fixed rate of the IRS.
- The floating payments are also calculated for all future payment dates based on the rates implied by the forward curve.
- The net position of the fixed and floating payments is calculated and discounted to present value ('PV') using the relevant discount factors.

FX forwards and FX swaps are marked to market as follows:

The forward leg of each contract is taken, and each currency is converted into Euro using the forward rate corresponding to the remaining period to the maturity date of the contract (i.e. the period between the valuation date and the maturity date). The difference between the Euro amount of the two currencies discounted to the valuation date using the risk free rate, is the profit or loss on the contract as follows:

If PV (Euro equivalent of purchase amount – Euro equivalent of sale amount) > 0 => profit

If PV (Euro equivalent of purchase amount – Euro equivalent of sale amount) < 0 => loss

The table below indicates the measures for exposure value under the mark-to-market methodology. The exposure values are calculated as the:

- Positive mark to market after taking into account the accrued interest and
- Add on amount, which is equal to a percentage of the nominal amount of each deal based on its duration.

Further to the above, an additional adjustment is made in order to capture the credit risk of IRS counterparties. The calculation for this credit risk adjustment is performed as follows:

- Calculation of the mark to market plus accrued interest.
- Calculation of the average rating and average maturity of the Group's portfolio.
- In the case where the result of the mark to market plus accrued interest is positive, this is multiplied with the relevant iTraxx default level (based on the average maturity of the portfolio already calculated) to arrive at the potential credit risk loss.

As at the end of December 2010 this amount for the Group was equal to €3.290 thousand.

Exposures under the mark-to-market method as at 31 Dec 2010	
	€000
Cyprus	
Institutions	99.526
Corporates	6.347
	105.873
Greece	
Institutions	39.615
Corporates	1.171
	40.786
UK	
Institutions	1
Corporates	909
	910
Other	
Institutions	-
Corporates	-
	-
Group	
Institutions	139.143
Corporates	8.427
	147.570

6. Bank's exposure to credit risk and impairment risk

Past due loans and advances are defined as all loans and advances where the counterparty has failed to make a payment when it is contractually due.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults.

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due according to the original contract terms.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Loans are monitored continuously and are reviewed for impairment every six months. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the consolidated income statement.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due amounts and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6.1 Total amount of exposures

Credit exposure by class as at 31 Dec. 2010 and average exposure amount		
	Exposure amounts 31/12/2010	Average Exposure amount in 2010
	€000	€000
Central governments and Central Banks	5.479.409	4.203.512
Regional Governments and local authorities	98.054	99.945
Administrative bodies and non - commercial undertakings	367.403	306.426
Institutions	7.126.017	7.767.606
Corporates	19.258.797	18.603.494
Retail	13.818.377	13.689.871
Securitisation exposures	-	202.000
Other items	-	441.705
Total Credit Risk Exposure	46.148.057	45.314.559

Credit exposure by type as at 31 Dec. 2010						
Type	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Bank Loans & Overdrafts	13.081.277	16.804.225	-	329.075	93.510	30.308.087
Acceptances, Endorsements & Documentary Credits	119.710	78.567	-	-	-	198.277
Guarantees	331.964	1.663.206	-	36	481	1.995.687
Unutilized Loan Commitments (undrawn loans and overdraft accounts)	285.426	687.550	-	-	439	973.415
Interbank Placements	-	-	5.164.611	-	2.047.251	7.211.862
Debt Securities & Equity Shares	-	16.822	1.822.265	38.292	3.435.782	5.313.161
Derivatives	-	8.427	139.141	-	-	147.568
Other	-	-	-	-	-	-
Total	13.818.377	19.258.797	7.126.017	367.403	5.577.463	46.148.057

6.2 Geographic distribution of the exposures

Credit Exposure by Geographical Area as at 31 Dec. 2010						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€ 000	€ 000	€ 000	€ 000	€ 000	**€ 000**
European Union:						
Cyprus	6.609.096	10.232.814	137.968	28.104	1.256.820	18.264.802
Greece	5.573.076	6.469.040	270.910	306.899	2.413.187	15.033.112
UK	485.118	562.007	874.005	-	83.356	2.004.486
Romania	79.757	223.844	49.710	-	50.507	403.818
Other	-	619	4.202.996	32.400	521.895	4.757.910
ECB	-	-	-	-	1.090.000	1.090.000
Rest of Europe						
Russia	516.985	1.108.515	85.258	-	146.205	1.856.963
Ukraine	71.093	104.823	3.556	-	4.970	184.442
Australia & New Zealand	483.252	550.620	330.104	-	10.523	1.374.499
North America & Canada	-	6.484	435.536	-	-	442.020
Other	-	31	659.699	-	-	659.730
Supranational	-	-	76.275	-	-	76.275
Total	13.818.377	19.258.797	7.126.017	367.403	5.577.463	46.148.057

6.3 Distribution of the exposures by industry or counterparty types

Exposure broken down by NACE as at 31 Dec.2010						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€ 000	€ 000	€ 000	€ 000	€ 000	**€ 000**
Agriculture, Forestry and Fishing	209.392	182.177	-	-	-	391.569
Mining and Quarrying	30.656	124.849	-	-	-	155.505
Manufacturing	1.010.798	1.713.336	-	-	-	2.724.134
Electricity, Gas and Water Supply	46.590	195.888	-	300.030	-	542.508
Construction	793.942	3.541.339	-	-	-	4.335.281
Wholesale and Retail	2.224.276	3.109.528	-	-	-	5.333.804
Hotels and Restaurants	453.257	2.088.525	-	-	-	2.541.782
Transport	312.936	1.364.159	-	28.015	-	1.705.110
Financial Intermediation	99.330	224.723	-	-	-	324.053
Real Estate	556.230	3.588.062	-	-	-	4.144.292
Professional, scientific and technical activities	588.829	1.296.962	-	5	-	1.885.796
Public Administration	17.008	42.977	-	1.030	5.562.126	5.623.141
Education	108.722	41.301	-	31	-	150.054
Health and Social Work	164.460	102.391	-	-	-	266.851
Personal Service Activity	529.367	478.910	-	-	15.315	1.023.592
Private Individuals	6.601.349	1.045.249	-	-	-	7.646.598
Financial Institutions	-	-	7.126.016	38.292	-	7.164.308
Others	71.235	118.422	-	-	22	189.679
Total	13.818.377	19.258.798	7.126.016	367.403	5.577.463	46.148.057

6.4 Residual maturity breakdown of all the exposures

Credit Exposure by Maturity as at 31 Dec. 2010						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€ 000	€ 000	€ 000	€ 000	€ 000	**€ 000**
Less than 1 year	4.237.737	8.443.170	5.664.649	1.061	455.964	18.802.581
1 to 5 years	1.789.953	3.082.131	1.183.649	88.292	1.273.099	7.417.124
5 to 10 years	1.380.454	2.727.134	218.620	250.002	2.829.838	7.406.048
More than 10 years	6.410.233	5.006.362	59.099	28.048	1.018.562	12.522.304
Total	13.818.377	19.258.797	7.126.017	367.403	5.577.463	46.148.057

6.5 Security breakdown

Credit exposure and value of security as at 31 Dec. 2010						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€ 000	€ 000	€ 000	€ 000	€ 000	**€ 000**
Credit Exposure	13.818.377	19.258.797	7.126.017	367.403	5.577.463	46.148.057
Value of Security	7.656.156	10.377.874	917.743	5	84.798	19.036.576
Total Unsecured Credit Exposure	6.162.221	8.880.923	6.208.274	367.398	5.492.665	27.111.481

Although total credit exposure as at 31/12/2010 amounted to €46.148.057 thousand, only €27.292.342 thousand (net of provisions) relates to bank loans and overdrafts. For a full breakdown of credit exposure by type refer to section 6.1.

Security by type as at 31 Dec.2010						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€ 000	€ 000	€ 000	€ 000	€ 000	**€ 000**
Real Estate Property	7.129.269	9.300.175	-	-	951	16.430.395
Cash	402.671	624.478	797.577	5	171	1.824.902
Securities/ Bonds	16.128	278.896	120.166	-	11	415.201
Guarantees	75.163	147.714	-	-	83.665	306.542
Other Securities	32.925	26.611	-	-	-	59.536
Total	7.656.156	10.377.874	917.743	5	84.798	19.036.576

6.6 Impaired exposures and past due exposures

Impaired and past due loans and advances by geographical areas as at 31 Dec. 2010				
	Neither past due nor impaired	Past due but not impaired	Impaired	**Total**
	€000	€000	€000	**€000**
Cyprus	11.238.896	1.872.732	771.336	**13.882.964**
Greece	7.727.559	1.806.180	620.646	**10.154.385**
Russia	1.673.662	97.148	116.404	**1.887.214**
United Kingdom	912.448	123.983	40.383	**1.076.814**
Australia	862.029	149.531	-	**1.011.560**
Romania	473.067	123.900	27.707	**624.674**
Ukraine	126.581	79.315	42.343	**248.239**
	23.014.242	4.252.789	1.618.819	**28.885.850**

Provision for impairment of loans and advances by geographical area as at 31 Dec.2010					
	Cyprus	Greece	Russia	Other Countries	**Total**
	€000	€000	€000	€000	**€000**
At 1 January 2010	452.499	306.450	72.390	40.929	**872.268**
Exchange differences	2.283	-	3.379	1.765	**7.427**
Applied in writing off impaired loans and advances	(32.218)	(24.112)	(1.714)	(3.712)	**(61.756)**
Interest accrued on impaired loans and advances	(20.365)	(16.391)	-	-	**(36.756)**
Collection of loans and advances previously written off	4.719	-	-	-	**4.719**
Charge for the year	144.966	184.597	24.461	20.473	**374.497**
At 31 December 2010	**551.884**	**450.544**	**98.516**	**59.455**	**1.160.399**
Individual impairment	**393.168**	**390.254**	**43.657**	**46.033**	**873.112**
Collective impairment	**158.716**	**60.290**	**54.859**	**13.422**	**287.287**

7. External Credit Assessment Institutions ('ECAIs') used for calculating risk-weighted assets under the standardised approach

7.1 Exposure classes for which External Credit Assessment Institutions ('ECAI') or Export Credit Agencies ('ECA') are used

The Group uses external ratings from Moody's. These ratings are used for all relevant exposure classes, which are the following:

- Claims or contingent claims on central government or central banks
- Claims or contingent claims on regional governments or local authorities
- Claims or contingent claims on multilateral development banks
- Claims or contingent claims on institutions
- Claims or contingent claims on corporates (*it should be noted that most corporates are unrated)*
- Claims in the form of covered bonds
- Short-term claims on institutions and corporates
- Securitization positions

7.2 Transfer of credit assessments onto items not included in the trading book

The exposures are classified into the above exposure classes, and are then ranked into respective credit quality steps, that determine the risk-weight to be used in accordance with the provisions of the Directive.

In the case of financial institutions, the credit quality step is determined, according to the rating of the country under whose supervision they operate. It should be noted that all exposures with financial institutions with original maturity of three months or less, are risk-weighted 20%, unless the counterparty is unrated and the risk-weight assigned to its country is higher.

7.3 Association of external rating of each nominated ECAI or ECA with credit quality steps

The Group complies with the standard association published by the CBC, regarding the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Annex VI of the Directive.

Moody's Rating of Central Government	**Risk Weight**		
	Financial Institutions*	**Sovereigns**	**Corporates**
Aaa to Aa3	20%	0%	20%
A1 to A3	50%	20%	50%
Baa1 to Baa3	100%	50%	100%
Ba1 to Ba3	100%	100%	100%
B1 to B3	100%	100%	150%
equal or lower than Caa1	150%	150%	150%

* The above association also applies for regional governments or local authorities and for multilateral development banks (unless they are specifically stated in the CBC rules to be 0% risk-weighted).

7.4 Exposure before and after credit risk mitigation

The exposure before and after credit risk mitigation associated with each credit quality step mostly for financial institutions and governments, as at the year-end was as follows:

Rating	Total Exposure €Million
Aaa - Aa3	7.609
A1- A3	989
Baa1 - Baa3	1.181
Ba1 - Ba3	2.376
NR (Not Rated)	544
TOTAL	**12.699**

As at the year-end there was no credit risk mitigation available for exposures with banks and sovereigns and corporate bonds/derivatives. Therefore, the above amounts indicate the exposures both before and after credit risk mitigation.

8. Exposures in equities not included in the trading book

The Group holds equity securities mainly for the purposes of capital appreciation. At 31 December 2010, the Group also had certain equity securities obtained from customers in satisfaction of debt as well as certain venture capital investments.

Listed equity securities are measured at fair value, being the market value of these securities on a recognised stock exchange. Unlisted securities are also measured at fair value, which are determined using valuation models. These models are periodically reviewed by qualified personnel.

There have been no significant changes to these practices in 2010 compared to 2009.

Of the total equity securities held by the Group as at 31 December 2010, €62.797 thousand were classified as available for sale and €85 thousand were classified as at fair value through profit or loss.

The balance sheet value of the Group's equity securities not included in the trading book at 31 December 2010 is €62.882 thousand, analysed as follows:

	€000
Listed on the Cyprus Stock Exchange	14.856
Listed on other stock exchanges	47.368
Unlisted venture capital investments	85
Other unlisted	573
Total	**62.882**

There is no difference between the fair value and the balance sheet value of equity securities.

The realised loss from disposals of equity securities during 2010 amounted to €34 thousand and was included in the income statement. The total cumulative unrealised loss on revaluation of available-for-sale equity securities amounted to €1.978 thousand and was included in the revaluation reserves of the Group. In addition the Group recorded an impairment change of €23.770 thousand in the income statement.

9. Exposure to interest rate risk on positions not included in the trading book

The Group ALCO sets limits on the maximum allowable interest rate risk in the banking book, for each banking unit. The exposure is described below.

Impact on Net Interest Income

The maximum loss limits apply for each year, for the first three years. They were set as a percentage of Group capital (1,5%) and as a percentage of net interest income of the Group (5%) and were allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions have been approved for periods more than three years.

The table below indicates how the net interest income of the Group, over a one-year period, will be affected from a reasonably possible change in the interest rates of the main currencies:

Change in rates	**Euro**	**USD**	**GBP**	**Other currencies**	**Total**
	€000	€000	€000	€000	**€000**
2010					
+1,0% in all currencies	**20.581**	**18.444**	**1.994**	**3.946**	**40.432**
-0.25% for US dollars, Euro, Sterling pound, Japanese Yen, Swiss Franc and -0.5% for all other currencies	**(9.358)**	**(3.850)**	**(790)**	**(1.838)**	**(14.206)**

The total change in net interest income differs from the sum of the changes for each individual currency, as it has been calculated based on the actual correlation coefficients between the interest rates of the various foreign currencies, and perfect positive correlation between the interest rate of the foreign currencies and the Euro.

Impact on the Economic Value of equity

The impact on the Economic Value of equity is measured for Group positions, for a 200 basis points change in interest rates. The Group ALCO has set a maximum limit of 10% of Group regulatory capital for this change. The change in the economic value of the Group as at the end of December 2010 amounted to €134 million (4,26% of Group regulatory capital, calculated in accordance with CBC rules).

Measuring the interest rate effect

The following methodology is used to measure the interest rate effect:

The assets and liabilities in each currency are placed in time bands, according to the number of days remaining from the reporting date until their next repricing date. The difference between assets and liabilities repricing in each time band, 'the gap' is then calculated. The gaps are the starting point in calculating both the impact on net interest income and on economic value from a certain change in interest rates.

A rate change is applied on the gap of each time band for the number of days from the middle of the time band to the year-end in order to calculate the impact on net interest income. Moreover, a factor (provided in the Basel document "Principles for the management and supervision of interest rate risk) for the standardised interest rate shock and corresponding to a 2% rate change) is applied to the gap of each time band in order to calculate the impact on Economic Value.

The interest rate effect, on interest income is measured according to the following scenarios:

I. For a 1% increase and a 1% decrease in rates assuming a parallel shift of the yield curve.
II. Using interest rate changes for each currency and time period as suggested by the yield curves.

The overall interest rate effect is calculated in two ways:

a) As the average of the interest rate effects using the assumption of positive and zero correlations, since we know from historic data that actual correlations lie between 0 and 1.
b) Using the actual correlations of 1-month interest rates.

Daily monitoring – for the purpose of monitoring compliance with the maximum loss limit on a daily basis, the interest rate effect is calculated using method I above and (a) only – that is to say a 1% parallel shift in both directions will be used and the average of the zero and positive correlations will be applied.

Monthly monitoring – All the above methods will be used. In the case of operations in Australia, Channel Islands, Russia, Romania and Ukraine monitoring for the time being will be monthly– methods I and II above will be used. As the operations grow and become more complex, more frequent monitoring will be carried out.

All the interest rate effects calculated using the above methodologies should be within the overall limit for each banking unit.

Concentration limits per currency

In order to avoid excessive variations in Group net interest income caused by the change in the interest rate of a particular currency, it is prudent to limit the maximum interest rate effect by establishing concentration limits per currency. These limits are related to the size of the assets and liabilities of each currency. Concentration limits are set for the Bank's operations in Cyprus and Greece. No concentration limits are set for the other operations (in the UK, the Channel Islands, Australia, Russia, Romania and Ukraine) due to the size of their balance sheets.

10. Market Risk Trading Books

The Group has a low market risk appetite. This is why the Group has no trading books (FX, Credit or Interest). Only a small number of equities listed in the Cyprus stock Exchange are held in a trading book in the books of the Cyprus operations of the Bank and its subsidiary CISCO. The intention is to gradually dispose of these equities and close the trading book.

APPENDIX 1

The list of Group companies as at 31 December 2010 by country of incorporation is set out below:

Company Name	**Activities**	**Consolidation method**	
		Accounting purposes	**Prudential purposes**
Cyprus			
Bank of Cyprus Public Company Ltd	Commercial banking	C	C
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Investment banking	C	C
General Insurance of Cyprus Ltd	General insurance	C	D
EuroLife Ltd	Life insurance	C	D
Kermia Ltd	Property trading and development	C	D
Kermia Properties & Investments Ltd	Property trading and development	C	D
Kermia Hotels Ltd	Hotel business	C	D
BOC Ventures Ltd	Management of venture capital investments	C	C
Tefkros Investments Ltd	Investment fund	C	D
JCC Payment Systems Ltd	Credit card transactions processing	PC	PC
Bank of Cyprus Mutual Funds Ltd	Inactive	C	C
Cytrustees Investment public Company Ltd	Closed - end investment company	C	D
Interfund Investments Plc	Closed - end investment company	Associate (Equity Method)	D
Diners Club (Cyprus) Ltd	Diners club credit card facilities	C	C
BOC Russia (Holdings) Ltd	Intermediate holding company	C	D
Otherland Properties Ltd	Intermediate holding company	C	D
Gosman Properties Ltd	Intermediate holding company	C	D
Pittsburg Properties Ltd	Intermediate holding company	C	D
Battersee Properties Ltd	Intermediate holding company	C	D
Trecoda Properties Ltd	Intermediate holding company	C	D
Bonayia Properties Ltd	Intermediate holding company	C	D
Greece			
Bank of Cyprus Public Company Ltd (branch)	Commercial banking	C	C
Kyprou Leasing SA	Leasing	C	C
Kyprou Commercial SA	Financing of motor vehicles and other consumer products	C	C
Kyprou Securities SA	Investment banking	C	C
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	Management of mutual funds	C	C
Kyprou Properties SA	Property management	C	D
Kyprou Insurance Services Ltd	General insurance brokers	C	D
Kyprou Zois (branch of EuroLife Ltd)	Life insurance	C	D
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	General insurance	C	D
United Kingdom			
Bank of Cyprus United Kingdom (branch)	Commercial banking	C	C
Katoikia I Mortgage Finance Plc	Special Purpose Entity	C	C
Katoikia I Mortgage Holidings Ltd	Special Purpose Entity	C	C
Misthosis Funding Plc	Special Purpose Entity	C	C
Misthosis Funding (Holding) Ltd	Special Purpose Entity	C	C
Channel Islands			
Bank of Cyprus (Channel Islands) Ltd	Commercial banking	C	C
Tefkros Investments (CI) Ltd	Investment Fund	C	D
Australia			
Bank of Cyprus Australia Ltd	Commercial banking	C	C

Romania			
Bank of Cyprus Romania (branch)	Commercial banking	C	C
Cyprus Leasing Romania IFN SA	Leasing	C	C
Otherland Properties Dorobanti SRL	Property Investment	C	D
S.C. ONT Carpati S.A.	Hotel Business	C	D
Pittsburg Properties SRL	Property Investment	C	D
Battersee Properties SRL	Property Investment	C	D
Trecoda Properties SRL	Property Investment	C	D
Green Hills Properties SRL	Property Investment	C	D
Russia			
CB Uniastrum Bank LLC	Commercial banking	C	C
Leasing Company Uniastrum Leasing	Leasing	C	C
Ukraine			
PJSB Bank of Cyprus	Commercial banking	C	C
Netherlands			
Kyprou Finance (NL) B.V.	Financing Company	C	C

C: Fully Consolidated   D: Deducted from Capital Base   PC: Proportionally Consolidated