Bank of Cyprus Group

Bank of Cyprus Public Company Ltd

Pillar 3 disclosures for the year ended 31 December 2011

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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 2011 ('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 and the determination of the Bank's risk weighted assets ('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.

In July 2011, the Central Bank of Cyprus amended its Directive for capital requirements, introducing a new ratio for core tier 1 capital. The minimum level of the new ratio was set at 8% for the period until 30 December 2012.After that date, the minimum level of the ratio will increase gradually based on the percentage of the Group's assets over the gross domestic product of the Republic of Cyprus.

The Directive also sets the minimum level of tier 1 capital ratio as the minimum level of core tier 1 ratio plus 1,5%. In addition, it sets the minimum total capital ratio as the tier 1 ratio plus 2,0%. As a result, the minimum required ratios for tier 1 and total capital as at 30 June 2012 were 9,5% and 11,5%, respectively.

The Bank's Pillar 3 disclosures below have been prepared using 31 December 2011 data in accordance with the Directive.

1.1 Scope of Application

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

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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.

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.34) of the report.

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.

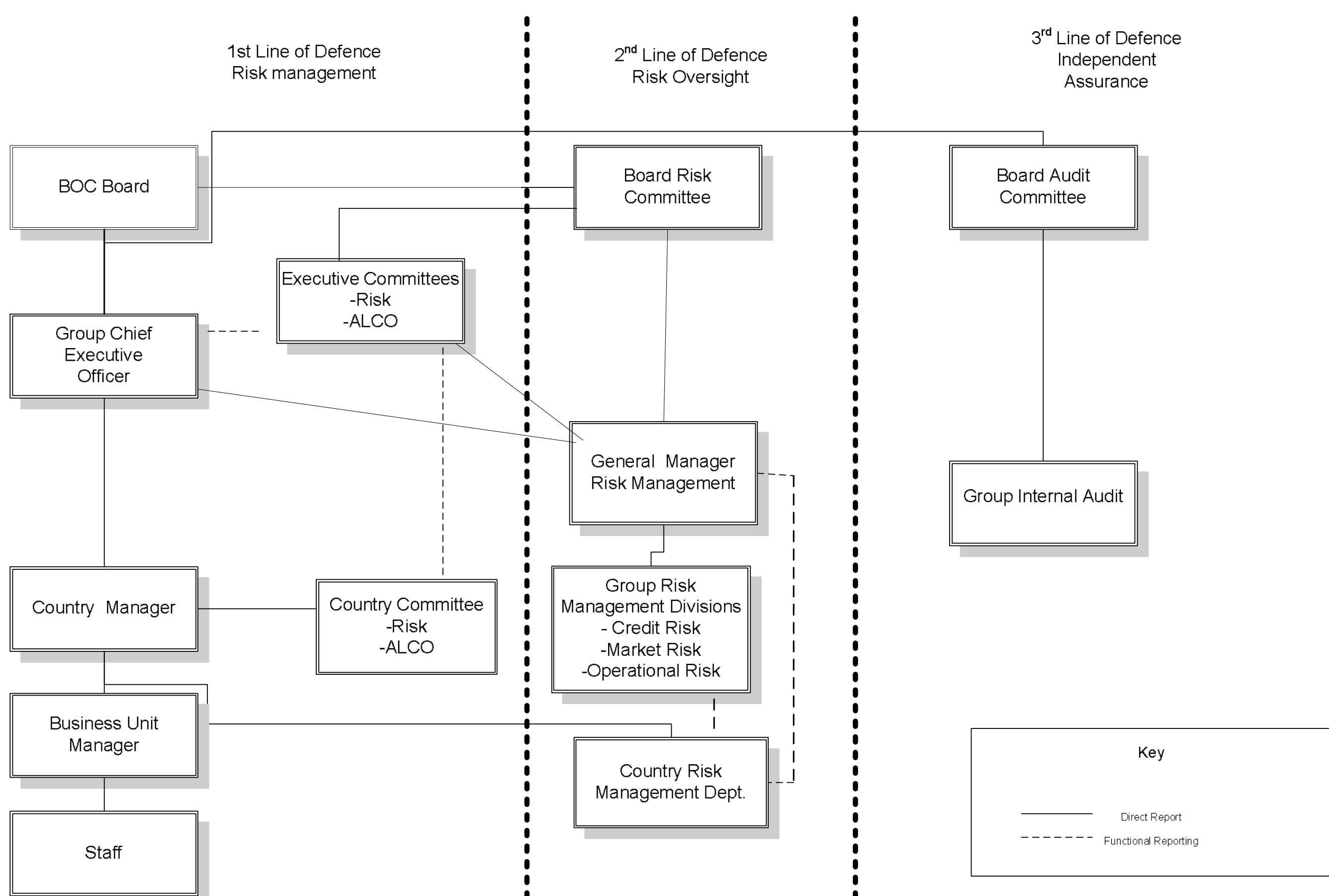
The Group Risk Management Unit is organised into three divisions for credit, market and operational risk management which report to the General Manager Risk Management. The three divisions, each one for its own discipline, are responsible for the following functions within the risk management framework:

- 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 which comprised the following members as at 31/12/2011:

- 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 and Organization & Methods
- A. Andreadakis – General Manager Group Risk Management
- A. Jacovides – Senior Manager Group Operational Risk Management

Bank of Cyprus adopted a new organisational structure during 2012. The new Group Executive Risk Committee comprised the following members as at 30/09/2012:

- Y. Kypri – Group Chief Executive Officer
- Y. Pechlivanidis First Deputy Group Chief Executive Officer
- C. Hadjimitsis – Senior Group General Manager
- I. Seiradakis – General Manager Bank of Cyprus Greece
- L. Isodiou – General Manager Information and Organization & Methods
- A. Andreadakis – General Manager Group 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. 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.

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.

For the Retail banking sector credit scoring systems are used for new customers and behavioral scoring systems for existing customers, which are continuously upgraded, so that both the customers and the risks undertaken can be carefully assessed.

For the Business and Corporate banking sector credit rating systems are used. Risk Analyst has been implemented in all countries where the Group operates aiming to facilitate more accurate calculations of a customer's creditworthiness as

well as the calculation of the overall credit risk of both SME and Corporate customers. Specifically, a Borrower Rating is 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 enables 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.

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.

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 2011, 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 for retail customers and 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 2011, Group ALCO has also approved limits for interest rate risk for Uniastrum Bank, the only unit of the Group which had no set interest rate limits until then.

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). In March 2012, the calculation of the Economic Value of the various Units of the Group on a stand alone basis commenced. The economic value of each of the Units of the group is divided to the amount of their Risk Weighted Assets and/ or to the amount of their capital (where it exists). This analysis, as indicated in the table below, is also sent to the group ALCO for information purposes.

Economic Value Change of Foreign Branches/ Subsidiaries from 200 basis points in interest rates								
	Cyprus	Greece	Russia	United Kingdom	Ukraine	Romania	Channel Islands	**Total**
	€000	€000	€000	€000				**€000**
As at 31st July 2012								
Change in Economic Value	65.281	226.612	15.283	-10.204	2.118	532	64	299.687
% on 8% of RWA	6.63%	34.39%	9.63%	-19.26%	12.17%	1.50%	7.50%	15.70%
% change on Tier 1 Capital	-	-	6.92%	-8.40%	2.73%	-	0.10%	17.12%
As at 30th June 2012								
Change in Economic Value	56.046	226.952	15.136	9.427	1.596	363	16	290.682
% on 8% of RWA as at 31/03/2012	5.42%	32.54%	9.10%	-17.07%	10.26%	1.05%	2.54%	14.51%
% change on Tier 1 Capital as at 31/03/2012	-	-	7.10%	-8.02%	2.08%	-	0.03%	13.01%
8% of RWA as at 30/06/2012	984.194	658.903	158.700	52.976	17.405	35.549	854	1.908.580
Tier 1 Capital Base as at 30/06/2012	-	-	220.857	121.508	77.641	-	61.026	1.750.268

The 2% change in interest rates on the economic value of the Group is above the Group Alco approved limit of 10%. On an individual basis all the units are within the desired ratio of 10% except Greece, UK and Ukraine. Greece exposure is due to the fact that the new GGBs have not been hedged. For foreign subsidiaries (U.K as from 30/6/12, Channel Islands, Uniastrum Bank and Ukraine) the change in economic value is depicted both as a percentage on 8% of RWA and their own capital.

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 since 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.
Other sources of funding include the issuance of bonds and capital securities which enable the Group to attract long term liquidity by accessing the international and the local markets.

Local Treasury units at each location are responsible for liquidity management in their respective unit. Group Treasury is responsible for liquidity management both at the Group level and at the level of each individual unit. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, about the adequacy of its liquid assets and takes the necessary actions to enhance the Group's liquidity position, such as the issuance of covered bonds which can be used as collateral in the refinancing operations of the European Central Bank.

Liquidity is also monitored daily by Group Market Risk Management.

Group Market Risk Management is responsible to ensure compliance both at the level of individual units, as well as at Group level, with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates.

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis.

The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

Moreover, stress testing is carried out every six months for all banking units of the Group, based on four scenarios defined jointly by the Central Bank of Cyprus and the International Monetary Fund. These scenarios include assumptions about:

- significant withdrawal of Euro and/or foreign currency deposits
- significant withdrawal of undrawn and committed credit lines
- significant haircut on liquid assets
- unavailability of wholesale (interbank) funding
- significant reduction in assets eligible as collateral in the refinancing operations of the European Central Bank.

In addition, as part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan, which sets out a response in the event of liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the Funding Crisis Committee. The members of this Committee have been determined together with a series of possible actions that are available. This plan, as well as the Group's Liquidity Policy, are reviewed at least annually and submitted to the Central Bank of Cyprus.

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

The Group liquidity ratio was as follows:

31 December	2011	2010
	%	%
	21.51	28.10
Average ratio	24.69	27.83
Highest ratio	28.82	30.60
Lowest ratio	18.91	26.31

The total Group borrowings from the European Central Banking System as at 31 December 2011 amounted to €2.100.556 thousand (2010: €2.199.450 thousand).

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. 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). ORM staff 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, Greece and Romania and is being developed in Russia and Ukraine.

- 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: operational 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, Romania, Russia and Ukraine who act as facilitators in the process of loss data collection, RCSA Workshops and personnel training.

- ORM management is also responsible to look at outsourcing cases from an Operational Risk point of view.

Policies for hedging and mitigating operational risk

Part of the mitigation strategies that the Group follows, as far as operational risk is concerned, is appropriate insurance coverage. This is 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 31/12/2011 were €1.925.109 thousand as shown below:

Original Own Funds (Tier 1)	€000
Share Capital	899.528
Share Premium	1.164.903
Reserves	(743.261)
Hybrid Capital Securities	956.778
Book value of non-banking subsidiaries	(56.447)
Intangible Assets	(372.813)
Total Tier 1	**1.848.688**
Additional Own Funds (Tier 2)	
Revaluation Reserves	261.879
Subordinated Loan Stock	33.835
General Provision	-
Book value of non-banking subsidiaries	(56.447)
Total Tier 2	**239.267**
Carrying Value of Insurance Companies	**(162.846)**
Total own funds	**1.925.109**

3.1 Original own funds

Share Capital

The share capital of the Bank as at 31 December 2011 comprises of 899.528 thousand shares with a nominal value of €1,00 each.

Hybrid capital securities

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 €956.778 thousand included in original own funds consists of:

	2011 €000
Convertible Enhanced Capital Securities	862.233
Convertible Capital Securities	72.380
Capital Securities 12/2007	22.165
	956.778

On 6 June 2009, the Company issued €645 million **Convertible Capital Securities**. The Convertible Capital Securities were offered via a priority right to eligible shareholders of the Company (in the ratio of Convertible Capital Securities with nominal value of €11 for every 10 shares held) and to other investors. The issue proceeds were received through the exchange at par of Tier 2 Convertible Bonds 2013/2018 with a total 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 €4,24 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.

On 17 May 2011, Convertible Capital Securities of a total nominal value of €572 million were exchanged at par for Convertible Enhanced Capital Securities of equal nominal value.

During 2011, 5.798 Convertible Capital Securities have been converted into 1.366 shares.

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.

On 17 May 2011 Capital Securities 12/2007 of nominal value €104 million were exchanged at par for Convertible Enhanced Capital Securities.

The **Convertible Enhanced Capital Securities (CECS)** were issued by the Company on 18 May 2011, following the approval by the Extraordinary General Meeting of shareholders on 23 March 2011. For the purposes of regulatory capital the CECS qualify as tier 1 capital. The CECS were offered via a priority right to subscribe to the existing shareholders. Existing shareholders and other applicants could have subscribed to the CECS issue by paying the corresponding consideration for the CECS either in cash or in the form of 'Eligible Securities' of the Company and specifically (i) Convertible Bonds 2013/2018, (ii) Convertible Capital Securities, and (iii) Capital Securities 12/2007, of an equal nominal value, which had priority after the existing holders and before any other applicants.

The issue of the CECS comprised of €820 million in Euro and $95 million in US Dollars, out of which €695 million originated from the exchange of Eligible Securities. The CECS issued in Euro, bear a fixed interest rate of 6,50% per annum until 30 June 2016 and 6-month Euribor plus 3,00% per annum thereafter. The CECS issued in US Dollars bear a fixed interest rate of 6,00% per annum until 30 June 2016 and 6-month Libor plus 3,00% per annum thereafter. The Company may, at any time at its sole discretion, elect to cancel an interest payment on a non-cumulative basis. Any coupon not paid is no longer due and payable by the Company.

The Company will not proceed with the payment of any coupons payable on any coupon payment date and will effect a mandatory coupon cancellation if (i) it does not satisfy the minimum solvency requirements as defined by the Central Bank of Cyprus or if the coupon payment will result in the Company no longer satisfying the minimum solvency requirements (ii) it has insufficient distributable items for such coupon payment or (iii) the Central Bank of Cyprus, at its sole discretion, requires the cancellation of coupon payments. Any coupon not paid is no longer due and payable by the Company.

The CECS may be converted at the option of the holder during any conversion period. The conversion periods are: 1-15 September 2011, and then 1-15 March, 15-31 May, 1-15 September and 15-30 November of each subsequent year. The last conversion date is 31 May 2016.

The CECS are perpetual without a maturity date but the Company may elect to redeem all but not some of the CECS at their principal amount together with any accrued interest, on 30 June 2016 or on any other interest payment date thereafter, subject to the prior approval of the Central Bank of Cyprus.

If a Contingency Event or Viability Event occurs, the CECS shall be mandatorily converted into ordinary shares of the Company. The conversion price is set at 80% of the weighted average market price of the shares during the previous five business days, with a ceiling price of €3,30 and a floor price equal to the nominal value of €1,00 of the ordinary shares.

A Contingency Event occurs if (i) the Company's core tier 1 ratio is below 5% or, on or after the implementation of the Basel III regulations, its common equity tier 1 ratio is below the required capital adequacy regulatory limits or (ii) the Central Bank of Cyprus determines that the Company is in non-compliance with the required capital adequacy regulatory limits.

A Viability Event occurs if (i) the Central Bank of Cyprus determines that the conversion of the CECS is required to improve the capital adequacy and financial position of the Company to prevent insolvency and/or (ii) the Central Bank of Cyprus determines that the Company requires public sector support to prevent it from becoming (a) insolvent (b) bankrupt or (c) unable to pay a material amount of its debts, or (iii) other similar circumstances.

The CECS are listed on the Cyprus Stock Exchange and the Athens Exchange.

During 2011, CECS amounting to €1.273 thousand were converted into 386 thousand shares at the option of their holders. In addition, during March 2012 CECS amounting to €432 million were converted into shares in the context of the Group's Capital Strengthening Plan.

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 €33.835 thousand and consists of:

		2011
	Contractual interest rate	**€000**
Convertible Bonds 2013/2018 (€573 million)	7,50% until 30 June 2009 and six-month Euribor plus 1,00% thereafter	26.907
Subordinated Bond in US Dollars 2013/2014/2015	2,5%	6.928
		33.835

Subordinated Bonds

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 on the Cyprus Stock Exchange.

On 17 May 2011, Convertible Bonds 2013/2018 with nominal value of €19 million were exchanged for Convertible Enhanced Capital Securities, with equal nominal value.

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
- 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.

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 31/12/2011 for each of the exposure classes specified in paragraph 23 of Unit A of the Directive.

	€000
Central governments or central banks	7.302
Regional governments or local authorities	217
Administrative bodies and non – commercial undertakings	13.681
Institutions	75.369
Corporate	990.699
Retail	425.724
Past due items	204.829
Covered bonds	3.686
Other assets	69.779
	1.791.286

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	277
Foreign Exchange	-
	277

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:

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 €191.629 thousand.

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

Banking Activities	Capital Breakdown to Business Lines €000
Corporate Finance (CF)	206
Trading and Sales (TS)	7.494
Retail Brokerage (RBr)	639
Commercial Banking (CB)	127.220
Retail Banking (RB)	44.119
Payment and Settlement (PS)	11.623
Agency Services (AS)	1
Asset Management (AM)	327
	191.629

Capital Adequacy Ratio

	31/12/2011
Core Tier 1	3,6%
Tier 1	7,5%
Tier 2	1,0%
TOTAL Capital Ratio	7,8%

The Group's capital adequacy ratios are lower than the minimum ratios required by the Central Bank of Cyprus.

The total regulatory capital during the six months ended 30 June 2012 has been positively affected from the issue of shares by the Company[3] and negatively from the losses for the period.

The Group participated in a Capital Exercise conducted by the European Banking Authority (EBA) in cooperation with the Central Bank of Cyprus. The Capital Exercise which covered 71 European Banks aimed to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current adverse market environment. This buffer was not explicitly designed to cover losses in sovereigns but to provide a reassurance to markets about banks' ability to withstand a range of shocks and still maintain adequate capital.

The Capital Exercise has determined (using 30 September 2011 data) that the Group had a capital shortfall of €1.560 million which should have been covered by 30 June 2012.

In January 2012 the Group had submitted a plan to the Central Bank of Cyprus which set out the various measures which the Group would take so as to achieve the required capital enhancement target as determined by the EBA.

In this context, the Group has implemented the following measures in order to cover the EBA capital shortfall: (i) issue of share capital of €160 million and conversion of CECS into shares of €432 million in March 2012, (ii) disposal of Bank of Cyprus Australia Ltd with a positive capital contribution of €80 million, and (iii) management of its risk weighted assets. In addition, the Group has proceeded with the amendment of certain issue terms of
the CECS (Note 17) to satisfy the conditions of the EBA for inclusion of the remaining amount of the CECS €430 million as eligible for reducing the capital shortfall.

Despite the implementation of the above measures, the Group announced on 27 June 2012 that it was not able to fully cover the capital shortfall and it has therefore applied to the state for capital support.

Due to additional provisions relating to the loan portfolio in Cyprus and Greece as well as the further impairment of GGBs and bonds issued by financial institutions in Cyprus and Greece, the capital deficit as defined by the EBA is estimated at 30 June 2012 at approximately €730 million.

In addition to the above, the Republic of Cyprus has applied for financial assistance from other member states of the European Union and the International Monetary Fund. The program that will be agreed between the Republic of Cyprus and the Troika (European Commission, European Central Bank and International Monetary Fund) for the provision of financial assistance to the Republic of Cyprus will be based on (a) the capital requirements of the financial system, (b) the

[3] See ''Mid-year Financial Report'' as at 30 June 2012, Note 16 p.41 (http://www.bankofcyprus.com/Documents/Investor%20Relations/Financial%20information/English/FinStat1H2012_ENG.pdf)

financial needs and refinancing needs of the Republic of Cyprus, and (c) the structural reforms needed to boost the competitiveness and growth prospects of the Cypriot economy. As a result, the overall capital needs of the Group will be assessed in cooperation with the Cypriot Authorities and the Troika in the context of a stress-testing exercise and the Group will submit a recapitalization and restructuring plan to be approved by the Cypriot Authorities and the Troika.

	31/12/2011
	€million
Capital Base	**1.925**
Statutory Capital	**1.983**
Credit Risk	1.791
Operational Risk	192
Market Risk	-
Risk Weighted Assets	**24.790**
Credit Risk	22.391
Operational Risk	2.395
Market Risk	4
Core Tier 1 Capital	**892**
Tier 1	1.849
Tier 2	239
Carrying Value of Insurance Companies	(163)
TOTAL CAPITAL	**1.925**

5. Counterparty credit risk

As at 31 December 2011, the Group did not have any outstanding securities or commodities lending, long settlement transactions or margin lending transactions or borrowing transactions. Hence, the section below 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), 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 Group ALCO approved model, sets maximum limits for financial institutions, based on their credit rating and Tier 1 capital base (or the Bank of Cyprus Tier 1 capital base, whichever is the smallest) and thus, works as a guide to the limit that could be allocated to a bank.

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 2011, the Group had signed CSAs to the International Swaps and Derivatives Association ('ISDA') agreement with eighteen out of twenty two counterparties (with which the Group maintains derivative limits). 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	29.400
Nomura	36.570
Goldman Sachs	(2.702)
Morgan Stanley	1.480
Deutsche Bank	166.140
RBS	3.667
Credit Suisse	3.474
Barclays	83.000
HSBC	12.800
JP Morgan	44.160
UBS	(29.100)
Citibank	1.235
Commerzbank	(2.200)
Total Positive	**381.926**
Total Negative	**(34.002)**

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 eighteen agreements already signed, only three such agreements in place provide for additional collateral in the event of a downgrade However, due to the Ba2 rating of the Bank as at the end of December 2011 (current rating of the Bank is B1) the event of an up to two notch downgrade would not require posting additional collateral amount. (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	Ba2	0	0	-
	Ba3	0	0	-
	B1	0	0	-
BNP Paribas	Ba2	0.25	0	-
	Ba3	0.25	0	-
	B1	0.25	0	-
Credit Suisse	Ba2	0	0	-
	Ba3	0	0	-
	B1	0	0	-

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). The collateral agreement with Goldman Sachs, UBS and Commerzbank has reached the threshold amount (thus collateral of €2.7 million, €29.1 million and €2.2 million respectively has been provided). Thus, the "Net derivatives credit exposures" is €159,732 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 2011
	€000
Cyprus	152.155
Greece	41.155
UK	424
Other	-
Group	**193.734**

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 Present Value (Euro equivalent of purchase amount – Euro equivalent of sale amount) > 0 => profit

If Present Value (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 sum of:

- Positive mark to market after taking into account:
  a. the accrued interest and
  b. netting within each counterparty (where set-off agreement exists)

However, in the case where a CSA agreement is in place (and the relevant amount has already been settled) the exposure is set to zero, since no credit risk exists.

- 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 derivative counterparties. The calculation for this credit risk adjustment is performed as follows:

- Calculation of the mark-to-market plus accrued interest by counterparty.
- Calculation of the average rating and average maturity of the Group's portfolio.
- For the counterparties with CSA/ISDA agreements in place with positive mark-to-market (after netting) we take the minimum of:

  - the threshhold amount plus minimum transfer amount and
  - the positive exposure
- For the counterparties with no CSA/ISDA and no set-off agreement in place we are not applying netting and the positive results (by deal) are taken into account.
- The result of step 3 and 4 above is then multiplied by the iTraxx probability of default level as at the year end (based on the average maturity calculated in step 2) multiplied by 60% (since the probabilities of default were calculated based on a recovery rate of 40% i.e LGD 60%)

As at the end of December 2011 this amount for the Group was equal to €2,453 thousand.

Exposures under the mark-to-market method as at 31 Dec 2011	
	€000
Cyprus	
Institutions	89.009
Corporates	6.196
	95.205
Greece	
Institutions	55.400
Corporates	515
	55.915
UK	
Institutions	0
Corporates	793
	793
Other	
Institutions	-
Corporates	-
	-
Group	
Institutions	144.409
Corporates	7.504
	151.913

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. 2011 and average exposure amount		
Exposure Class	**Exposure amounts 31/12/2011**	**Average Exposure amount for 2011**
	€000	**€000**
Central governments and Central Banks	3.378.186	4.429.968
Regional Governments and local authorities	95.586	95.650
Administrative bodies and non - commercial undertakings	403.158	385.280
Institutions	4.220.338	5.673.178
Corporates	19.826.498	19.542.648
Retail	13.843.315	13.830.846
Total Credit Risk Exposure	41.767.081	43.957.570

Credit exposure by type as at 31 Dec. 2011						
Type	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Bank Loans & Overdrafts	12.793.000	17.952.626	-	369.570	92.899	31.208.095
Acceptances, Endorsements & Documentary Credits	225.183	46.680	-	-	-	271.863
Guarantees	220.871	1.348.684	-	12	346	1.569.913
Unutilised Loan Commitments (undrawn loans and overdraft accounts)	604.261	463.477	-	-	-	1.067.738
Interbank Placements	-	-	2.695.030	-	1.163.188	3.858.217
Debt Securities & Equity Shares	-	7.527	1.293.473	33.576	2.217.339	3.551.915
Derivatives	-	7.504	144.409	-	-	151.913
Other	-	-	87.426	-	-	87.426
Total	13.843.315	19.826.498	4.220.338	403.158	3.473.772	41.767.081

6.2 Geographic distribution of the exposures

Credit Exposure by Geographical Area as at 31 Dec. 2011						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative Bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
European Union:						
Cyprus	6.801.374	11.703.064	45.434	26.827	1.026.146	19.602.845
Greece	5.030.778	5.994.644	157.225	344.631	826.606	12.353.883
UK	477.044	509.570	1.284.116	-	66.390	2.337.120
Romania	108.503	378.982	47.704	-	51.082	586.271
Other	-	-	1.779.311	31.700	1.051.378	2.862.389
ECB	-	-	-	-	376.270	376.270
Rest of Europe	-	-	-	-	-	0
Russia	1.296.479	1.031.299	87.529	-	66.865	2.482.172
Ukraine	129.137	208.939	16.306	-	9.035	363.417
Other	-	-	179.740	-	-	179.740
Australia & New Zealand	-	-	211.124	-	-	211.124
North America & Canada	-	-	323.172	-	-	323.172
Other	-	-	3.724	-	-	3.724
Supranational	-	-	84.953	-	-	84.953
Total	13.843.315	19.826.498	4.220.338	403.158	3.473.772	41.767.081

6.3 Distribution of the exposures by industry or counterparty types

Exposure broken down by NACE as at 31 Dec.2011						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Agriculture, Forestry and Fishing	151.554	179.604	-	-	-	331.158
Mining and quarrying	25.604	112.744	-	-	-	138.348
Manufacturing	727.417	1.830.317	-	-	-	2.557.734
Electricity, Gas and water supply	74.412	217.951	-	300.041	10.419	602.823
Construction	578.734	4.527.550	-	-	-	5.106.284
Wholesale and Retail	1.666.680	3.059.681	-	-	-	4.726.361
Hotels and restaurants	340.747	2.032.853	-	-	-	2.373.600
Transport	268.258	1.387.696	-	42.500	-	1.698.454
Financial Intermediation	57.100	326.560	-	-	-	383.660
Real Estate	542.515	2.732.126	-	-	-	3.274.641
Professional, scientific and technical activities	446.959	1.150.553	-	5	-	1.597.517
Public Administration	91.650	309.227	-	27.012	3.463.099	3.890.988
Education	73.379	40.995	-	24	-	114.398
Health and Social Work	118.534	101.071	-	-	-	219.605
Personal Service Activity	240.270	424.669	-	-	238	665.177
Private Individuals	8.357.618	1.267.586	-	-	-	9.625.204
Financial Institutions	-	-	4.220.338	33.576	-	4.253.914
Extra-territorial organisations and bodies	2.670	-	-	-	16	2.686
Others	79.214	125.315	-	-	-	204.529
Total	13.843.315	19.826.498	4.220.338	403.158	3.473.772	41.767.081

6.4 Residual maturity breakdown of all the exposures

Credit Exposure by Maturity as at 31 Dec. 2011						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Less than 1 year	2.139.712	5.028.660	3.224.462	-	581.256	10.974.090
1 to 5 years	4.172.631	7.284.742	772.679	226.376	1.785.372	14.241.800
5 to 10 years	1.578.460	2.850.959	223.197	150.044	687.859	5.490.519
More than 10 years	5.952.512	4.662.137	-	26.738	419.285	11.060.672
Total	13.843.315	19.826.498	4.220.338	403.158	3.473.772	41.767.081

6.5 Security breakdown

Credit exposure and value of security as at 31 Dec. 2011						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative Bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Credit Exposure	13.843.315	19.826.498	4.220.338	403.158	3.473.772	41.767.081
Value of Security	8.752.423	11.131.809	0	5	83.172	19.967.409
Total Unsecured Credit Exposure	5.090.892	8.694.689	4.220.338	403.153	3.390.600	21.799.672

Although total credit exposure as at 31/12/2011 amounted to €41.767.081 thousand, only €27.419.749 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.2011						
	Retail Customers	Corporate Customers	Financial Institutions	Administrative bodies	Governments and Local Authorities	**Total**
	€000	€000	€000	€000	€000	**€000**
Real Estate Property	8.183.329	9.801.711	-	-	2.787	**17.987.827**
Cash	373.641	1.069.362	-	5	196	**1.443.204**
Securities/ Bonds	8.235	56.575	-	-	-	**64.810**
Life Insurance	0	0	-	-	-	**0**
Guarantees	98.987	129.783	-	-	80.189	**308.959**
Other Securities	88.232	74.378	-	-	0	**162.610**
Total	**8.752.424**	**11.131.809**	**-**	**5**	**83.172**	**19.967.410**

6.6 Impaired exposures and past due exposures

Impaired and past due loans and advances by geographical areas as at 31 Dec. 2011				
	Neither past due nor impaired	Past due but not impaired	Impaired	**Total**
	€000	€000	€000	**€000**
Cyprus	10.520.434	3.329.354	1.081.610	**14.931.398**
Greece	6.980.845	2.093.630	908.566	**9.983.041**
Russia	1.609.593	218.767	176.190	**2.004.550**
United Kingdom	888.302	89.554	57.478	**1.035.334**
Romania	477.681	72.441	35.604	**585.726**
Ukraine	147.539	132.788	52.053	**332.380**
	20.624.394	5.936.534	2.311.501	**28.872.429**

Provision for impairment of loans and advances by geographical area as at 31 Dec.2011					
	Cyprus	Greece	Russia	Other Countries	**Total**
	€000	€000	€000	€000	**€000**
At 1 January 2010	551.884	450.544	98.516	59.455	**1.160.399**
Exchange differences	1.019	(2.075)	(2.948)	1.599	**(2.045)**
Applied in writing off impaired loans and advances	(8.327)	(14.161)	(1.610)	(2.416)	**(26.514)**
Interest accrued on impaired loans and advances	(30.486)	(19.600)	-	(1.347)	**(51.433)**
Collection of loans and advances previously written off	3.526	-	-	-	**3.526**
Charge for the year	131.409	217.304	54.472	23.102	**426.287**
Disposal of subsidiary company	-	-	-	(4.348)	**(4.348)**
At 31 December 2011	**649.025**	**632.012**	**148.430**	**76.045**	**1.505.512**
Individual impairment	**490.309**	**564.117**	**74.436**	**65.346**	**1.194.208**
Collective impairment	**158.716**	**67.895**	**73.994**	**10.699**	**311.304**

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
- Securitisation 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	2.888
A1- A3	1.775
Baa1 - Baa3	1.189
Ba1 - Ba3	431
B1-B3	85
Caa-C	968
NR (Not Rated)	180
TOTAL	**7.516**

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. 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 2011 compared to 2010.

Of the total equity securities held by the Group as at 31 December 2011, €45.974 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 2011 is €45.974 thousand, analysed as follows:

	€000
Listed on the Cyprus Stock Exchange	7.033
Listed on other stock exchanges	38.379
Other unlisted	562
Total	**45.974**

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

The realised gain from disposals of equity securities during 2011 amounted to €1.688 thousand and was included in the income statement. The total cumulative unrealised loss on revaluation of available for sale equity securities amounted to €423 thousand and was included in the revaluation reserves of the Group. In addition, the Group recorded an impairment charge of €13.978 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**
2011					
+1,0% in all currencies	**8.050**	**24.775**	**2.712**	**1.520**	**22.438**
-0.25% for US dollars, Japanese Yen, Swiss Franc and -0.5% for all other currencies	**(1.617)**	**(3.715)**	**(1.430)**	**(1.554)**	**(4.427)**

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 2011 amounted to €15.7 million (-0.71% of Group regulatory capital, calculated in accordance with CBC rules). It should be noted that during the first quarter of 2012 we have also started calculating the economic value for the various Units of the Group on a standalone basis for the better monitoring of the economic value.

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 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.

11. Remuneration Policy and Practices

The Bank of Cyprus Group Remuneration Policy aims to align remuneration with the business strategy, objectives and long-term interests of the Group and is consistent with the effective management of risks and does not encourage excessive risk-taking.

The Remuneration Committee is responsible for the development and periodic review of the Remuneration Policy which it proposes to the Board of Directors for approval. In addition, the Board of Directors, through the Remuneration Committee, is ultimately responsible for oversight of compliance with the Remuneration Policy.

The remuneration of Directors, in their capacity as members of the Board of Directors and of the Committees of the Board of Directors, is approved by the shareholders' Annual General Meeting.

The Board of Directors sets the remuneration of executive Directors, following the recommendation of the Remuneration Committee. The employment contracts of executive Directors are reviewed by the Remuneration Committee, and are subsequently submitted to the Board of Directors for approval.

11.1 Remuneration of Non-Executive Directors

The remuneration of the Chairman, Vice-Chairman and non executive Directors is not related to the Group's performance. The remuneration is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group and for their participation in the Committees of the Board of Directors and the Boards of Group subsidiary companies.

Total remuneration to non executive Directors for 2011 amounted to €800 thousand, comprising solely of fixed remuneration which was not linked to Group performance. In addition, Mr Costas Hadjipapas, a non-executive director who is also an employee of the Company, had emoluments during 2011 amounting to €143 thousand.

Although the remuneration of the non executive Directors remains the same since May 2006, during 2011 the Board of Directors decided to reduce them by 15% for two years with effect from 1 October 2011. Furthermore, the shareholders' Annual General Meeting held on 19 June 2012 approved the non executive Directors' proposal to further increase the above reduction to 50% (from 15%) for the Chairman and to 25% (from 15%) for the other non executive Directors.

11.2 Remuneration of Group Senior Executive Management and Other Members of the Extended Senior Executive Management Committee

Service Contracts

The remuneration (salary and bonus) of executive Directors is defined in fixed length service contracts, with a maximum five-year duration. The service contracts include a clause for compensation in the event of non-justified early termination. The maximum compensation payable is two annual salaries

Remuneration

The remuneration of Group Senior Executive Management (including executive Directors) and other members of the Extended Senior Executive Management Committee comprises of a salary, adjusted annually, taking into account the prevailing economic and labour market conditions, and a variable element.

Variable Remuneration

The following provisions are applied for Group Senior Executive Management (including executive Directors) and other members of the Extended Senior Executive Management Committee:

- The amount of the bonus is calculated based on the achievement of the Group's targets for profitability and key performance indicators and taking into account the relevant risks. Furthermore, individual performance, as well as other qualitative criteria, are also taken into account.
- The maximum bonus that can be granted is set at 50% of basic salary.
- At least 40% of variable remuneration is deferred over a period of three years. The variable remuneration is paid or vests only if it is sustainable according to the financial situation of the Group as a whole, and justified according to the performance of the Group, the business unit (where applicable) and the individual concerned.
- At least 50% of variable remuneration shall be in the form of shares and/or share options which on vesting will be subject to a retention period of at least one year. This retention period also applies to the variable remuneration in shares and/or share options that is not deferred but is granted and vests upfront.
- For executive Directors, vesting of shares and/or share options is deferred for three years from the date they are awarded and applies even after retirement or the expiry of the executive Director's employment contract. In addition, 50% of the shares that vest must be retained until the retirement or the expiry of executive Director's employment contract.
- The Board of Directors is entitled to reclaim all or part of performance-based remuneration that was awarded based on information which subsequently proved to be manifestly misstated.
- Guaranteed variable remuneration and discretionary pension benefits are not granted.

Retirement Benefit Schemes

Management based in Cyprus participated in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan up to 31 December 2011.
From 1 January 2012, they participate in the new defined contribution plan for the Group's employees in Cyprus. Management based in Greece participate in the retirement benefit plans for the Group's employees in Greece, which are a defined contribution plan and a defined benefit plan for retirement benefits which are required by the law. The main characteristics of the retirement benefit schemes for Cyprus and Greece are presented in Note 12 of the Consolidated Financial Statements for the year 2011.

Other Benefits

All other benefits are provided on the same terms as those that apply to the rest of the Group's employees.

Remuneration for 2011

In light of the prevailing negative economic conditions, the Board of Directors decided that no bonus would be awarded for 2011 and that no salary increases would be granted for 2012.

Remuneration to Group Senior Executive Management and other members of the Extended Senior Executive Management Committee for 2011 is presented in the table below.

As stated above no variable remuneration was awarded for 2011 and there is no outstanding deferred remuneration.

	Senior Executive Management	**Other members of the Extended Senior Executive Management Committee**
	€000	**€000**
Salaries and other short term benefits	1.858	1.340
Employer's contributions and retirement benefit plan costs	388	621
	2.246	**1.961**
Share options	493	179
Total	**2.739**	**2.140**
Number of beneficiaries	6	9

In addition, the Board of Directors accepted the following requests of the executive Directors. Messrs Andreas Eliades, Yiannis Pehlivanidis and Yiannis Kypri requested that their entitlement to a bonus as per their contracts of employment be waived until the expiry of their contracts. Messrs Andreas Eliades and Yiannis Kypri also requested that their entitlement to the automatic cost of living adjustment be waived from 1 January 2012 until the end of their contracts. In addition, Mr Andreas Eliades requested that 15% of his salary be withheld from 1 January 2012 until the expiry of his contract as a contribution to the Bank and Mr Yiannis Pehlivanidis requested that his salary be reduced by 10% from 1 March 2012 until the expiry of his contract. Furthermore, on 30 May 2012 the Board of Directors accepted the proposals of Messrs Andreas Eliades, Yiannis Pehlivanidis and Yiannis Kypri to reduce their salaries by 20% (from 15%), 15% (from 10%) and 10% respectively effective from 1 July 2012.

11.3 Additional Information

Additional information on Remuneration can be found in the Annual Corporate Governance Report 2011 and Note 50 of the Consolidated Financial Statements for the year 2011.

APPENDIX 1

The main Group companies and branches, their activities, their country of incorporation and their consolidation method are:

Company	Country	Activities	Consolidation Method	
			Accounting purposes	Prudential purposes
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	C	C
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking	C	C
General Insurance of Cyprus Ltd	Cyprus	General insurance	C	D
EuroLife Ltd	Cyprus	Life insurance	C	D
Kermia Ltd	Cyprus	Property trading and development	C	D
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	C	D
Kermia Hotels Ltd	Cyprus	Hotel business	C	D
BOC Ventures Ltd	Cyprus	Management of venture capital investments	C	C
Tefkros Investments Ltd	Cyprus	Investment fund	C	D
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	C	C
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	C	D
Diners Club (Cyprus) Ltd	Cyprus	Diners Club credit card facilities	C	C
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	C	D
Finerose Properties Ltd	Cyprus	Financing services	C	C
Hydrobius Ltd	Cyprus	Special purpose entity	C	D
JCC Payments Systems Ltd	Cyprus	Credit card transactions processing	PC	PC
Interfund Investments Plc	Cyprus	Closed-end investment company	Associate (Equity Method)	D
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Commercial bank	C	C
Kyprou Leasing SA	Greece	Leasing	C	C
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	C	C
Kyprou Securities SA	Greece	Investment banking	C	C
Kyprou Asset Management (AEDAK)	Greece	Management of funds	C	C
Kyprou Properties SA	Greece	Property management	C	D
Kyprou Insurance Services Ltd	Greece	General insurance brokers	C	D
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	C	D
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	C	D
Bank of Cyprus United Kingdom (branch of the Company)	United Kingdom	Commercial bank	C	C
BOC Financial Services Ltd	United Kingdom	Financial advice on investment products and life insurance	C	D
BOC Advances Ltd	United Kingdom	Financing services	C	C
Katoikia I Mortgage Finance Plc	United Kingdom	Special purpose entity	C	C

Company	Country	Activities	Consolidation Method	
			Accounting purposes	Prudential purposes
Katoikia I Holdings Ltd	United Kingdom	Special purpose entity	C	C
Misthosis Funding Plc	United Kingdom	Special purpose entity	C	C
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	C	C
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	C	C
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	C	D
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	C	C
Cyprus Leasing Romania IFN SA	Romania	Leasing	C	C
S.C. ONT Carpati S.A.	Romania	Hotel business	C	D
CB Uniastrum Bank LLC	Russia	Commercial bank	C	C
Leasing Company Uniastrum Leasing	Russia	Leasing	C	C
MC Investment Assets Management LLC	Russia	Special purpose entity	C	C
PJSB Bank of Cyprus	Ukraine	Commercial bank	C	C
LLC IKOS Finance	Ukraine	Financing services	C	C
Kyprou Finance (NL) B.V.	Netherlands	Financing services	C	C

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

In addition to the above companies, the Company holds 100% shareholding in the companies below. The main activity of these companies is the ownership and management of immovable property and other assets. They are all "Fully Consolidated" for both accounting and prudential purposes.

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Elswick Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Lameland Properties Ltd, Longtail Properties Ltd, Limestone Properties Ltd, Samarinda Navigation Co. Ltd, Turnmill Properties Ltd, Fairford Properties Ltd, Inverness Properties Ltd, Dinmont Properties Ltd, Lendrick Properties Ltd, Sunnybridge Properties Ltd, Caraway Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Thames Properties Ltd, Ikosia Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Guarded Path Properties Ltd, Lepidoland Properties Ltd, Drysdale Properties Ltd, Snowfield Properties Ltd, Medaland Properties Ltd, Stamoland Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Karmazi (Apartments) Ltd, Kermia Palace Enterprises Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd and Eurolife Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Threerich Real Estates SRL, Rosequeens Properties SRL, Loneland Properties SRL, Unknownplan Properties SRL and Frozenport Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Rosequeens Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd and Gosman Properties Ltd.

Ukraine: Leasing Finance LLC, Corner LLC and Omiks Finance LLC.