



Bank of Cyprus Group

Consolidated Financial Statements

for the year ended 31 December 2010

Contents		Page
Directors and Executives		1
Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements		2
Directors' Report		3
Consolidated Income Statement		10
Consolidated Statement of Comprehensive Income		11
Consolidated Balance Sheet		12
Consolidated Statement of Changes in Equity		13
Consolidated Statement of Cash Flows		15
Notes to the Consolidated Financial Statements		
1.	Corporate information	16
2.	Summary of Significant Accounting Policies	16
2.1	Basis of preparation	16
2.2	Changes in accounting policies and disclosures	16
2.3	Standards and Interpretations that are issued but not yet effective	17
2.4	Significant accounting judgments and estimates	19
2.5	Basis of consolidation	24
2.6	Investments in associates	25
2.7	Interest in joint ventures	25
2.8	Foreign currency translation	25
2.9	Segmental reporting	26
2.10	Turnover	26
2.11	Revenue recognition	26
2.12	Retirement benefits	26
2.13	Share-based payments	27
2.14	Taxation	28
2.15	Financial instruments	28
2.16	Derecognition of financial assets and financial liabilities	30
2.17	Impairment of financial assets	31
2.18	Hedge accounting	32
2.19	Offsetting financial instruments	33
2.20	Cash and cash equivalents	33
2.21	Insurance business	33
2.22	Repurchase and reverse repurchase agreements	34
2.23	Finance leases – The Group as lessor	35
2.24	Operating leases – The Group as lessee	35
2.25	Property and equipment	35
2.26	Investment properties	35
2.27	Stock of property held for sale	36
2.28	Goodwill and other intangible assets	36
2.29	Share capital	36
2.30	Provisions for pending litigation or claims	36
2.31	Financial guarantees	36

Bank of Cyprus Group

Consolidated Financial Statements

for the year ended 31 December 2010

Contents *(continued)*

Page

Notes to the Consolidated Financial Statements *(continued)*

3. Segmental analysis	37
4. Interest income	41
5. Interest expense	41
6. Fee and commission income and expense	42
7. Foreign exchange income	43
8. Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries	43
9. Insurance income and expense	44
10. Other income	45
11. Staff costs	45
12. Other operating expenses	52
13. Share of (loss)/profit of associates	52
14. Taxation	53
15. Earnings per share	55
16. Cash, balances with central banks and placements with banks	55
17. Investments	56
18. Derivative financial instruments	62
19. Fair value of financial instruments	65
20. Loans and advances to customers	68
21. Hire purchase and finance lease debtors	69
22. Life insurance business assets attributable to policyholders	70
23. Property and equipment	70
24. Intangible assets	72
25. Other assets	74
26. Obligations to central banks and amounts due to banks	75
27. Customer deposits	75
28. Insurance liabilities	76
29. Debt securities in issue	78
30. Other liabilities	80
31. Subordinated loan stock	81
32. Share capital	83
33. Dividends	85
34. Retained earnings	86
35. Fiduciary transactions	86
36. Contingent liabilities and commitments	86
37. Net cash flow from operating activities	87
38. Cash and cash equivalents	88
39. Operating leases – The Group as lessee	88
40. Analysis of assets and liabilities by expected maturity	89
41. Risk management – Credit risk	90
42. Risk management – Market risk	100
43. Risk management – Liquidity risk	104
44. Risk management – Other risks	111
45. Capital management	114
46. Related party transactions	115
47. Group companies	119
48. Investments in joint venture and associates	121
49. Events after the balance sheet date	123
Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd	124

Bank of Cyprus Group Directors and Executives

<p>Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)</p>	<p>Theodoros Aristodemou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Vassilis G. Rologis Costas Z. Severis Christakis G. Christofides Evdokimos Xenophontos Anna Diogenous George M. Georgiades Andreas J. Jacovides Christos Mouskis</p> <p>Manthos Mavrommatis Andreas Eliades Yiannis Kypri Costas Hadjipapas Nikolas P. Tsakos Yiannis Pehlivanidis Stavros J. Constantinides</p>
<p>Senior Group Executive Management</p>	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Pehlivanidis FIRST DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Vassos Shiarly GROUP CHIEF GENERAL MANAGER</p> <p>Christis Hadjimitsis SENIOR GROUP GENERAL MANAGER</p> <p>Nicolas Karydas SENIOR GROUP GENERAL MANAGER</p>
<p>Secretary</p>	<p>Yiannis Kypri</p>
<p>Legal Advisers</p>	<p>Chryssafinis & Polyviou</p>
<p>Independent Auditors</p>	<p>Ernst & Young Cyprus Ltd</p>
<p>Registered Office</p>	<p>51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY-1398 Nicosia, Cyprus Telephone: +357 22122100, Telefax: +357 22336258</p>

Bank of Cyprus Public Company Ltd

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2010, confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 10 to 123.
 - (i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole, and
- (b) the Directors' Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Theodoros Aristodemou	Chairman
Andreas Artemis	Vice Chairman
Vassilis G. Rologis	Non-executive Director
Costas Z. Severis	Non-executive Director
Christakis G. Christofides	Non-executive Director
Evdokimos Xenophontos	Non-executive Director
Anna Diogenous	Non-executive Director
George M. Georgiades	Non-executive Director
Andreas J. Jacovides	Non-executive Director
Christos Mouskis	Non-executive Director
Manthos Mavrommatis	Non-executive Director
Andreas Eliades	Executive Director
Yiannis Kypri	Executive Director
Costas Hadjipapas	Non-executive Director
Nikolas P. Tsakos	Non-executive Director
Yiannis Pehlivanidis	Executive Director
Stavros J. Constantinides	Non-executive Director
Christis Hadjimitsis	Senior Group General Manager

28 February 2011

Bank of Cyprus Public Company Ltd

Directors' Report

The Board of Directors submit to the shareholders of the Company their Report together with the audited consolidated financial statements for the year ended 31 December 2010.

Activities

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiaries in Cyprus and abroad during the year continued to be the provision of banking, financial services and insurance services.

All Group companies and branches are set out in Note 47 of the consolidated financial statements.

Financial results

The Group achieved its targets set at the beginning of 2010 by maintaining high levels of profitability and positive contribution to profit from all the markets in which it operates. In a particularly negative environment in the main European markets in which it operates, the Group, focussing on its goals, achieved targeted business expansion, increased recurring profitability and it has further strengthened its already robust balance sheet.

The Group's total income recorded a significant increase of 13% reaching €1.450 million for 2010 (2009: €1.286 million), demonstrating the Group's ability to achieve increasing recurring income, even in adverse economic conditions. The Group's profit before provisions for 2010 reached €725 million (2009: €612 million) and recorded an annual increase of 18%. Despite the significant increase in profit before provisions, the Group's conservative provisioning policy resulted in lower profit after tax by 2% in 2010. The profit after tax and non-controlling interests for 2010 reached €306 million (2009: €313 million), with the Group being profitable in all the markets in which it operates. The profit after tax of the Company amounted to €332 million in 2010 (2009: €249 million).

At the same time, the Group enjoys strong capital adequacy (tier 1 ratio 11,0%) and healthy liquidity (loans to deposits ratio 84%). The Group's capital adequacy is expected to be further enhanced with the forthcoming Convertible Enhanced Capital Securities issue amounting to €1.342 thousand, with the pro-forma tier 1 ratio at 31 December 2010 reaching 12,7% (on the assumption that all Eligible Securities (Note 49) are exchanged in whole for the new Convertible Enhanced Capital Securities).

Given the challenging macroeconomic environment, loan quality remains at acceptable levels (non-performing loans ratio of 7,3%) despite its deterioration.

The performance of 2010 and the solid balance sheet footings reaffirm the effectiveness of the Group's chosen business model. Amid the negative economic environment, the Group continues its selective business expansion by increasing its footings in the main markets in which it operates, strengthening its balance sheet and achieving increasing recurring profitability. At the same time, the successful share capital increase of €345 million in October 2010 offers the Group further strategic flexibility to capitalise on its liquidity by seizing profitable growth opportunities across its various markets.

Bank of Cyprus Public Company Ltd

Directors' Report

Financial results (continued)

The main financial highlights for 2010 are set out in the table below.

Group Financial Highlights			
	Change	2010	2009
		€000	€000
Profit before provisions	+18%	724.964	612.246
Profit after tax and non-controlling interests	-2%	306.189	313.144
Earnings per share (basic)	-4,5 cent	40,5 cent	45,0 cent
Cost to income ratio	-2,4 p.p.*	50,0%	52,4%
Return on equity	-2,1 p.p.*	11,9%	14,0%
Non-performing loans ratio	+1,7 p.p.*	7,3%	5,6%
Gross Loans	+9%	28.885.850	26.508.048
Deposits	+15%	32.952.567	28.584.561
Gross loans to deposits ratio	-5,6 p.p.*	84,1%	89,7%
Equity	+14%	2.828.349	2.485.498

* p.p.= percentage points, 1 percentage point = 1%

- **Significant increase of total income:** The Group's total income recorded a significant annual increase of 13%, reaching €1.450 million for 2010 (2009: €1.286 million), demonstrating the Group's ability to achieve increased recurring income even in adverse economic conditions.
- **Significant increase in profit before provisions:** Profit before provisions for 2010 reached €725 million recording an increase of 18% compared to 2009 (€612 million).
- **Improvement of interest margin:** The Group's net interest margin reached 2,66% for 2010 which is a significant increase of 27 basis points compared to 2009 (2,39%).
- **Profit after tax and non-controlling interests** reached €306 million for 2010 (2009: €313 million), with positive contribution to profit from all the markets in which the Group operates.
- **Healthy liquidity position:** Net loans to deposits ratio of 84,1%.
- **High return on equity:** Return on equity (11,9%) was maintained at relatively high levels in a particularly challenging macroeconomic environment. The lower return on equity compared to 2009 is mainly attributable to the capital increase in October 2010.
- **Solid capital position:** The capital adequacy ratio reached 11,9% at 31 December 2010 with the tier 1 and the core tier 1 ratios reaching 11,0% and 8,1% respectively. Taking into consideration the forthcoming issue of Convertible Enhanced Capital Securities amounting to €1.342 million, the pro-forma capital adequacy and tier 1 ratios at 31 December 2010 amount to 14,0% and 12,7% respectively.
- **Improved efficiency:** The cost to income ratio has improved to 50,0% for 2010 from 52,4% for 2009.
- **Significant volume growth:** At 31 December 2010, Group gross loans and deposits recorded an annual increase of 9% and 15% respectively.

Financial results (continued)

- **Effective credit risk management:** The non-performing loans ratio reached 7,3% at 31 December 2010 compared to 5,6% at 31 December 2009. Non-performing loans (NPLs) are defined as the loans which are in arrears for longer than three months and which are not fully covered by tangible collateral. Despite the increase in the NPLs ratio during 2010, the provisions coverage ratio (provisions as a percentage of non-performing loans) remained at a satisfactory level of 55% at 31 December 2010 (2009: 59%). The remaining balance of non-performing loans is fully covered by tangible collateral with the coverage ratio including tangible collateral amounting to 118% (106% taking into account tangible collateral valued at forced sales value).

Geographic analysis of profitability

The **Group** achieved satisfactory profitability for 2010, with increased recurring income and positive contribution to profit from all the markets in which it operates.

In **Cyprus**, profit before provisions for 2010 reached €437 million, recording an increase of 16% compared to 2009 (€377 million). However, the Group, having taken into consideration the deterioration of the economic environment, significantly increased the charge for loan impairment, resulting in profit after tax for 2010 of €256 million which is 9% lower than 2009 (€282 million).

In **Greece**, profit before provisions for 2010 reached €194 million, recording an increase of 34% compared to 2009 (€145 million). Despite the increased provision charge (€184 million for 2010 compared to €120 million for 2009), profit after tax reached €11 million versus €3 million for 2009.

In **Russia** profit before provisions for 2010 reached €46 million, recording an annual increase of 12% (2009: €41 million) with profit after tax reaching €16 million compared to €7 million for 2009 (annual increase of 116%).

Profit after tax for **other countries** (Australia, United Kingdom, Ukraine and Romania) reached €23 million recording an annual increase of 12% (2009: €21 million).

Dividends

The Board of Directors proposes the payment of a final dividend of €0,03 per share for 2010, amounting to €26.848 thousand. An interim dividend of €0,06 per share in cash was paid in November 2010, amounting to €46.612 thousand. In addition, in November 2010 the Board of Directors, taking into consideration the level of reserves and the applicable legislation for dividend distribution, decided the payment of a special interim dividend payable in the form of shares of €0,50 per share, amounting to €388.430 thousand, at the issue price of €3,25.

The total dividend for 2010 amounts to €0,09 (2009: €0,16) per share in cash and €0,50 (2009: Nil) per share in the form of shares.

Strategy and priorities

Over the next three years, the Group's strategy will focus on the following:

- Healthy liquidity which relies primarily on customer deposits.
- Strong capital adequacy.
- Healthy recurring profitability.
- Adequate geographical diversification.
- Effective risk management.

Bank of Cyprus Public Company Ltd

Directors' Report

Strategy and priorities *(continued)*

The strategy of the Group in each country in which it operates is analysed below:

Cyprus:

- Rational pricing and rate of increase of deposits and loans based on market conditions (liquidity and macroeconomic growth).
- Effective management of asset quality and non-performing loans.
- Cost containment and increase in productivity.
- Maintenance of leading position in the international banking services sector and further enhancement of the synergies between this sector and other Group units.
- Strengthening of the asset management services.

Greece:

- Increase in market share in deposits.
- Rational pricing of loans and deposits.
- Focus on increasing commission income.
- Effective management of asset quality and non-performing loans.
- Cost containment and increase in productivity.
- Gradual expansion of branch network to enhance geographical coverage.

Russia:

- Increase in productivity, leading to an increase in profitability.
- Increase in market share in both loans and deposits (especially in the retail and SME segments).
- Effective monitoring and management of risks and internal controls.
- Utilisation of synergies with other Group units.

Ukraine:

- Increase in market share, especially in deposits by improving the selling capabilities of the branch network.
- Expansion of the branch network to enhance geographical coverage.
- Effective management of credit risk.
- Utilisation of synergies with other Group units.
- Improvement in systems, processes and automation.

Romania:

- Balanced growth in loans and deposits.
- Effective management of credit risk.

United Kingdom:

- Improvement in the loans to deposits ratio, with rational pricing.
- Effective management of asset quality.
- Utilisation of synergies with other Group units.

Australia:

- Improvement in the loans to deposits ratio, with rational pricing.
- Increase in commission income.
- Gradual expansion of the branch network.
- Utilisation of synergies with other Group units, especially with Bank of Cyprus Greece.

Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 49 of the consolidated financial statements.

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 41 to 44 of the consolidated financial statements.

Bank of Cyprus Public Company Ltd

Directors' Report

Share capital

As at 31 December 2010 the Company had in issue 894.948.198 ordinary shares of nominal value €1,00 each. The Company's shares are listed on the Cyprus Stock Exchange and the Athens Exchange.

During the year, the issued share capital of the Company increased by €172.630 thousand following a rights issue, by €113.199 thousand from the interim dividend in the form of shares, by €10.899 thousand as a result of dividend reinvestment and by €23 thousand due to the conversion of Convertible Bonds and Convertible Capital Securities (Note 32).

Specifically, on 22 October 2010 the Group completed the increase of its share capital through a rights issue of up to €345 million. Each outstanding ordinary share received one nil paid pre-emptive subscription right. Every 7 pre-emptive subscription rights exercised were converted into 2 new ordinary shares at €2,00 per each new share. As a result, 172.630.273 new shares were issued and the Company's share capital and share premium increased by €172.630 thousand each.

On 11 November 2010, the Company paid a dividend in the form of shares (Note 33). As a result, 113.198.589 shares were issued and the Company's share capital and share premium increased by €113.199 thousand and €254.697 thousand respectively.

There are no restrictions on the transfer of the Company's ordinary shares other than the provisions of the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to acquiring shares of the Company in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Shares of the Company held by the life insurance subsidiaries of the Group as part of their financial assets which are invested for the benefit of insurance policyholders carry no voting rights, pursuant to the insurance law. The Company does not have any shares in issue which carry special control rights.

Agreements which are effective upon a change of control of the Company

In case of an announcement of a public tender offer to the Company's shareholders or the proposal of a resolution at the general meeting of the Company for a merger, acquisition or sale of its operations, then, based on the terms of issue of the Convertible Bonds 2013/2018, the Convertible Capital Securities and the Share Options granted to employees, a special conversion/exercise period is activated. During this period, holders may convert/exercise their securities into shares of the Company at a special conversion price as determined by the terms of issue. In addition, in case of a successful outcome of a public tender offer to the Company's shareholders, the holders of these securities have the right to demand repayment of their capital at par together with any accrued interest.

The service contracts of the executive directors include a clause for compensation in the event of an unjustified early termination. The maximum compensation payable is two annual salaries.

Corporate Governance Statement

The Group recognises the importance of implementing sound corporate governance policies, practices and procedures. Being listed on the Cyprus Stock Exchange (CSE), the Company has adopted the CSE's Corporate Governance Code and applies its principles. The CSE's Corporate Governance Code is available on the CSE website (www.cse.com.cy).

The Group complies with all provisions of the third Revised Edition of the Corporate Governance Code of the CSE, except for provision A.2.3. Provision A.2.3 requires that at least 50% of the members of the Board of Directors, excluding the Chairman, be independent non-executive directors. If the 50% rule is not met, then at least one third of the Directors must be independent and a relevant application must be submitted to the Council of the CSE to be granted a reasonable time period for compliance. As at 31 December 2010, seven directors were considered independent, representing 44% of the Board of Directors excluding the Chairman. It should be noted that the Group satisfies the minimum proportion for independent Directors of one third and the Council of the CSE has allowed the Group a reasonable time period for compliance with Provision A.2.3, specifically until 31 December 2011.

Bank of Cyprus Public Company Ltd

Directors' Report

Corporate Governance Statement *(continued)*

The third edition of the Code includes new provisions which are effective from 2011 and will be reflected in the Annual Corporate Governance Report of the Company for year 2011. The Board of Directors will proceed with all necessary actions to ensure compliance with the new requirements.

In addition, being listed on the Athens Exchange, the Company follows the provisions on corporate governance of listed companies as laid out in law L3016/2002 of the Hellenic Republic, which is available on the website of the Hellenic Capital Market Commission (www.hcmc.gr).

The rules governing the composition of the Board of Directors and for the appointment and replacement of its members are set out in section 1.5 of the Report on Corporate Governance for 2010. The powers of the executive and supervisory bodies of the Group are set out in the Report on Corporate Governance.

Any amendment or addition to the Articles of Association of the Company is only valid if approved by a special resolution at a shareholders' meeting.

The Board of Directors may issue share capital if there is sufficient authorised share capital which has not been issued and as long as the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares will not be offered to existing shareholders, the approval of the shareholders in a General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the share capital section above.

The Annual Report on Corporate Governance for 2010 is available on the website of the Company (www.bankofcyprus.com).

Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2010 and 23 February 2011, 9,9% of the share capital of the Company was held by Odella Resources Ltd, which belongs to the trustees of a Cypriot international discretionary trust. The beneficiaries of the trust are Mr Dmitriy Rybolovlev and his two daughters. The Company is not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Company.

Preparation of periodic reporting

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce into financial statements, related disclosures and other financial reports.

The Group's risk assessment process for financial reporting purposes aims at the identification, analysis and management of risks relevant to the preparation of financial statements, related disclosures and other financial reports that comply with the respective financial reporting, legal and regulatory framework, including the periodic reporting required by the Transparency Law of Cyprus (Law Providing for Transparency Requirements in relation to Information about Issuers whose Securities are admitted to trading on a Regulated Market) of 2007 and 2010. This is achieved through the identification of the risks of material misstatements in the reports and the implementation of controls to prevent or detect errors or fraud that could result in material misstatements.

Board of Directors

The members of the Board of Directors of the Company are listed on page 1. All Directors were members of the Board throughout the year 2010 and up to the date of this Report, except for Messrs Yiannis Pehlivanidis and Stavros J. Constantinides who were appointed on 15 April 2010 and 10 June 2010 respectively.

In accordance with the Company's Articles of Association, Messrs Vassilis G. Rologis, Christakis G. Christofides, Manthos Mavrommatis, Nikolas P. Tsakos, Stavros J. Constantinides and Mrs Anna Diogenous retire and being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Bank of Cyprus Public Company Ltd

Directors' Report

Directors' interest in the share capital of the Company

The beneficial interest in the Company's shares held by members of the Board of Directors, directly or indirectly, at 31 December 2010 and 23 February 2011, is set out below:

	%
<i>Non-executives</i>	
Theodoros Aristodemou	1,79
Andreas Artemis	0,36
Vassilis G. Rologis	0,12
Costas Z. Severis	0,46
Christakis G. Christofides	0,07
Evdokimos Xenophontos	-
Anna Diogenous	0,17
George M. Georgiades	0,03
Andreas J. Jacovides	0,02
Christos Mouskis	0,03
Manthos Mavrommatis	0,05
Costas Hadjipapas	-
Nikolas P. Tsakos	-
Stavros J. Constantinides	-
<i>Executives</i>	
Andreas Eliades	0,04
Yiannis Pehlivanidis	-
Yiannis Kypri	0,01
	3,15

In the context of the Share Options 2008/2010 granted by the Group to its employees in 2008, 2.000 thousand options were granted to the executive directors and 12 thousand options were granted to a non-executive director in his capacity as employee of the Company.

Independent auditors

The independent auditors of the Company, Ernst & Young Cyprus Ltd, have expressed their willingness to continue in office. A resolution for their re-appointment and remuneration will be proposed at the Annual General Meeting.

Theodoros Aristodemou
Chairman

28 February 2011

Bank of Cyprus Group

Consolidated Income Statement

for the year ended 31 December 2010

		2010	2009
	Notes	€000	€000
Turnover		2.577.028	2.481.561
Interest income	4	2.091.794	1.997.034
Interest expense	5	(1.051.375)	(1.149.204)
Net interest income		1.040.419	847.830
Fee and commission income	6	244.589	257.658
Fee and commission expense	6	(13.410)	(14.286)
Foreign exchange income	7	38.634	28.589
Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries	8	71.380	87.111
Insurance income	9	175.435	227.509
Insurance expense	9	(116.074)	(164.674)
Other income	10	8.916	16.761
		1.449.889	1.286.498
Staff costs	11	(430.208)	(413.933)
Other operating expenses	12	(294.717)	(260.319)
Profit before provisions		724.964	612.246
Provisions for impairment of loans and advances	41	(374.497)	(247.935)
Profit before share of profit of associates		350.467	364.311
Share of (loss)/profit of associates	13	(1.953)	910
Profit before tax		348.514	365.221
Taxation	14	(45.989)	(43.227)
Profit after tax		302.525	321.994

Attributable to:			
Non-controlling interests ((loss)/profit)		(3.664)	8.850
Owners of the Company		306.189	313.144

Basic earnings per share (cent)	15	40,5	45,0
Diluted earnings per share (cent)	15	37,3	41,4

Bank of Cyprus Group Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

		2010	2009
	Notes	€000	€000
Profit after tax		302.525	321.994
Other comprehensive income			
Foreign currency translation reserve			
Profits/(losses) on translation of net investment in subsidiaries and overseas branches		53.930	(10.867)
Losses on hedging of net investments	18	(18.705)	(19.759)
Transfer to the consolidated income statement on reduction of capital/disposal of subsidiary	7	362	18.732
		35.587	(11.894)
Available-for-sale investments			
(Losses)/gains from revaluation before tax		(300.495)	116.223
Transfer to the consolidated income statement on impairment	8	23.770	361
Transfer to the consolidated income statement on sale		11.737	(6.909)
Taxation		2.571	(2.804)
		(262.417)	106.871
Cash flow hedges			
Gains/(losses) from revaluation before tax		1.407	(2.287)
Transfer to the consolidated income statement on termination of hedge accounting		-	(5.280)
Taxation		(148)	757
		1.259	(6.810)
Property revaluation			
Losses from revaluation before tax		-	(4.011)
Taxation		192	921
		192	(3.090)
Other comprehensive (expense)/income after tax		(225.379)	85.077
Total comprehensive income for the year		77.146	407.071
Attributable to:			
Non-controlling interests ((expense)/income)		(1.456)	9.362
Owners of the Company		78.602	397.709

Bank of Cyprus Group Consolidated Balance Sheet

as at 31 December 2010

		2010	2009
	Notes	€000	€000
Assets			
Cash and balances with central banks	16	2.241.825	1.043.791
Placements with banks	16	5.264.628	5.947.768
Reverse repurchase agreements		120.166	120.137
Investments	17	5.345.594	4.928.113
Derivative financial assets	18	76.278	60.739
Loans and advances to customers	20	27.725.451	25.635.780
Life insurance business assets attributable to policyholders	22	561.695	541.574
Property and equipment	23	418.781	406.272
Intangible assets	24	479.058	453.141
Other assets	25	400.459	267.534
Investments in associates	48	3.805	6.552
Total assets		42.637.740	39.411.401
Liabilities			
Obligations to central banks and amounts due to banks	26	3.706.975	5.290.897
Repurchase agreements		913.109	494.806
Derivative financial liabilities	18	240.412	139.551
Customer deposits	27	32.952.567	28.584.561
Insurance liabilities	28	658.309	618.097
Debt securities in issue	29	83.957	519.111
Other liabilities	30	323.120	332.037
Subordinated loan stock	31	930.942	946.843
Total liabilities		39.809.391	36.925.903
Equity			
Share capital	32	894.948	598.197
Share premium		1.159.819	712.170
Revaluation and other reserves		(186.253)	28.613
Retained earnings	34	868.531	1.084.132
Equity attributable to the owners of the Company		2.737.045	2.423.112
Non-controlling interests		91.304	62.386
Total equity		2.828.349	2.485.498
Total liabilities and equity		42.637.740	39.411.401

Th. Aristodemou
A. Artemis
A. Eliades
Y. Kypri
Chr. Hadjimitsis

Chairman
Vice-Chairman
Group Chief Executive Officer
Deputy Group Chief Executive Officer
Senior Group General Manager

Bank of Cyprus Group
Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium	Retained earnings (Note 34)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Cash flow hedge reserve	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Shares of the Company	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2010	598.197	712.170	1.084.132	101.583	(8.537)	32	74.599	12.420	(138.138)	(13.346)	2.423.112	62.386	2.485.498
Reattribution of reserves due to change in ownership percentage of subsidiary (Note 47)	-	-	(29.824)	-	-	-	-	-	-	-	(29.824)	29.824	-
Cost of share-based payments	-	-	3.079	-	-	-	-	-	-	-	3.079	-	3.079
Transfer of realised profits on sale of property	-	-	1.446	(1.446)	-	-	-	-	-	-	-	-	-
Purchase of shares of the Company by subsidiaries and associates	-	-	-	-	-	-	-	-	-	(3.754)	(3.754)	-	(3.754)
Disposal of shares of the Company by subsidiaries and associates	-	-	(4.524)	-	-	-	-	-	-	8.823	4.299	-	4.299
Defence contribution on deemed dividend distribution	-	-	(570)	-	-	-	-	-	-	-	(570)	-	(570)
Increase in value of in-force life insurance policies	-	-	(10.071)	-	-	-	10.071	-	-	-	-	-	-
Tax on increase in value of in-force life insurance policies	-	-	973	-	-	-	(973)	-	-	-	-	-	-
Conversion of Convertible Bonds and Convertible Capital Securities	23	112	-	-	-	-	-	-	-	-	135	-	135
Issue of shares	172.630	172.630	-	-	-	-	-	-	-	-	345.260	-	345.260
Costs relating to the issue of shares	-	(1.244)	-	-	-	-	-	-	-	-	(1.244)	-	(1.244)
Dividend in the form of shares (Note 33)	113.199	254.697	(388.430)	-	-	-	-	-	-	-	(20.534)	-	(20.534)
Dividend paid and reinvested (Note 33)	10.899	21.454	(93.869)	-	-	-	-	-	-	-	(61.516)	-	(61.516)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	620	620
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	-	-	-	-	-	-	(70)	(70)
Total comprehensive income/(expense) for the year	-	-	306.189	192	(262.475)	1.259	-	-	33.437	-	78.602	(1.456)	77.146
31 December 2010	894.948	1.159.819	868.531	100.329	(271.012)	1.291	83.697	12.420	(104.701)	(8.277)	2.737.045	91.304	2.828.349

Bank of Cyprus Group Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital (Note 32)	Share premium	Retained earnings (Note 34)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Cash flow hedge reserve	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Shares of the Company	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2009	586.662	676.949	877.225	104.673	(115.318)	6.842	67.099	5.173	(152.507)	(15.721)	2.041.077	15.290	2.056.367
Cost of share-based payments	-	-	13.726	-	-	-	-	-	-	-	13.726	-	13.726
Purchase of shares of the Company by subsidiaries and associates	-	-	-	-	-	-	-	-	-	(423)	(423)	-	(423)
Disposal of shares of the Company by subsidiaries and associates	-	-	(1.282)	-	-	-	-	-	-	2.798	1.516	-	1.516
Increase in value of in-force life insurance policies	-	-	(8.377)	-	-	-	8.377	-	-	-	-	-	-
Tax on increase in value of in-force life insurance policies	-	-	877	-	-	-	(877)	-	-	-	-	-	-
Transfer to retained earnings on change in ownership of subsidiary (Note 47)	-	-	(26.685)	-	-	-	-	-	26.685	-	-	-	-
Change in ownership of subsidiary (Note 47)	-	-	38.264	-	-	-	-	-	-	-	38.264	32.191	70.455
Dividend paid and reinvested (Note 33)	11.535	35.221	(117.711)	-	-	-	-	-	-	-	(70.955)	-	(70.955)
Derecognition of equity component of Convertible Bonds 2013/2018	-	-	4.756	-	-	-	-	(4.756)	-	-	-	-	-
Issue of Convertible Capital Securities	-	-	-	-	-	-	-	12.003	-	-	12.003	-	12.003
Exchange of Convertible Bonds 2013/2018 with Convertible Capital Securities	-	-	(9.805)	-	-	-	-	-	-	-	(9.805)	-	(9.805)
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	-	-	-	-	-	-	(1.439)	(1.439)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	6.982	6.982
Total comprehensive income/(expense) for the year	-	-	313.144	(3.090)	106.781	(6.810)	-	-	(12.316)	-	397.709	9.362	407.071
31 December 2009	598.197	712.170	1.084.132	101.583	(8.537)	32	74.599	12.420	(138.138)	(13.346)	2.423.112	62.386	2.485.498

Bank of Cyprus Group

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

		2010	2009
	Notes	€000	€000
Net cash flow from operating activities	37	816.369	2.173.527
Cash flows used in investing activities			
Purchases of investments:			
- debt securities		(4.203.037)	(5.673.891)
- equity securities		(5.213)	(59.980)
Proceeds on disposal/redemption of investments:			
- debt securities		3.640.374	5.262.324
- equity securities		108	869
Interest on debt securities		176.026	185.588
Dividend income from equity securities		2.859	1.659
Dividends received from associates		314	392
Cash acquired on acquisition of subsidiary		4.571	-
Proceeds on disposal of subsidiary		2.892	-
Purchase of property and equipment		(40.598)	(29.965)
Proceeds on disposal of property and equipment		4.228	1.954
Purchase of intangible assets		(10.152)	(8.023)
Purchase of investment properties		(63.456)	(16.187)
Proceeds on disposal of investment properties		2.135	214
Net cash flow used in investing activities		(488.949)	(335.046)
Cash flows used in financing activities			
Issue of share capital net of issue costs paid		344.016	-
Issue of subordinated loan stock		-	118.161
Redemption of subordinated loan stock		-	(50.284)
Issue of senior debt		14.517	4.852
Redemption of senior debt		(449.671)	(444.910)
Dividend payment net of reinvestment		(82.050)	(70.955)
Dividend paid by subsidiaries to non-controlling interests net of reinvestment		(70)	(1.439)
Increase of capital of subsidiary attributed to non-controlling interests		620	6.982
Interest on subordinated loan stock		(43.669)	(46.919)
Acquisition of own shares		(3.754)	(423)
Disposal of own shares		4.299	1.516
Net cash flow used in financing activities		(215.762)	(483.419)
Net increase in cash and cash equivalents for the year		111.658	1.355.062
Cash and cash equivalents			
1 January		6.156.656	4.787.851
Exchange adjustments		71.453	13.743
Net increase in cash and cash equivalents for the year		111.658	1.355.062
31 December	38	6.339.767	6.156.656

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2010 were authorised for issue by a resolution of the Board of Directors on 28 February 2011.

Bank of Cyprus Public Company Ltd is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiary companies during the year continued to be the provision of banking, financial and insurance services.

The Company was incorporated as a limited liability company in 1930 and is a public company under the Cyprus Companies Law, the Cyprus Stock Exchange Laws and Regulations and the Income Tax Law of Cyprus.

The accounting policies used by Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (the 'Group') that are relevant to an understanding of the consolidated financial statements are stated below.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties, investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current) is presented in Note 40.

Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption by the Group of the following new and amended IFRSs and IFRIC Interpretations as from 1 January 2010:

- IFRS 1 'First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters' (Amendments)
- IFRS 2 'Group Cash-settled Share-based Payment Arrangements' (Amendment)
- IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items' (Amendment)
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- Amendments resulting from improvements to IFRSs (April 2008) to the following standards: IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'
- Amendments resulting from improvements to IFRSs (April 2009) the following standards:
 - IFRS 2 'Share-based Payment'
 - IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'
 - IFRS 8 'Operating Segment Information'
 - IAS 1 'Presentation of Financial Statements'
 - IAS 7 'Statement of Cash Flows'
 - IAS 17 'Leases'
 - IAS 36 'Impairment of Assets'
 - IAS 38 'Intangible Assets'
 - IAS 39 'Financial Instruments: Recognition and Measurement'
 - IFRIC 9 'Reassessment of Embedded Derivatives'
 - IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

2. Summary of Significant Accounting Policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

Adoption of the above did not have any impact on the financial statements of the Group.

2.3 Standards and Interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

(i) Standards and Interpretations issued by the IASB and adopted by the EU

Amendments to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' (effective for annual periods beginning on or after 1 July 2010)

Relief is given to first-time adopters from providing comparative information for the disclosures required by the amendments to IFRS 7 'Financial Instruments: Disclosure' in the first year of application. This Amendment does not apply to the Group.

Revised IAS 24 'Related Party Disclosures' (effective for annual periods beginning on or after 1 January 2011)

The IASB has amended IAS 24 in an effort to simplify the identification of related party relationships by clarifying the definition of related parties but without reconsidering the fundamental approach to related party disclosures. The Amendment is not expected to have a significant impact on the related party disclosures as presented in the financial statements of the Group.

Amendment to IAS 32 'Financial Instruments: Presentation – Classification of Rights Issues Denominated in a Foreign Currency' (effective for annual periods beginning on or after 1 February 2010)

The Amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed 'rights') as equity instruments. This Amendment does not apply to the Group as it does not have such instruments in issue.

Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement' (effective for annual periods beginning on or after 1 January 2011)

The Amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. It requires entities to treat such early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The Group did not have any plans with minimum funding requirements at the balance sheet date.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after 1 July 2010)

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Group did not have any transactions within the scope of the Interpretation up to the balance sheet date.

'Improvements to IFRSs' (issued in May 2010) (various effective dates, earliest for annual periods beginning on or after 1 July 2010)

In May 2010, the IASB issued the third omnibus of amendments to its Standards, Improvements to IFRSs, and the related Basis for Conclusions. There are eleven Amendments to six Standards and one Interpretation, specifically IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Adoption of these improvements will not have any effect on the financial statements of the Group, except as detailed below. The following summarises these amendments:

IFRS 1 'First-time adoption' (effective for annual periods beginning on or after 1 January 2011)

This Improvement clarifies the treatment of accounting policy changes in the year of adoption after publishing an interim financial report in accordance with IAS 34 'Interim Financial Reporting', allows first-time adopters to use an event-driven fair value as deemed cost and expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities.

2. Summary of Significant Accounting Policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective (continued)

(i) Standards and Interpretations issued by the IASB and adopted by the EU (continued)

IFRS 3 'Business Combinations' (effective for annual periods beginning on or after 1 July 2010)

This Improvement clarifies that the amendments to IFRS 7 'Financial Instruments: Disclosures', IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Moreover, this improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets. Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.

IFRS 7 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 1 January 2011)

This Improvement gives clarifications of disclosures required by IFRS 7 and emphasises the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. It also includes amendments to quantitative credit risk disclosures. The Group has assessed the impact of these improvements on its financial statements and concluded that these will not affect its profit after tax or equity. They will however result in changes in the current disclosures relating to credit risk.

IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2011)

This Improvement clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2010)

This Improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 'The Effect of Changes in Foreign Exchange Rates', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures' apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

IAS 34 'Interim Financial Reporting' (effective for annual periods beginning on or after 1 January 2011)

This Improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and increases the disclosure requirements. The Amendment requires additional disclosures in an entity's interim financial statements. The Group has assessed the impact of these improvements on its interim financial statements and concluded that these will not affect its profit after tax or equity. They will however result in changes in the current disclosures. As similar information is already provided in the annual financial statements, the information systems are already available to capture these disclosures.

IFRIC 13 'Customer Loyalty Programmes' (effective for annual periods beginning on or after 1 January 2011)

This Improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

(ii) Standards and Interpretations issued by the IASB but not yet adopted by the EU

IFRS 9 'Financial Instruments: Classification and Measurement' (effective for annual periods beginning on or after 1 January 2013)

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid-2011.

2. Summary of Significant Accounting Policies *(continued)*

2.3 Standards and Interpretations that are issued but not yet effective *(continued)*

(ii) Standards and Interpretations issued by the IASB but not yet adopted by the EU *(continued)*

IFRS 9 provides that at initial recognition, all financial assets (including hybrid contracts with a financial asset host) are measured at fair value. For subsequent measurement, financial assets that are debt instruments are classified at amortised cost or fair value on the basis of both the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. Debt instruments may be subsequently measured at amortised cost if the asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows, and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other debt instruments are subsequently measured at fair value through profit or loss.

All financial assets that are equity investments are measured at fair value either through the statement of comprehensive income or the income statement. This is an irrevocable choice the entity makes by instrument unless the equity investments are held for trading, in which case, they must be measured at fair value through profit or loss.

The Group is currently assessing the impact of adopting the first phase of IFRS 9, which is expected to have a significant effect on the classification and measurement of the Group's financial assets. However, the impact of adoption depends on the assets and liabilities of the Group at the date of adoption, and it is therefore not practical to quantify the effect.

Amendments to IFRS 7 'Financial Instruments: Disclosures' (effective for accounting periods beginning on or after 1 July 2011)

The IASB issued Amendments to IFRS 7 to enhance the transparency of disclosure requirements for the transfer of financial assets. The Amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor. The Group is in the process of assessing the impact of these Amendments on its financial statements.

Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets' (effective for accounting periods beginning on or after 1 January 2012)

These Amendments address the determination of deferred tax on investment property measured at fair value. The Amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The Amendments also incorporate SIC-21 'Income Taxes - Recovery of Revalued Non-Depreciable Assets' into IAS 12. The Group is in the process of assessing the impact of these Amendments on its financial statements.

Amendments to IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters' (effective for accounting periods beginning on or after 1 July 2011)

These Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. This Amendment is not relevant to the Group and its operations.

2.4 Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires the Group's management to make judgments and estimates that can have a material impact on the amounts recognised in the consolidated financial statements. The accounting policies that are deemed critical to the Group's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgment including the use of assumptions and estimates, are discussed below.

(i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2. Summary of Significant Accounting Policies *(continued)*

2.4 Significant accounting judgments and estimates *(continued)*

(ii) Provision for impairment of loans and advances to customers

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. The Group adopts a formulaic approach for collective provisions. Loss rates are based on historical experience. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

Different factors are applied in each country to reflect the local economic conditions, laws and regulations. The assumptions underlying this judgment are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly.

The total amount of the Group's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas. Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's loan impairment provisions as a whole are particularly sensitive. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

(iii) Impairment of goodwill

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgment in making a series of estimates, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors below.

Firstly, significant management judgment is required in estimating the future cash flows of the Cash Generating Units (CGUs) of the acquired entities. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

Secondly, the cost of capital assigned to each acquired entity and used to discount its future cash flows, can have a significant effect on the entity's valuation. The cost of capital is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned, a premium to reflect the inherent risk of the business being evaluated and foreign exchange rates. These variables are established on the basis of significant management judgment and are subject to uncertainty.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated fair value. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, an impairment of goodwill will be recorded, thereby reducing the Group's profit for the year by a corresponding amount.

2. Summary of Significant Accounting Policies (continued)

2.4 Significant accounting judgments and estimates (continued)

(iii) Impairment of goodwill (continued)

Note 24 on the consolidated financial statements lists the entities on which goodwill arises. Goodwill impairment testing performed in 2010 indicated that there was no impairment of goodwill as the recoverable amount based on expected cash flows continued to exceed the carrying amount including goodwill of these entities. It is possible that the outcomes within the next financial year in the event of further significant deterioration in the economic and credit conditions beyond the levels already reflected by management in the cash flow forecasts for each CGU, could be different from the assumptions used, resulting in a material adjustment to the carrying amount of goodwill.

(iv) Fair value of investments

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group only uses models with unobservable inputs for the valuation of certain private equity investments which are not significant for the Group. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market.

(v) Impairment of available-for-sale investments

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgment by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The Group's policy in place requires that a review for potential impairment is carried out for individual debt securities when their fair value at the balance sheet date falls below 90% of the instrument's amortised cost. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgment.

(vi) Reclassification of financial assets

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 'Reclassification of Financial Assets' which were approved by the IASB and endorsed by the EU in October 2008, it is permissible to reclassify certain financial assets out of financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications. Refer to Note 17 for further information on the assets reclassified by the Group.

2. Summary of Significant Accounting Policies *(continued)*

2.4 Significant accounting judgments and estimates *(continued)*

(vi) Reclassification of financial assets *(continued)*

Management judgment and assumptions are required to determine whether an active market exists in order for a financial asset to meet the definition of loans and receivables. Management judgment and assumptions are also required to estimate the fair value of the assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in the highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgment. Financial assets proposed for reclassification need to be approved by the Group Asset and Liabilities Committee (ALCO) based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold. In addition to the above, management judgment is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

(vii) Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, the expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Group's management sets these assumptions based on market expectations at the balance sheet date using its best estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions a certain degree of judgment is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate relating to parameters such as productivity, workforce maturity and promotions. Expected return on plan assets is based on the composition of each fund's plan assets estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates were derived after consultation with its advisors, and involve a degree of judgment. Due to the long-term nature of these plans, such estimates are inherently uncertain.

(viii) General insurance business

The Group is engaged in the provision of general insurance services. Risks under these policies usually cover a period of 12 months.

The liabilities for outstanding claims arising from insurance contracts issued by the Group are calculated based on estimates by loss adjusters and facts known at the balance sheet date. With time, these estimates are reconsidered and any adjustments are recognised in the financial statements of the period in which they arise.

The principal assumptions underlying the estimates for each claim are based on past experience and market trends, and take into consideration claims handling costs, inflation and claim numbers for each accident year. Other external factors that may affect the estimate of claims, such as recent court rulings and the introduction of new legislation are also taken into consideration.

Provision is also made for claims incurred but not reported (IBNR) by the balance sheet date. Past experience as to the number and amount of claims reported after the balance sheet date is taken into consideration in estimating the IBNR provision.

Insurance contract liabilities are sensitive to changes in the above key assumptions. The sensitivity of certain assumptions, such as the introduction of new legislation and the rulings of certain court cases, are very difficult to quantify. Furthermore, the delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement increase the uncertainty existing at the balance sheet date.

2. Summary of Significant Accounting Policies (continued)

2.4 Significant accounting judgments and estimates (continued)

(ix) Life insurance business

The Group is engaged in the provision of life insurance services. Whole life insurance plans (Life Plans) relate to plans associated with assets where the amount payable in the case of death is the greater of the sum insured and the value of investment units. Simple insurance or temporary term plans (Term Plans) relate to fixed term duration plans for protection against death. In case of death within the coverage period, the insured sum will be paid. Endowment insurance (Investment Plans/Mortgage Plans/Horizon Plans) refer to specific duration plans linked to investments, to create capital through systematic investment in association with death insurance coverage whereby the higher of the sum assured or the value of units is payable on death within the contract term.

The calculation of liabilities and the choice of assumptions regarding insurance contracts require the Management of the Group to make significant estimates.

The assumptions underlying the estimates for each claim are based on past experience, internal factors and conditions as well as external factors which reflect current market prices and other published information. The assumptions and judgments are determined at the date of valuation of liabilities and are assessed systematically so that the reliability and realistic position can be ensured.

Estimates for insurance contracts are made in two stages. Initially, at the start of the contract, the Group determines the assumptions regarding future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, at each balance sheet date, an actuarial valuation is performed which assesses whether liabilities are adequate according to the most recent estimates.

The assumptions with the greatest influence on the valuation of liabilities are shown below:

Mortality and morbidity rates

Assumptions are based on standard national tables of mortality and morbidity, according to the type of contract. In addition, a study is performed based on the actual experience (actual deaths) of the insurance company for comparison purposes and if sufficient evidence exists which is statistically reliable, the results are incorporated in these tables. An increase in mortality rates will lead to a larger number of claims (or claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for shareholders.

Investment return and discount rate

The weighted average rate of return is derived based on assets that are assumed to back liabilities, consistent with the long-term investment strategy of the Group. These estimates are based on current market returns as well as expectations about future economic and financial developments. An increase in investment returns would lead to an increase in profits for shareholders.

Management expenses

Management expense assumptions are provided for management fees and contract maintenance as well as for general expenses, and are based on the actual costs of the Group. An assumption is also made for the rate of increase in expenses in relation to the annual inflation rate, which for 2010 was estimated at 5%. An increase in the level of expenses would reduce profits for shareholders.

Lapses

Each year an analysis of contract termination rates is performed, using actual data from the insurance company incorporation until the immediate preceding year. Rates vary according to the type and duration of the plan. According to the insurance legislation of Cyprus, no assumption is made for policy termination rates in the actuarial valuation.

(x) Taxation

The Group operates and is therefore subject to taxation in various countries. Estimates are required in determining the provision for taxes at the balance sheet date. The Group recognises income tax liabilities for transactions and assessments whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

2. Summary of Significant Accounting Policies *(continued)*

2.4 Significant accounting judgments and estimates *(continued)*

(xi) Consolidation of special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) for various purposes including asset securitisation, which may or may not be directly or indirectly owned subsidiaries. The Group consolidates those SPEs that it controls. In determining whether the Group controls an SPE, judgments are made about the Group's exposure to the risks and rewards related to the SPE and about its ability to make operational decisions for the SPE in question. The Group's involvement with SPEs is detailed in Note 47.

2.5 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries (including special purpose entities that the Group consolidates) are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

All intra-group balances and transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating strategies of an entity so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, respectively.

The Group sponsors the formation of special purpose entities (SPEs), primarily for the purpose of asset securitisation transactions and to accomplish certain narrow and well defined objectives. The Group consolidates these SPEs if the substance of its relationship with them indicates that it has control over them.

Business combinations are accounted for using the purchase method. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The losses of a subsidiary are allocated to non-controlling interests even if this will result in a negative balance. The non-controlling interests are presented separately in the consolidated income statement and within equity separately from the Company owners' equity.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises or any gain/loss is recognised in the income statement from such transactions. The exchange differences which relate to the share of non-controlling interests being sold are reclassified from the foreign currency reserve to non-controlling interests.

Put/call option arrangements on non-controlling interest

As part of business combinations, the Group may enter into arrangements to acquire the shares held by the non-controlling interest in a subsidiary through put/call option arrangements, whereby a non-controlling interest holder can sell its shares to the Group at a predetermined price (put option) and the Group can buy the non-controlling interest at the same predetermined price (call option).

Such a put/call option arrangement is accounted for in the consolidated financial statements as a liability. This results in accounting as if the Group has already acquired the shares subject to such arrangements. Therefore, no non-controlling interest is recognised for reporting purposes in relation to the shares that are subject to such an arrangement. The liability is measured at fair value, using valuation techniques based on best estimates available to management. Any difference between the fair value of the liability and the legal non-controlling interest's share of net assets is recognised as part of goodwill. Subsequent changes to the valuation of the liability, other than foreign currency translation and the time value of money, are recorded as changes to the liability and goodwill, without any direct impact on the consolidated income statement.

2. Summary of Significant Accounting Policies *(continued)*

2.6 Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Using the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The Group recognises its share of any changes in the equity of the associate through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of the associate are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

2.7 Interest in joint ventures

The Group recognises its interest in joint ventures using proportionate consolidation. The financial statements of the joint venture entities are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

2.8 Foreign currency translation

The consolidated financial statements are presented in Euros (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange income' in the consolidated income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in subsidiaries and overseas branches. These differences are recognised directly in equity in the 'Foreign currency translation reserve' until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

(ii) Subsidiary companies and branches

At the balance sheet date, the assets and liabilities of subsidiaries (including special purpose entities that the Group consolidates) and branches whose functional currency is other than the Group's presentation currency are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated using the average exchange rates for the year. Any goodwill arising on the acquisition of branches and subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the branches and subsidiaries and translated at the exchange rate ruling on the balance sheet date.

2. Summary of Significant Accounting Policies *(continued)*

2.8 Foreign currency translation *(continued)*

(ii) Subsidiary companies and branches *(continued)*

Exchange differences arising on translation are recognised directly in the 'Foreign currency translation reserve' in equity. On disposal of a subsidiary or branch, the cumulative amount of the exchange differences previously recognised in equity and relating to that particular overseas operation, is recognised in the consolidated income statement as part of the profit or loss on disposal.

2.9 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group of persons that allocate resources to and assess the performance of the operating segments. The Group has determined the Senior Group Executive Management as its chief operating decision-maker.

2.10 Turnover

Group turnover comprises interest income, fee and commission income, foreign exchange income, gross insurance premiums, turnover of property and hotel business and other income.

2.11 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

(ii) Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised in the consolidated income statement using the effective interest rate method.

(iii) Dividend income

Dividend income is recognised in the consolidated income statement when the Group's right to receive payment is established.

(iv) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the consolidated income statement in 'Other income'.

(v) Income from the disposal of property held for sale

Gains on disposal of property held for sale are recognised in the consolidated income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.12 Retirement benefits

The Group operates several defined benefit retirement plans. The main retirement benefit plans require the payment of contributions to separately administered funds (funded schemes).

The cost of providing benefits for defined benefit plans is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

Actuarial gains or losses are recognised as income or expense if the net cumulative unrecognised gains or losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligations of the plan or 10% of the fair value of plan assets as at that date. The portion of the actuarial gains or losses to be recognised is the excess amount determined above, divided by the expected average remaining working lives of the employees participating in the plan.

2. Summary of Significant Accounting Policies (continued)

2.12 Retirement benefits (continued)

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a funded plan or qualifying insurance policies. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Gains or losses on the curtailment of a defined benefit plan are recognised when the curtailment occurs. The gain or loss on a curtailment comprises of any resulting change in the present value of the defined benefit obligation, any resulting change in the fair value of plan assets and any related actuarial gains and losses and past service cost that had not previously been recognised.

The cost of providing benefits under defined contribution and early retirement plans is recognised in the consolidated income statement on an accruals basis.

2.13 Share-based payments

Employees (including executive directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments such as shares or options to buy shares of the Company (equity-settled transactions).

The cost of equity-settled transactions is measured by reference to the fair value at the date on which the award is granted. The fair value is determined using appropriate valuation models.

The cost of equity settled transactions is recognised, together with a corresponding increase in retained earnings within equity, over the period in which the performance and/or service conditions are fulfilled. The total cost recognised at each reporting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated income statement charge or credit for a period is included in 'Staff costs' and represents the movement in the cumulative cost recognised as at the beginning and end of that period.

No cost is recognised for benefits which do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 15).

2. Summary of Significant Accounting Policies (continued)

2.14 Taxation

Taxation on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

2.15 Financial instruments

(i) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis. 'Balances with Central banks', 'Obligations to central banks and amounts due to banks', 'Customer deposits', 'Placements with banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers.

(ii) Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Foreign exchange income' in the case of currency derivatives and in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the case of all other derivatives. Interest income and expense are included in the corresponding captions in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

2. Summary of Significant Accounting Policies (continued)

2.15 Financial instruments (continued)

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Revaluations are recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement. Interest income and expense is included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

(v) Other financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting, as well as unlisted equities which are managed on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the consolidated balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement. Interest income and expense are included in the corresponding captions according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

(vi) Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

(vii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading investments', 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the balance sheet captions 'Placements with banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables'. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances' in the case of loans and advances to customers and in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the case of investments classified as loans and receivables.

(viii) Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

2. Summary of Significant Accounting Policies (continued)

2.15 Financial instruments (continued)

(ix) Available-for-sale investments (continued)

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve of available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries'.

(ix) Subordinated loan stock and debt securities in issue

Subordinated loan stock and debt securities in issue are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Company has the right to redeem the subordinated loan stock and the debt securities in issue.

Debt instruments issued by the Company and held by the Group for trading purposes are treated as redemptions. Gains or losses on redemption are recognised if the repurchase price of the debt instrument was different from its carrying value at the date of repurchase. Subsequent sales of own debt instruments in the market are treated as debt re-issuance.

Interest on subordinated loan stock and debt securities in issue is included in 'Interest expense' in the consolidated income statement.

(x) Convertible bonds

On issuance of compound financial instruments that contain both liability and equity elements, these are accounted for separately, as financial liabilities and equity respectively.

When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. No gain or loss arises from initially recognising the components of the instrument separately.

The liability component is subsequently measured at amortised cost using the effective interest rate method in order to amortise the difference between the nominal value and the carrying value at inception until it is extinguished on conversion or redemption. The equity component is not subsequently remeasured.

2.16 Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Group has transferred its rights to receive cash flows from the asset or (c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2. Summary of Significant Accounting Policies (continued)

2.17 Impairment of financial assets

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.

(i) Loans and advances to customers

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 a 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 days 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.

2. Summary of Significant Accounting Policies (continued)

2.17 Impairment of financial assets (continued)

(ii) Investments classified as held-to-maturity and loans and receivables

For held-to-maturity investments and loans and receivables investments, the Group assesses at each balance sheet date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

(iii) Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each balance sheet date.

In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is deducted from the 'Revaluation reserve of available-for-sale investments' and recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement. Impairment losses on equity securities are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised in the 'Revaluation reserve of available-for-sale investments' in equity.

In the case of debt securities classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

2.18 Hedge accounting

The Group uses derivative financial instruments and in the case of a hedge of a net investment, non-derivative financial liabilities to hedge exposures to interest rate and foreign exchange risks. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship, a formal assessment is also undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2. Summary of Significant Accounting Policies (continued)

2.18 Hedge accounting (continued)

(i) Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

(ii) Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries' in the consolidated income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the consolidated income statement.

(iii) Hedges of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while gains or losses relating to the ineffective portion are recognised in 'Foreign exchange income' in the consolidated income statement.

On disposal of an overseas branch or subsidiary, the cumulative gains or losses recognised directly in equity are recognised in 'Foreign exchange income' in the consolidated income statement.

2.19 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.20 Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition.

2.21 Insurance business

The Group undertakes both life insurance and general insurance business and issues insurance and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Investment contracts are those contracts that transfer financial risk.

Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all of the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

2. Summary of Significant Accounting Policies (continued)

2.21 Insurance business (continued)

(i) Life insurance business

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

(ii) In-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the balance sheet date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

(iii) General insurance business

Premiums are recognised in the consolidated income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the balance sheet date are deferred to subsequent reporting periods.

An increase in liabilities arising from claims is made for the estimated cost of claims notified but not settled and claims incurred but not notified at the balance sheet date. The increase in liabilities for the cost of claims notified but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the increase in liabilities for claims incurred but not notified at the balance sheet date.

(iv) Investment contracts

The Group offers deposits administration funds which provide a guaranteed investment return on members' contributions. Policies are written to employees of companies, which define the benefits to be received. Any shortfalls are covered by the companies of which staff is insured. The Group has no liability for any actuarial deficit.

(v) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the consolidated income statement.

2.22 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specific future date ('repos') are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Repos outstanding at the balance sheet date relate to agreements with banks. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty.

2. Summary of Significant Accounting Policies *(continued)*

2.22 Repurchase and reverse repurchase agreements *(continued)*

Securities purchased under agreements to resell ('reverse repos') at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. Reverse repos outstanding at the balance sheet date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

2.23 Finance leases – The Group as lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the consolidated income statement.

2.24 Operating leases – The Group as lessee

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term in 'Other operating expenses'.

2.25 Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers on the basis of current market values. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Useful lives are in the range of 30 to 67 years. On disposal of freehold land and buildings, the relevant 'Revaluation reserve' balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 3 to 5 years or over the period of the lease if this does not exceed 5 years.

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 3 to 10 years.

At the balance sheet date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

2.26 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment properties'.

The Group in its normal course of business, acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties. These properties are recognised in the Group's consolidated financial statements as investment properties, reflecting the substance of these transactions.

2. Summary of Significant Accounting Policies (continued)

2.27 Stock of property held for sale

Stock of property held for sale is measured at the lower of cost or net realisable value.

2.28 Goodwill and other intangible assets

Goodwill represents the excess of the cost of the acquisition over the net fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment annually as at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Other intangible assets include computer software, licence fees, brands, acquired insurance portfolio customer lists and customer relationships acquired as part of business combinations. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for licence fees, 7 to 10 years for customer relationships, 8 years for brands and 3 to 5 years for computer software.

Other intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

2.29 Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

2.30 Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

2.31 Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated income statement in 'Provisions for impairment of loans and advances'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the consolidated income statement when the guarantee is fulfilled, cancelled or expires.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

3. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit and has the following reportable operating segments: Cyprus, Greece and Russia. The Group's activities in the United Kingdom, Australia, Romania and Ukraine are separate operating segments for which information is provided to management but, due to their size, have been aggregated for disclosure purposes into one segment, namely 'Other countries'.

The Group's activities in Cyprus include the provision of banking, financial and insurance services and property and hotel business. The Group's activities in Greece include the provision of banking, financial and insurance services. The Group's activities in other countries include the provision of banking services.

Group management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis.

Operating segment disclosures are provided as presented to the Group's Senior Executive Management. Each segment's capital and the related interest income and expense are adjusted in order to be on the same basis as a percentage of the segment's risk weighted assets, as calculated for capital adequacy purposes in accordance with the relevant regulations of the Central Bank of Cyprus. The results of each segment are also adjusted to reflect the liquidity surplus/shortfall of each segment. The Group's total profit as presented in the consolidated income statement is not affected.

The loans and advances to customers, the customer deposits and the related income and expense are included in the segment where the business is originated, instead of the segment where the transaction is recorded.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

3. Segmental analysis (continued)

	Cyprus	Greece	Russia	Other countries	Total
2010	€000	€000	€000	€000	€000
Net interest income	523.207	309.472	119.356	88.384	1.040.419
Net fee and commission income	127.324	50.969	40.738	12.148	231.179
Foreign exchange income	22.774	3.490	9.859	2.511	38.634
Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries	52.884	18.778	(434)	152	71.380
Net insurance income	47.944	11.417	-	-	59.361
Other income	5.264	994	1.530	1.128	8.916
	779.397	395.120	171.049	104.323	1.449.889
Staff costs	(225.461)	(113.446)	(62.740)	(28.561)	(430.208)
Depreciation and amortisation	(19.411)	(15.340)	(6.754)	(3.975)	(45.480)
Other operating expenses	(97.794)	(72.011)	(55.895)	(23.537)	(249.237)
Profit before provisions	436.731	194.323	45.660	48.250	724.964
Provisions for impairment of loans and advances	(144.966)	(184.597)	(24.461)	(20.473)	(374.497)
Share of loss of associates	(1.953)	-	-	-	(1.953)
Profit before tax	289.812	9.726	21.199	27.777	348.514
Taxation	(39.239)	1.529	(3.914)	(4.365)	(45.989)
Profit after tax	250.573	11.255	17.285	23.412	302.525
Non-controlling interests (loss/(profit))	5.434	-	(1.768)	(2)	3.664
Profit after tax and non-controlling interests	256.007	11.255	15.517	23.410	306.189

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

3. Segmental analysis (continued)

	Cyprus	Greece	Russia	Other countries	Total
2009	€000	€000	€000	€000	€000
Net interest income	427.915	262.885	71.809	85.221	847.830
Net fee and commission income	122.959	54.763	55.345	10.305	243.372
Foreign exchange income	10.847	1.983	14.698	1.061	28.589
Net gains on sale, revaluation and impairment of investments and derivative financial instruments	76.262	7.859	2.609	381	87.111
Net insurance income	52.450	10.385	-	-	62.835
Other income	7.961	2.235	6.086	479	16.761
	698.394	340.110	150.547	97.447	1.286.498
Staff costs	(224.426)	(109.633)	(55.271)	(24.603)	(413.933)
Depreciation and amortisation	(12.985)	(14.789)	(12.891)	(3.590)	(44.255)
Other operating expenses	(83.805)	(70.755)	(41.608)	(19.896)	(216.064)
Profit before provisions	377.178	144.933	40.777	49.358	612.246
Provisions for impairment of loans and advances	(78.201)	(120.230)	(27.587)	(21.917)	(247.935)
Share of profit of associates	910	-	-	-	910
Profit before tax	299.887	24.703	13.190	27.441	365.221
Taxation	(13.394)	(21.641)	(1.675)	(6.517)	(43.227)
Profit after tax	286.493	3.062	11.515	20.924	321.994
Non-controlling interests (profit)	(4.512)	-	(4.338)	-	(8.850)
Profit after tax and non-controlling interests	281.981	3.062	7.177	20.924	313.144

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

3. Segmental analysis (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, foreign exchange income, net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries, insurance income and expense and other income.

	Cyprus	Greece	Russia	Other countries	Total
<i>Total revenue</i>	€000	€000	€000	€000	€000
2010					
Banking and financial services	729.690	350.319	189.845	117.356	1.387.210
Insurance services	50.896	9.887	-	-	60.783
Property and hotel business	1.881	15	-	-	1.896
Total revenue with third parties	782.467	360.221	189.845	117.356	1.449.889
Inter-segment (expense)/revenue	(3.070)	34.899	(18.796)	(13.033)	-
Total revenue	779.397	395.120	171.049	104.323	1.449.889
2009					
Banking and financial services	666.336	285.978	152.996	112.175	1.217.485
Insurance services	55.255	10.844	-	-	66.099
Property and hotel business	2.914	-	-	-	2.914
Total revenue with third parties	724.505	296.822	152.996	112.175	1.286.498
Inter-segment (expense)/revenue	(26.111)	43.288	(2.449)	(14.728)	-
Total revenue	698.394	340.110	150.547	97.447	1.286.498

Analysis of assets

	Cyprus	Greece	Russia	Other countries	Total
2010	€000	€000	€000	€000	€000
Assets	31.042.592	14.690.567	2.110.613	3.506.399	51.350.171
Inter-segment assets					(8.712.431)
Total assets					42.637.740
2009					
Assets	24.994.001	16.383.209	2.024.939	3.265.300	46.667.449
Inter-segment assets					(7.256.048)
Total assets					39.411.401

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 27 and 41 respectively.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

4. Interest income

	2010	2009
	€000	€000
Loans and advances to customers	1.716.693	1.598.724
Placements with banks and central banks	41.063	48.426
Reverse repurchase agreements	2.723	1.162
Investments available-for-sale	118.436	140.985
Investments held-to-maturity	32.411	21.752
Investments classified as loans and receivables	46.620	10.129
	1.957.946	1.821.178
Trading investments	1.359	5.355
Derivative financial instruments	124.821	162.813
Other investments at fair value through profit or loss	7.668	7.688
	2.091.794	1.997.034

Interest income from loans and advances to customers includes interest from impaired loans and advances of €36.756 thousand (2009: €23.764 thousand).

5. Interest expense

	2010	2009
	€000	€000
Customer deposits	742.430	875.723
Obligations to central banks and amounts due to banks	80.490	34.601
Repurchase agreements	7.499	5.265
Debt securities in issue	5.092	16.835
Subordinated loan stock	43.669	46.919
	879.180	979.343
Derivative financial instruments	172.195	169.861
	1.051.375	1.149.204

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

6. Fee and commission income and expense

Fee and commission income

	2010	2009
	€000	€000
Credit-related fees and commissions	92.802	82.315
Other banking commissions	139.985	162.881
Mutual funds and asset management fees	4.276	3.843
Brokerage commissions	5.788	7.461
Other commissions	1.738	1.158
	244.589	257.658

Mutual funds and asset management fees include €3.763 thousand (2009: €3.649 thousand) of income relating to fiduciary activities.

Fee and commission expense

	2010	2009
	€000	€000
Banking commissions	13.179	13.936
Mutual funds and asset management fees	60	87
Brokerage commissions	171	263
	13.410	14.286

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

7. Foreign exchange income

Foreign exchange income comprises the translation of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

Foreign exchange income includes losses of €362 thousand (2009: €18.732 thousand) which were transferred from the foreign currency translation reserve following the disposal and/or reduction of capital of a subsidiary, as described in Note 47. Foreign exchange income for 2009 also included profits of €8 million from transactions relating to the Group's investments in Russia and Ukraine which did not meet the criteria for hedge accounting.

8. Net gains on sale, revaluation and impairment of investments, derivative financial instruments and subsidiaries

	2010	2009
	€000	€000
Trading portfolio:		
- equity securities	(12.554)	6.089
- debt securities	(246)	6.408
- derivative financial instruments	78.086	(55.780)
Other investments at fair value through profit or loss:		
- equity securities	(105)	(62)
- debt securities	(954)	2.773
Gains on termination of cash flow hedges	-	5.280
Gains on disposal of available-for-sale investments:		
- equity securities	(34)	787
- debt securities	34.223	101.335
Gains on disposal of own debt securities in issue and subordinated loan stock held for trading	2.061	10.540
Reversal of impairment of available-for-sale debt securities	2.838	7.807
(Impairment)/reversal of impairment of held-to-maturity debt securities	(10.474)	2.986
Impairment of available-for-sale equity securities	(23.770)	(361)
Profit on disposal of subsidiary (Note 47)	1.944	-
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	(96.711)	(11.361)
- hedged items	97.076	10.670
	71.380	87.111

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Insurance income and expense

	2010		2009	
	Income	Expense	Income	Expense
	€000	€000	€000	€000
Life insurance business	125.611	(90.249)	179.795	(145.913)
General insurance business	49.824	(25.825)	47.714	(18.761)
	175.435	(116.074)	227.509	(164.674)

	2010		2009	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Income				
Gross premiums	112.586	77.470	108.174	71.138
Reinsurance premiums	(16.652)	(40.523)	(15.507)	(36.196)
Net premiums	95.934	36.947	92.667	34.942
Change in the provision for unearned premiums	-	(693)	-	(85)
Total net earned premiums	95.934	36.254	92.667	34.857
Investment income and revaluation and other income	15.737	43	73.476	56
Commissions from reinsurers and other income	3.869	13.527	5.275	12.801
	115.540	49.824	171.418	47.714
Change in value of in-force business before tax (Note 28)	10.071	-	8.377	-
	125.611	49.824	179.795	47.714

Expense				
Gross payments to policyholders	(59.847)	(25.862)	(49.755)	(21.639)
Reinsurers' share of payments to policyholders	6.835	8.392	7.581	6.167
Gross change in insurance contract liabilities	(28.701)	(9.099)	(94.638)	(5.241)
Reinsurers' share of change in insurance contract liabilities	4.076	4.241	3.547	4.336
Commissions paid to agents and other direct selling costs	(12.612)	(3.497)	(12.648)	(2.384)
	(90.249)	(25.825)	(145.913)	(18.761)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Insurance income and expense (continued)

Other insurance income and expense items

The following insurance income and expense was recognised in the relevant captions of the consolidated income statement:

	2010		2009	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Net income/(expense) from non-linked insurance business assets	(303)	963	400	1.686
Net gains on sale, revaluation and impairment of financial assets and other non-linked insurance business income	518	244	923	255
Staff costs	(7.706)	(8.820)	(6.165)	(9.243)
Other operating expenses	(4.237)	(4.060)	(3.864)	(3.091)

10. Other income

	2010	2009
	€000	€000
Dividend income	2.859	1.659
Profit on sale of stock of property held for sale	36	942
Profit on sale of property and equipment	236	330
Rental income from investment properties	646	486
(Losses)/gains from revaluation of investment properties	(822)	3.393
Other income	5.961	9.951
	8.916	16.761

11. Staff costs

	2010	2009
	€000	€000
Salaries	328.317	299.518
Employer's contributions	60.188	55.948
Retirement benefit plan costs	38.331	42.948
Early retirement plans	293	1.793
Cost of equity-settled share-based payments	3.079	13.726
	430.208	413.933

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

The cost of equity settled share-based payments for the year, comprises the cost of the share options granted to Group employees and the bonus which has been approved for the Group's Executive Directors, senior Group executive management and Group general managers.

The number of persons employed by the Group as at 31 December 2010 was 12.009 (2009: 12.127).

Retirement benefit plan costs

	2010	2009
	€000	€000
Defined benefit plans	34.826	40.028
Defined contribution plans	3.505	2.920
	38.331	42.948

The Group operates retirement benefit plans as outlined below.

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus covers 27% of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. The plans are managed by Administrative Committees composed of representatives of both the members/retirees and the employer.

The present value of the defined benefit obligations of the main retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation of the main retirement plan in Cyprus were as follows:

	2010	2009
Discount rate	5,02%	5,13%
Expected rate of return on plan assets	3,62%	6,19%
Future salary increases	5,50%	6,00%

Greece

The Group's employees in Greece (26% of total Group employees) are covered by two defined benefit plans and one defined contribution plan.

All employees are entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, under a defined benefit plan, at rates specified in the Greek legislation. All the benefits paid from statutory retirement indemnities are payable out of the Company's assets because these plans are unfunded.

In addition, a number of employees recruited up to 31 December 2002 (8% of total Group employees) participate in a defined benefit plan which provides for the payment of a lump sum on retirement of up to approximately 50 monthly salaries, depending on the length of service.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

Retirement benefit plan costs (continued)

The present value of the defined benefit obligations under the two defined benefit plans in Greece is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2010	2009
Discount rate	5,33%	5,23%
Expected rate of return on plan assets	4,61%	5,10%
Future salary increases	4,50%	4,50%

The third plan applies to employees recruited after 31 December 2002 and is a defined contribution plan.

United Kingdom

The Group's employees in the United Kingdom (1% of total Group employees) are covered by a defined benefit plan and a defined contribution plan.

A number of employees recruited up to 31 March 2003 (1% of total Group employees) participated in a defined benefit plan which provided for the payment of a pension for life, based on the final employee salary prior to retirement and the years of service. With effect from 1 January 2009, the plan was closed to future accrual of benefits for active members. The salary link for these members is broken such that these active members had benefits calculated as though they are leavers from the plan on 31 December 2008.

The present value of the obligations for the defined benefit plan in the United Kingdom is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation were as follows:

	2010	2009
Discount rate	5,35%	5,70%
Expected rate of return on plan assets	6,54%	7,00%

The second plan applies to all employees and is a defined contribution plan.

Other countries

The Group does not operate any retirement benefit plans in Australia, Romania, Russia and Ukraine.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans

The amounts recognised in the consolidated balance sheet are shown below:

	2010	2009
	€000	€000
Net present value of funded obligations	562.347	544.389
Fair value of plan assets	(495.835)	(443.964)
	66.512	100.425
Net present value of unfunded obligations	8.065	7.545
Unrecognised past service cost	(945)	(1.042)
Unrecognised net actuarial losses	(75.419)	(106.186)
Amount not recognised as an asset because of the asset restriction requirement	5.644	441
Net liability of retirement benefit plans recognised in the consolidated balance sheet	3.857	1.183

Amounts recognised in the consolidated balance sheet		
Liabilities (Note 30)	8.155	6.785
Assets (Note 25)	(4.298)	(5.602)
	3.857	1.183

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The movement in the net present value of obligations is set out below:

	2010	2009
	€000	€000
1 January	551.934	484.950
Current service cost	27.086	24.623
Interest expense on obligations	28.284	27.686
Actuarial (gains)/losses	(21.848)	32.237
Past service benefit	-	(1.668)
Benefits paid from the plans	(16.456)	(18.537)
Benefits paid directly by the Group	(360)	(142)
Contributions by plan participants	272	255
Terminations, curtailments and settlements	183	61
Exchange differences from overseas plans	1.317	2.469
31 December	570.412	551.934

The changes in the fair value of plan assets are set out below:

	2010	2009
	€000	€000
1 January	443.964	302.132
Expected rate of return on plan assets	28.458	19.822
Actuarial gains	6.833	99.547
Employer's contributions	31.700	38.612
Contributions by plan participants	272	255
Benefits paid from the plans	(16.456)	(18.537)
Exchange differences from overseas plans	1.064	2.133
31 December	495.835	443.964

The actual return on plan assets for 2010 was €35.291 thousand (2009: €119.369 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2010	2009
Equity securities	8%	55%
Debt securities	25%	28%
Placements with banks	66%	15%
Other plan assets	1%	2%
	100%	100%

The assets held by the funded plans include securities issued by the Company, the fair value of which is:

	2010	2009
	€000	€000
Equity securities	14.938	217.742
Debt securities	51.004	53.445
	65.942	271.187

The components of the expense recognised in the consolidated income statement in relation to the defined benefit plans are as follows:

	2010	2009
	€000	€000
Current service cost	27.086	24.623
Interest expense on obligations	28.284	27.686
Expected return on plan assets	(28.458)	(19.822)
Amortisation of actuarial losses	2.430	8.609
Amortisation of past service cost	97	(1.570)
Effect of terminations, curtailments and settlements	183	61
Effect of change of asset restriction limit	5.204	441
	34.826	40.028

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

11. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

Experience adjustments and their effect on the net present value of obligations and the fair value of plan assets are as follows:

	2010	2009	2008	2007	2006
	€000	€000	€000	€000	€000
Net present value of obligations	(570.412)	(551.934)	(484.950)	(501.311)	(514.210)
Fair value of plan assets	495.835	443.964	302.132	702.505	590.956
(Deficit)/surplus	(74.577)	(107.970)	(182.818)	201.194	76.746

Experience adjustments to plan obligations	(8.630)	181	(16.358)	(3.545)	(7.429)
Experience adjustments to plan assets	6.833	99.547	(432.072)	73.378	219.894

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the balance sheet date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 93% of the defined benefit obligations, the Group adopted a full yield curve approach using AA rated corporate bonds data from the iBoxx Euro Corporates AA10+ index. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing. For the United Kingdom a yield curve approach was used based on high quality sterling corporate bonds.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its advisers, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the balance sheet date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy as well as changes to the target strategic asset allocation.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

12. Other operating expenses

	2010	2009
	€000	€000
Operating lease rentals for property and equipment	46.766	43.034
Advertising and marketing	40.442	28.922
Repairs and maintenance of property and equipment	23.653	19.544
Other property-related costs	19.053	19.861
Communication expenses	20.451	14.620
Depreciation of property and equipment	29.840	29.587
Amortisation of intangible assets	15.640	14.668
Contribution to depositor protection schemes	12.251	13.323
Other operating expenses	86.621	76.760
	294.717	260.319

Other operating expenses include fees (including tax) to the independent auditors of the Group, Ernst & Young, for audit and other professional services, provided to the Group by Ernst & Young Cyprus Ltd and their associates internationally, as follows:

	2010	2009
	€000	€000
Fees for the audit of the financial statements of the Group and its subsidiaries	1.701	1.598
Fees for other audit-related services including review of the interim financial statements	590	480
Fees for tax services	331	336
Fees for other services	146	477
	2.768	2.891

13. Share of (loss)/profit of associates

	2010	2009
	€000	€000
Interfund Investments Plc:		
- share of (loss)/profit	(1.953)	910

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

14. Taxation

	2010	2009
	€000	€000
Current tax:		
- Cyprus	43.909	23.704
- overseas	20.900	25.013
Cyprus defence contribution	272	390
Deferred tax	(11.162)	333
Prior years' tax adjustments	(7.930)	(6.213)
	45.989	43.227

The Group's share of the tax charge of associates is €1 thousand (2009: €3 thousand).

The reconciliation between the tax expense and the profit before tax as estimated using the current tax rates is set out below:

	2010	2009
	€000	€000
Profit before tax	348.514	365.221
Tax at the normal tax rates in Cyprus	35.123	36.912
Tax effect of:		
- expenses not deductible for tax purposes	9.631	5.049
- income not subject to tax	(422)	(14.197)
- differences between overseas tax rates and Cyprus tax rates	9.587	21.676
	53.919	49.440
Prior years' tax adjustments	(7.930)	(6.213)
	45.989	43.227

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. For life insurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 10%.

The Group's profits from overseas operations are taxed at the rates prevailing at the respective countries, which for 2010 were: Greece 24% (2009: 25%), United Kingdom 28% (2009: 28%), Australia 30% (2009: 30%), Romania 16% (2009: 16%), Russia 20% (2009: 20%) and Ukraine 25% (2009: 25%).

At 31 December 2010 the accumulated tax losses of subsidiaries and overseas branches amounted to €88.797 thousand (2009: €18.032 thousand), of which €5.187 thousand (2009: €4.400 thousand) can be carried forward indefinitely, €73.870 thousand (2009: €8.962 thousand) expire within four years and €9.740 thousand (2009: €4.670 thousand) expire within five to ten years. The tax losses of prior years which were utilised during 2010 amounted to €258 thousand (2009: €2.194 thousand). It is expected that the remaining tax losses will be utilised against future taxable profits.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

14. Taxation (continued)

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around €2,5 million (2009: €2,5 million) will arise, for which no deferred tax liability has been recognised.

Deferred taxation

The net deferred tax liability arises from:

	2010	2009
	€000	€000
Difference between capital allowances and depreciation	(2.343)	(143)
Property revaluation	19.183	19.293
Investment revaluation	(4.917)	(7.090)
Different tax treatment of finance leases	1.725	1.568
Unutilised tax losses carried forward	(17.121)	(2.197)
Value of in-force life insurance policies	9.828	8.855
Other temporary differences	4.913	5.077
Net deferred tax liability	11.268	25.363
Deferred tax asset (Note 25)	(40.575)	(13.979)
Deferred tax asset liability (Note 30)	51.843	39.342
Net deferred tax liability	11.268	25.363

The analysis of the net deferred tax liability is set out below:

	2010	2009
	€000	€000
1 January	25.363	25.223
Tax recognised in the income statement	(11.162)	333
Tax recognised in equity	(2.615)	1.126
Disposal of subsidiary company	(27)	-
Exchange adjustments	(291)	(1.319)
31 December	11.268	25.363

The analysis of the net deferred tax expense recognised in income statement is set out below:

	2010	2009
	€000	€000
Difference between capital allowances and depreciation	(1.656)	(341)
Investment revaluation	4.713	2.067
Different tax treatment of finance leases	157	(1.271)
Unutilised tax losses carried forward	(14.959)	(791)
Value of in-force-life insurance policies	973	877
Other temporary differences	(390)	(208)
	(11.162)	333

15. Earnings per share

	2010	2009
Basic earnings per share		
Profit after tax attributable to the owners of the Company (€ thousand)	306.189	313.144
Weighted average number of shares in issue during the year, excluding shares of the Company held by subsidiaries and associates (thousand)	756.858	696.136
Basic earnings per share (cent)	40,5	45,0
Diluted earnings per share		
Basic earnings after tax attributable to the owners of the Company (€ thousand)	306.189	313.144
Interest on Convertible Bonds and Convertible Capital Securities (€ thousand)	35.315	34.287
Diluted earnings after tax attributable to the owners of the Company (€ thousand)	341.504	347.431
Weighted average number of shares used for basic earnings per share (thousand)	756.858	696.136
Adjustment for the conversion of Convertible Bonds and Convertible Capital Securities (thousand)	157.800	143.181
Diluted weighted average number of shares (thousand)	914.658	839.317
Diluted earnings per share (cent)	37,3	41,4

The Share Options 2008/2010 (Note 32) do not constitute potentially dilutive ordinary shares, as their conversion into ordinary shares would not reduce earnings per share.

The Convertible Bonds 2013/2018 and the Convertible Capital Securities (Note 31) constitute potentially dilutive ordinary shares.

The diluted earnings per share are calculated after adjusting the weighted average number of shares in issue during the year, under the assumption that all potentially dilutive ordinary shares are converted into shares by their holders.

The weighted average number of shares for the year ended 31 December 2009 has been adjusted to reflect the bonus element of the shares issued under the Dividend Reinvestment Plan arising from the dividend payments (June and November 2010) and the rights issue in October 2010.

16. Cash, balances with central banks and placements with banks

	2010	2009
	€000	€000
Cash	194.574	247.625
Balances with central banks	2.047.251	796.166
	2.241.825	1.043.791
Placements with banks	5.264.628	5.947.768

Balances with central banks included obligatory deposits for liquidity purposes which amount to €742.313 thousand (2009: €589.083 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

16. Cash, balances with central banks and placements with banks (continued)

Placements with banks for 2009 included an amount of €946 million which represented the proceeds of financing from the Central Bank of Cyprus through the pledging of special government bonds issued by the Cyprus government for this purpose. These funds were used during 2010 for providing housing loans and loans to small and medium-sized enterprises in accordance with the terms of issue of the government bonds.

The analysis by rating agency designation of balances with central banks and placements with banks is set out in Note 41.

Placements with banks generally earn interest based on the interbank rate of the relevant term and currency.

17. Investments

	2010	2009
	€000	€000
Investments at fair value through profit or loss	200.855	346.127
Investments available-for-sale	2.320.239	4.168.056
Investments held-to-maturity	1.022.850	93.079
Investments classified as loans and receivables	1.801.650	320.851
	5.345.594	4.928.113

The above investments include amounts pledged as collateral under repurchase agreements with banks, as follows:

	2010	2009
	€000	€000
Investments at fair value through profit or loss	26.812	-
Investments available-for-sale	770.894	581.926
Investments held-to-maturity	210.880	-
Investments classified as loans and receivables	29.450	-
	1.038.036	581.926

All investments pledged as collateral for the repurchase agreements can be sold or repledged by the counterparty.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Investments (continued)

Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2010	2009	2010	2009	2010	2009
	€000	€000	€000	€000	€000	€000
Debt securities	2.353	136.322	182.377	178.705	184.730	315.027
Equity securities	16.040	27.829	85	1.475	16.125	29.304
Mutual funds	-	1.796	-	-	-	1.796
	18.393	165.947	182.462	180.180	200.855	346.127

Debt securities						
Cyprus government	-	133.790	154.177	150.452	154.177	284.242
Other governments	-	261	1.388	1.734	1.388	1.995
Banks and other corporations	2.353	2.271	26.812	26.519	29.165	28.790
	2.353	136.322	182.377	178.705	184.730	315.027
Listed on the Cyprus Stock Exchange	875	134.496	149.498	150.452	150.373	284.948
Listed on other stock exchanges	1.099	1.233	32.879	28.253	33.978	29.486
Unlisted certificates of deposit, bank and local authority bonds	379	593	-	-	379	593
	2.353	136.322	182.377	178.705	184.730	315.027

Equity securities						
Listed on the Cyprus Stock Exchange	5.835	16.700	-	-	5.835	16.700
Listed on other stock exchanges	10.205	11.129	-	-	10.205	11.129
Unlisted	-	-	85	1.475	85	1.475
	16.040	27.829	85	1.475	16.125	29.304

The equity securities classified as other investments at fair value through profit or loss represent venture capital investments which are managed on a fair value basis. The debt securities in this category were originally classified as such to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Investments (continued)

Investments available-for-sale

	2010	2009
	€000	€000
Debt securities	2.257.442	4.088.368
Equity securities	62.797	79.688
	2.320.239	4.168.056
Debt securities		
Cyprus government	314.219	445.437
Other governments	488.194	1.079.012
Banks and other corporations	1.454.707	2.559.518
Local authorities	322	4.401
	2.257.442	4.088.368
Listed on the Cyprus Stock Exchange	195.287	448.654
Listed on other stock exchanges	2.044.841	3.464.819
Unlisted certificates of deposit, bank and local authority bonds	17.314	174.895
	2.257.442	4.088.368
<i>Geographic dispersion by country of issuer</i>		
Cyprus	335.519	511.300
Greece	356.064	927.318
United Kingdom	236.364	357.856
Ireland	-	302.257
France	136.063	259.635
Germany	84.310	116.642
Other European countries	558.377	804.425
U.S.A. and Canada	416.793	662.027
Australia	59.172	98.587
Other countries	32.464	17.757
Supranational organisations	42.316	30.564
	2.257.442	4.088.368
Equity securities		
Listed on the Cyprus Stock Exchange	14.856	21.063
Listed on other stock exchanges	47.368	57.974
Unlisted	573	651
	62.797	79.688

Available-for-sale investments include €1.420 thousand (2009: €1.999 thousand) of debt securities which have been determined to be individually impaired.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Investments (continued)

Investments held-to-maturity and loans and receivables

	Held-to-maturity		Loans and receivables	
	2010	2009	2010	2009
	€000	€000	€000	€000
Debt securities	1.022.850	93.079	1.801.650	320.851
Cyprus government	1.349	1.347	301.264	320.851
Other governments	686.271	37.235	1.490.462	-
Banks and other corporations	335.014	50.861	9.924	-
Local authorities	216	3.636	-	-
	1.022.850	93.079	1.801.650	320.851
Listed on the Cyprus Stock Exchange	1.349	1.610	301.264	320.851
Listed on other stock exchanges	1.009.580	80.473	1.500.386	-
Unlisted certificates of deposit, bank and local authority bonds	11.921	10.996	-	-
	1.022.850	93.079	1.801.650	320.851
<i>Geographic dispersion by country of issuer</i>				
Cyprus	1.565	1.825	301.264	320.851
Greece	588.080	-	1.450.470	-
Ireland	374.756	-	-	-
Other European countries	18.887	44.418	49.916	-
Russia	6.103	12.409	-	-
Supranational organisations	33.459	34.427	-	-
	1.022.850	93.079	1.801.650	320.851

Held-to-maturity investments at 31 December 2010 included €14.987 thousand (2009: Nil) of debt securities which have been determined to be individually impaired.

The fair value of held-to-maturity investments and loans and receivables at 31 December 2010 was €912.048 thousand (2009: €95.796 thousand) and €1.377.595 thousand (2009: €313.669 thousand) respectively.

Loans and receivable investments include €705.046 thousand (2009: Nil) of debt securities pledged as collateral for funding from central banks.

17. Investments (continued)

Reclassification of investments

Reclassification of trading investments

On 1 April 2010, the Group reclassified certain debt securities from trading investments to investments classified as loans and receivables in view of the fact that the Group had no intention to trade or sell these debt securities in the near future and these securities met the definition of loans and receivables at the date of reclassification. The book value and fair value of the reclassified debt securities is presented below:

	31 December 2010		1 April 2010
	Book value	Fair value	Book value and fair value
	€000	€000	€000
Trading investments reclassified to loans and receivables	132.226	131.095	132.570

The gain recognised in the consolidated income statement for the year 2010 as a result of the revaluation of the reclassified debt securities amounted to €441 thousand (2009: gain of €2.233 thousand). This gain represents the revaluation of the reclassified debt securities until the date of their reclassification.

Had the Group not reclassified the debt securities on 1 April 2010, the consolidated income statement would have included losses from the revaluation of these debt securities of €344 thousand.

On 1 April 2010, the effective interest rate of the reclassified debt securities ranged from 1,2% to 4,4% per annum. The Group expects to recover all cash flows relating to these debt securities.

Also, on 1 July 2008, in light of the rare circumstances arising as a result of the deterioration of the world's markets in 2008, the Group identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to available-for-sale investments. The book value of the reclassified debt securities which is equal to their fair value, is presented below:

	31 December 2010	31 December 2009	1 July 2008
	€000	€000	€000
Trading investments reclassified to available-for-sale	19.939	19.081	17.385

Had the Group not reclassified the debt securities on 1 July 2008, the consolidated income statement would have included gains from the revaluation of these securities of €852 thousand (2009: gains of €2.480 thousand), which following the reclassification, were recorded in the revaluation reserve of available-for-sale investments in equity.

On 1 July 2008, the effective interest rate of the reclassified debt securities ranged from 5,3% to 7,4% with expected recoverable cash flows of €30 million.

Reclassification of available-for-sale investments

On 1 April 2010, the Group reclassified certain available-for-sale debt securities to investments classified as loans and receivables in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities for the foreseeable future. The book value and fair value of the reclassified debt securities is presented below:

	31 December 2010		1 April 2010
	Book value	Fair value	Book value and fair value
	€000	€000	€000
Available-for sale investments reclassified to loans and receivables	1.316.801	970.033	1.328.231

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Investments (continued)

Reclassification of investments (continued)

Reclassification of available-for-sale investments (continued)

The loss recognised in the revaluation reserve of available-for-sale investments in equity as a result of the revaluation of the reclassified investments from 1 January 2010 until the date of their reclassification, amounted to €48.017 thousand (2009: loss of €8.252 thousand).

Had the Group not reclassified these debt securities on 1 April 2010, the Group's equity would have included additional losses from the revaluation of these debt securities of €375.431 thousand.

On 1 April 2010, the effective interest rate of the reclassified debt securities ranged from 3,4% to 6,1% per annum. The Group expects to recover all cash flows relating to these debt securities.

The Group had also reclassified certain available-for-sale debt securities to investments classified as loans and receivables as from 1 October 2008, in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities for the foreseeable future. The book value and fair value of the reclassified debt securities is presented below:

	31 December 2010		31 December 2009		1 October 2008
	Book value	Fair value	Book value	Fair value	Book value and fair value
	€000	€000	€000	€000	€000
Investments available-for-sale reclassified to loans and receivables	169.038	165.072	172.941	170.678	169.196

Had the Group not reclassified these debt securities on 1 October 2008, the Group's equity would have included losses from revaluation of these debt securities of €6.011 thousand (2009: losses of €3.395 thousand) which would have been included in the revaluation reserve of available-for-sale investments in equity.

On 1 October 2008, the effective interest rate of the reclassified debt securities ranged from 4,6% to 4,7% with expected recoverable cash flows of €221 million.

On 1 April 2010 the Group reclassified certain debt securities from available-for-sale investments to investments held-to-maturity, in view of the fact that the Group had the intention and ability to hold these investments until their maturity. The book value and fair value of the reclassified debt securities is presented below:

	31 December 2010		1 April 2010
	Book value	Fair value	Book value and fair value
	€000	€000	€000
Available-for sale investments reclassified to held-to-maturity investments	493.970	402.484	498.237

The loss recognised in the revaluation reserve of available-for-sale investments in equity as a result of the revaluation of the reclassified investments from 1 January 2010 until 31 March 2010 amounted to €1.661 thousand (2009: gains of €5.120 thousand).

Had the Group not reclassified these debt securities on 1 April 2010, the Group's equity would have included losses from the revaluation of these debt securities of €93.959 thousand which would have been included in the revaluation reserve of available-for-sale investments in equity.

On 1 April 2010, the effective interest rate of the reclassified debt securities ranged from 4,0% to 6,3% per annum. The Group expects to recover all cash flows relating to these debt securities.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Investments (continued)

Reclassification of investments (continued)

Reclassification of available-for-sale investments (continued)

On 1 October 2010 the Group reclassified certain debt securities from available-for-sale investments to investments held-to-maturity, in view of the fact that the Group had the intention and ability to hold these investments until their maturity. The book value and fair value of the reclassified debt securities is presented below:

	31 December 2010		1 October 2010
	Book value	Fair value	Book value and fair value
	€000	€000	€000
Available-for sale investments reclassified to held-to-maturity investments	374.756	334.502	363.114

The loss recognised in the revaluation reserve of available-for-sale investments in equity as a result of the revaluation of the reclassified investments from 1 January 2010 until 30 September 2010 amounted to €34.908 thousand (2009: loss of €206 thousand).

Had the Group not reclassified these debt securities on 1 October 2010, the Group's equity would have included losses from the revaluation of these debt securities of €38.415 thousand which would have been included in the revaluation reserve of available-for-sale investments in equity.

On 1 October 2010 the effective interest rate of the reclassified debt securities ranged from 1,4% to 5,0% per annum. The Group expects to recover all cash flows relating to these debt securities.

18. Derivative financial instruments

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

Inflation-linked swaps are a special form of interest rate swaps under which two parties agree to exchange fixed or floating rate of interest and floating rate linked to the level of inflation by means of periodic payments based upon a notional principal amount at specified time periods.

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

Commodity swaps are contractual agreements where a fixed-price contract for a commodity is exchanged for a floating (market) price contract at a specified future date.

18. Derivative financial instruments (continued)

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the balance sheet date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Group applies either fair value or cash flow hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

Changes in the fair value of derivatives designated as fair value hedges, are recognised in the consolidated income statement.

The effective portion of the gains or losses from the revaluation of derivatives designated as cash flow hedges, is recognised in equity and the ineffective portion is recognised in the consolidated income statement.

Fair value hedges

The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Cash flow hedges

The Group uses interest rate swaps to hedge the future cash flows of floating rate debt securities. The amount included in equity in relation to cash flow hedges is expected to impact the consolidated income statement over the term of the hedging relationship in order to match the cash flows from the hedged items.

The hedged cash flows are expected to affect profit or loss as set out below:

	2010		2009	
	<i>Within 1 year</i>	<i>Between 1 and 5 years</i>	<i>Within 1 year</i>	<i>Between 1 and 5 years</i>
	€000	€000	€000	€000
Interest income	1.279	1.779	1.019	3.934
Interest expense	(524)	(1.022)	(481)	(4.459)
	755	757	538	(525)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

18. Derivative financial instruments (continued)

Hedge accounting (continued)

Hedges of net investments

The Group's consolidated balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches. As at 31 December 2010, deposits and derivatives amounting to €394.998 thousand (2009: €177.357 thousand) have been designated as hedging instruments and have given rise to a loss of €18.705 thousand (2009: loss of €19.759 thousand) which was recognised in the 'Foreign currency translation reserve' in equity, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

The contract amount and fair value of the derivative financial instruments is set out below:

	2010			2009		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
<i>Trading derivatives</i>						
Forward exchange rate contracts	379.448	3.083	8.647	179.024	2.648	1.560
Currency swaps	3.583.079	26.331	65.194	2.026.686	14.451	12.733
Interest rate swaps	3.558.282	33.092	74.257	2.290.758	33.132	53.745
Currency options	55.355	1.747	1.202	41.938	127	134
Equity options	186.358	5.487	6.164	108.530	4.564	5.223
Interest rate caps/floors	88.032	70	400	86.682	497	497
	7.850.554	69.810	155.864	4.733.618	55.419	73.892
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges - interest rate swaps	1.272.463	4.654	84.481	1.349.947	4.953	65.628
Cash flow hedges - interest rate swaps	238.260	1.814	67	65.890	367	31
	1.510.723	6.468	84.548	1.415.837	5.320	65.659
Total	9.361.277	76.278	240.412	6.149.455	60.739	139.551

19. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and inflation curves.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss

Available-for-sale investments and investments at fair value through profit or loss which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data.

Observable inputs to the models for the valuation of debt securities and unquoted equities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The non-observable inputs to the models for the valuation of unquoted equity and debt securities include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

19. Fair value of financial instruments (continued)

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2010	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Financial assets				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	3.083	-	3.083
Currency swaps	-	26.331	-	26.331
Interest rate swaps	-	32.513	579	33.092
Currency options	-	1.747	-	1.747
Equity options	-	5.147	340	5.487
Interest rate caps/floors	-	70	-	70
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	-	4.654	-	4.654
<i>Derivatives designated as cash flow hedges</i>				
Interest rate swaps	-	1.814	-	1.814
<i>Investments at fair value through profit or loss</i>				
Trading investments	18.014	-	379	18.393
Other investments at fair value through profit or loss	32.879	149.498	85	182.462
<i>Investments available-for-sale</i>	2.031.347	288.385	507	2.320.239
	2.082.240	513.242	1.890	2.597.372
Financial liabilities				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	8.647	-	8.647
Currency swaps	-	65.194	-	65.194
Interest rate swaps	-	74.257	-	74.257
Currency options	-	1.202	-	1.202
Equity options	-	5.637	527	6.164
Interest rate caps/floors	-	392	8	400
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	-	84.481	-	84.481
<i>Derivatives designated as cash flow hedges</i>				
Interest rate swaps	-	67	-	67
	-	239.877	535	240.412

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

19. Fair value of financial instruments (continued)

2009	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Financial assets				
<i>Trading derivatives</i>				
Forward exchange rate contracts	171	2.477	-	2.648
Currency swaps	-	14.451	-	14.451
Interest rate swaps	110	32.945	77	33.132
Currency options	-	103	24	127
Equity options	-	4.556	8	4.564
Interest rate caps/floors	-	497	-	497
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	425	4.528	-	4.953
<i>Derivatives designated as cash flow hedges</i>				
Interest rate swaps	-	367	-	367
<i>Investments at fair value through profit or loss</i>				
Trading investments	31.564	134.383	-	165.947
Other investments at fair value through profit or loss	28.253	150.452	1.475	180.180
<i>Investments available-for-sale</i>	3.378.224	789.325	507	4.168.056
	3.438.747	1.134.084	2.091	4.574.922
Financial liabilities				
<i>Trading derivatives</i>				
Forward exchange rate contracts	199	1.361	-	1.560
Currency swaps	-	12.733	-	12.733
Interest rate swaps	532	53.208	5	53.745
Currency options	-	103	31	134
Equity options	-	4.556	667	5.223
Interest rate caps/floors	-	497	-	497
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	-	65.628	-	65.628
<i>Derivatives designated as cash flow hedges</i>				
Interest rate swaps	-	31	-	31
	731	138.117	703	139.551

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

19. Fair value of financial instruments (continued)

The movement in Level 3 financial instruments which are measured at fair value is presented below:

	Other investments at fair value through profit or loss	Trading investments	Available-for-sale investments	Trading derivatives	
				Assets	Liabilities
	€000	€000	€000	€000	€000
2010					
1 January	1.475	-	507	109	(703)
Unrealised (losses)/gains recognised in the consolidated income statement	(100)	-	-	810	163
Realised gains recognised in the consolidated income statement	-	-	-	-	5
Transfers to Level 2	-	261	-	-	-
Additions	-	118	-	-	-
Disposals	(1.290)	-	-	-	-
31 December	85	379	507	919	(535)
2009					
1 January	3.057	-	507	30	(31)
Unrealised losses recognised in the consolidated income statement	(62)	-	-	-	-
Realised gains/(losses) recognised in the consolidated income statement	-	-	-	79	(672)
Disposals	(1.520)	-	-	-	-
31 December	1.475	-	507	109	(703)

During 2010 and 2009 there were no transfers from Level 1 to Level 2. During 2009 debt securities amounting to €65.162 thousand were transferred from Level 2 to Level 1 as a result of the availability of quoted prices in active markets.

20. Loans and advances to customers

	2010	2009
	€000	€000
Loans and advances to customers	27.104.251	24.671.713
Hire purchase and finance lease debtors (Note 21)	1.781.599	1.836.335
Gross loans and advances to customers	28.885.850	26.508.048
Provisions for impairment of loans and advances to customers (Note 41)	(1.160.399)	(872.268)
	27.725.451	25.635.780

Loans and advances to customers include housing loans of €812 million (2009: €884 million) and finance lease debtors of €585 million (2009: €611 million) which were securitised during 2009 through special purpose entities (Note 47) as well as loans amounting to €65 million which were pledged as collateral in accordance with the terms of a Russian government programme to provide loans to support small and medium-sized enterprises.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

20. Loans and advances to customers (continued)

Loans and advances to customers also include loans of €1.357 million (2009: €1.221 million) which have been pledged as collateral to the Republic of Cyprus for the issue of €1.052 million (2009: €946 million) special government bonds, which are used as collateral for obtaining financing. These funds were used for providing housing loans and loans to small and medium-sized enterprises.

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 41.

21. Hire purchase and finance lease debtors

	2010	2009
	€000	€000
Gross investment in hire purchase and finance lease contracts	2.193.278	2.268.310
Unearned finance income	(411.679)	(431.975)
Present value of hire purchase and finance lease payments	1.781.599	1.836.335
<i>Repayable:</i>		
- within one year	138.095	93.642
- between one and five years	748.464	890.516
- after five years	895.040	852.177
Present value of hire purchase and finance lease payments	1.781.599	1.836.335
<i>Analysis by geographical area:</i>		
- Cyprus	418.944	427.762
- Greece	1.724.878	1.785.894
- Romania	27.671	37.555
- Russia	21.785	17.099
Gross investment in hire purchase and finance lease contracts	2.193.278	2.268.310
<i>Repayable:</i>		
- within one year	144.052	96.728
- between one and five years	895.621	1.084.073
- after five years	1.153.605	1.087.509
Gross investment in hire purchase and finance lease contracts	2.193.278	2.268.310

Under hire purchase contracts, the hirer: (a) pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase assets, (b) makes monthly payments which include hire purchase fees on all the amounts outstanding and (c) is responsible for any loss or damage incurred to the assets concerned.

Under finance lease contracts the item belongs to the Group and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the assets in good condition and to compensate the Group for any damage or loss incurred and (c) upon expiry of the contract, can either return the assets to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the assets.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

22. Life insurance business assets attributable to policyholders

	2010	2009
	€000	€000
Equity securities	203.282	233.762
Debt securities	219.745	150.044
Mutual funds	5.236	6.983
Property	10.250	9.510
Mortgages and other loans	3.887	4.317
Bank deposits	119.295	130.455
	561.695	535.071
Other assets	-	6.503
	561.695	541.574

23. Property and equipment

	Property	Equipment	Total
2010	€000	€000	€000
Net book value at 1 January	365.486	40.786	406.272
Additions	24.638	15.960	40.598
Acquisition of subsidiary	8.700	447	9.147
Transfer to investment properties	(2.953)	-	(2.953)
Transfer to other assets	(5.418)	-	(5.418)
Disposals and write-offs	(3.181)	(810)	(3.991)
Depreciation charge for the year	(14.551)	(15.289)	(29.840)
Disposal of subsidiary	-	(89)	(89)
Exchange adjustments	4.267	788	5.055
Net book value at 31 December	376.988	41.793	418.781

1 January 2010			
Cost or valuation	460.387	190.819	651.206
Accumulated depreciation	(94.901)	(150.033)	(244.934)
Net book value	365.486	40.786	406.272

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

23. Property and equipment (continued)

	Property	Equipment	Total
31 December 2010	€000	€000	€000
Cost or valuation	485.784	198.591	684.375
Accumulated depreciation	(108.796)	(156.798)	(265.594)
Net book value	376.988	41.793	418.781

2009			
Net book value at 1 January	378.033	43.328	421.361
Additions	15.595	14.370	29.965
Revaluation	(4.047)	-	(4.047)
Transfer to investment properties	(340)	-	(340)
Disposals and write-offs	(1.358)	(266)	(1.624)
Depreciation charge for the year	(13.620)	(15.967)	(29.587)
Exchange adjustments	(8.777)	(679)	(9.456)
Net book value at 31 December	365.486	40.786	406.272

1 January 2009			
Cost or valuation	459.430	177.844	637.274
Accumulated depreciation	(81.397)	(134.516)	(215.913)
Net book value	378.033	43.328	421.361

31 December 2009			
Cost or valuation	460.387	190.819	651.206
Accumulated depreciation	(94.901)	(150.033)	(244.934)
Net book value	365.486	40.786	406.272

The net book value of the Group's property comprises of:

	2010	2009
	€000	€000
Freehold property	342.231	336.370
Improvements on leasehold property	34.757	29.116
	376.988	365.486

Freehold property includes land amounting to €108.791 thousand (2009: €105.091 thousand) for which no depreciation is charged. The freehold property of PJSB Bank of Cyprus and CB Uniastrum Bank LLC was revalued at 31 October 2008 and 31 December 2008 respectively. The remaining freehold property of the Group was revalued at 30 June 2007. These valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and recent market transactions.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2010 would have amounted to €225.750 thousand (2009: €216.986 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

24. Intangible assets

	Computer software	Licence fees	In-force life insurance business	Customer relationships	Brands	Goodwill	Total
2010	€000	€000	€000	€000	€000	€000	€000
Net book value at 1 January	17.037	1.695	83.455	17.204	19.600	314.150	453.141
Disposal of subsidiary	(100)	-	-	-	-	-	(100)
Additions	10.152	-	-	-	-	-	10.152
Increase in value of in-force life insurance policies	-	-	10.071	-	-	-	10.071
Amortisation charge for the year	(9.009)	(616)	-	(3.018)	(2.997)	-	(15.640)
Exchange adjustments	227	-	-	1.077	1.183	18.947	21.434
Net book value at 31 December	18.307	1.079	93.526	15.263	17.786	333.097	479.058

1 January 2010							
Cost	109.700	6.162	83.455	20.120	22.401	314.150	555.988
Accumulated amortisation	(92.663)	(4.467)	-	(2.916)	(2.801)	-	(102.847)
Net book value	17.037	1.695	83.455	17.204	19.600	314.150	453.141

31 December 2010							
Cost	120.479	6.162	93.526	21.344	23.715	333.097	598.323
Accumulated amortisation	(102.172)	(5.083)	-	(6.081)	(5.929)	-	(119.265)
Net book value	18.307	1.079	93.526	15.263	17.786	333.097	479.058

	Computer software	Licence fees	In-force life insurance business	Customer relationships	Brands	Goodwill	Total
2009	€000	€000	€000	€000	€000	€000	€000
Net book value at 1 January	17.492	2.318	75.078	25.592	28.116	326.615	475.211
Additions	8.023	-	-	-	-	-	8.023
Increase in value of in-force life insurance policies	-	-	8.377	-	-	-	8.377
Amortisation charge for the year	(8.523)	(617)	-	(2.776)	(2.752)	-	(14.668)
Exchange adjustments	45	(6)	-	(5.612)	(5.764)	(12.465)	(23.802)
Net book value at 31 December	17.037	1.695	83.455	17.204	19.600	314.150	453.141

1 January 2009							
Cost	101.368	6.163	75.078	25.748	28.116	326.615	563.088
Accumulated amortisation	(83.876)	(3.845)	-	(156)	-	-	(87.877)
Net book value	17.492	2.318	75.078	25.592	28.116	326.615	475.211

31 December 2009							
Cost	109.700	6.162	83.455	20.120	22.401	314.150	555.988
Accumulated amortisation	(92.663)	(4.467)	-	(2.916)	(2.801)	-	(102.847)
Net book value	17.037	1.695	83.455	17.204	19.600	314.150	453.141

Customer relationships and brands arose in 2008 as a result of the acquisition of CB Uniastrum Bank LLC and PJSB Bank of Cyprus.

24. Intangible assets (continued)

Goodwill

	2010	<i>2009</i>
	€000	<i>€000</i>
<i>Kyprou Securities SA</i>	1.205	1.205
<i>PJSB Bank of Cyprus</i>	28.993	26.718
<i>CB Uniastrum Bank LLC</i>	302.899	286.227
	333.097	314.150

The Group's policy is to test goodwill annually or when there are indications that conditions have changed since the last goodwill impairment test such that a different outcome may result.

During 2010 there was no impairment of goodwill (2009: Nil). Impairment testing in respect of goodwill is performed by comparing the recoverable amount of Cash-Generating Units (CGUs) of the acquired entities based on a value in use calculation. The calculation uses cash flow estimates based on management's projections, extrapolated in perpetuity using a nominal long-term growth rate based among others on current market assessment of GDP, inflation and foreign exchange rates as well as specific sector penetration for the countries within which each acquired entity operates. Cash flows are extrapolated in perpetuity in line with the long-term perspective of the Group for these businesses. The terminal growth rate used in extrapolating cash flows in perpetuity for the Russian and Ukrainian entities at 31 December 2010 is 5% (2009: 5%).

The discount rate used is based on the cost of capital the Company allocates to investments in the countries within which each entity operates. The cost of capital assigned to an individual entity and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital is derived from an appropriate Capital Asset Pricing Model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. For the Russian and Ukrainian entities, a sovereign risk premium was also added, representing the difference between the risk-free interest rate (the US Dollar for the Russian entity and the Euro for the Ukrainian entity) and the interest rate of liquid long-term treasury bonds issued in Russia and Ukraine and denominated in US Dollar and in Euros respectively. These financial and economic variables are established on the basis of management judgment and current market assessment. The discount rate applied in 2010 to the cash flows of the Russian entity which were translated from Russian Rubbles into US Dollars using the projected foreign exchange rate is 11,4% (2009: 12,9%). The discount rate applied in 2010 to the cash flows of the Ukrainian entity which were translated from Ukrainian Hryvnia into Euro using the projected foreign exchange rate is 13,7% (2009: 17,6%).

Management judgment is required in estimating the future cash flows of the CGUs of the acquired companies. The valuations are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance policies relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force policies are:

	2010	<i>2009</i>
Discount rate (after tax)	10,0%	10,0%
Return on investments	5,5%	5,5%
Expense inflation	5,0%	5,0%

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

25. Other assets

	2010	2009
	€000	€000
Debtors	24.644	31.703
Stock of property held for sale	11.923	9.945
Investment properties	116.307	53.007
Taxes refundable	10.303	1.150
Deferred tax asset (Note 14)	40.575	13.979
Retirement benefit plans assets (Note 11)	4.298	5.602
Reinsurers' share of insurance contract liabilities (Note 28)	67.163	57.127
Prepaid expenses	7.122	7.739
Other assets	118.124	87.282
	400.459	267.534

Investment properties

The movement of investment properties is summarised below:

	2010	2009
	€000	€000
1 January	53.007	33.293
Exchange adjustments	(152)	(28)
Transfer from property and equipment	2.953	340
Additions	63.456	16.187
Disposals	(2.135)	(214)
Gains from the revaluation at the initial transfer from property and equipment	-	36
(Losses)/gains from revaluation	(822)	3.393
31 December	116.307	53.007

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

26. Obligations to central banks and amounts due to banks

	2010	2009
	€000	€000
Obligations to central banks	2.199.450	3.650.000
Amounts due to banks	1.507.525	1.640.897
	3.706.975	5.290.897

Obligations to central banks bear interest at 1% per annum and represent financing obtained from the Central Bank of Cyprus, which the Group has secured through open market operations within the monetary policy framework of the Eurosystem. This financing is fully secured by eligible collateral. In addition to the collateral disclosed in notes 17 and 20, an amount of €545.849 thousand of the securities issued by the Group's securitisation special purpose entities (Note 47) have also been pledged as collateral.

Amounts due to banks represent interbank takings and generally bear interest based on the interbank rate of the relevant term and currency.

27. Customer deposits

	2010	2009
	€000	€000
<i>By category</i>		
Demand	5.893.902	4.512.915
Savings	2.415.718	2.149.604
Time or notice	24.642.947	21.922.042
	32.952.567	28.584.561
<i>By geographical area</i>		
Cyprus	19.695.404	14.732.426
Greece	9.790.616	10.910.747
Russia	1.115.532	1.021.751
United Kingdom	1.259.618	1.205.586
Australia	897.274	511.118
Romania	153.171	166.795
Ukraine	40.952	36.138
	32.952.567	28.584.561

Demand and savings deposits are payable on demand and their carrying amount represents their fair value.

The fair value of time or notice deposits that bear a floating rate of interest is equivalent to their carrying amount. The fair value of deposits that bear a fixed rate of interest is based on the present value of their future cash flows, estimated using interest rates on new deposits which have the same remaining period to maturity and is not materially different from their carrying amount. The majority of deposits (80%) mature within three months from the balance sheet date (Note 43).

28. Insurance liabilities

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
Life insurance						
Life insurance contract liabilities	573.955	(25.761)	548.194	545.254	(21.685)	523.569
General insurance						
Provision for unearned premiums	35.279	(16.539)	18.740	32.867	(14.820)	18.047
<i>Other liabilities:</i>						
Claims outstanding	47.475	(24.863)	22.612	39.957	(20.622)	19.335
Unexpired risks reserve	1.581	-	1.581	-	-	-
Equalisation reserve	19	-	19	19	-	19
General insurance contract liabilities	84.354	(41.402)	42.952	72.843	(35.442)	37.401
	658.309	(67.163)	591.146	618.097	(57.127)	560.970

Reinsurance balances receivable are included in 'Other assets' (Note 25).

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	545.254	(21.685)	523.569	449.985	(17.785)	432.200
New business	7.929	(1.681)	6.248	4.970	(1.448)	3.522
Change in existing business	20.772	(2.395)	18.377	90.299	(2.452)	87.847
31 December	573.955	(25.761)	548.194	545.254	(21.685)	523.569

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

28. Insurance liabilities (continued)

General insurance liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	€000	€000	€000	€000	€000	€000
1 January	32.867	(14.820)	18.047	31.991	(14.030)	17.961
Premium income	77.470	(40.523)	36.947	71.138	(36.196)	34.942
Earned premiums	(75.058)	38.804	(36.254)	(70.262)	35.406	(34.856)
31 December	35.279	(16.539)	18.740	32.867	(14.820)	18.047

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relates to risks that have not yet expired at the balance sheet date.

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Claims and adjustments for losses	€000	€000	€000	€000	€000	€000
1 January	39.957	(20.622)	19.335	34.716	(16.286)	18.430
Amount paid for claims settled in the year	(25.862)	8.392	(17.470)	(21.639)	6.167	(15.472)
Increase in liabilities arising from claims	33.380	(12.633)	20.747	26.880	(10.503)	16.377
31 December	47.475	(24.863)	22.612	39.957	(20.622)	19.335
Notified claims	42.806	(22.182)	20.624	37.620	(19.913)	17.707
Incurred but not notified	4.669	(2.681)	1.988	2.337	(709)	1.628
	47.475	(24.863)	22.612	39.957	(20.622)	19.335

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

29. Debt securities in issue

	Contractual interest rate	2010	2009
Medium term senior debt		€000	€000
€500 million 2007/2010	Three-month Euribor plus 0,20%	-	450.992
SEK 50 million 2009/2012	OMX Stockholm 30 index	5.315	4.852
SEK 100 million 2010/2014	Return of specific shares	11.371	-
RUB 1.500 million 2010	16%	-	2.303
€2 million 2010/2016	DJ EUROSTOXX 50 index	2.000	-
USD 2 million 2010/2016	S&P 500 index	1.545	-
		20.231	458.147
<i>Short term commercial paper</i>			
- Euro	-	4.997	29.495
- USD	-	7.470	13.527
		12.467	43.022
Other debt securities in issue			
<i>RUB Certificates of Deposit and Promissory Notes</i>	11%	50.767	17.450
<i>Interest-free loan from the European Development Bank</i>	-	492	492
		51.259	17.942
		83.957	519.111

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Group.

The fair value of the Group's debt securities in issue at 31 December 2010 was €86.074 thousand (2009: €514.612 thousand).

The Group purchases its debt securities in issue for trading purposes. The nominal amount of the debt securities in issue held by the Group was:

	2010	2009
	€000	€000
€500 million 2007/2010	-	48.900

In May 2009 the Group completed the securitisation of mortgage loans, as a result of which €1.000 million residential mortgage backed notes were issued. In September 2009, the Group completed the securitisation of finance lease receivables, as a result of which €689 million notes were issued. The liability arising from the issue of these notes is not included in the consolidated balance sheet of the Group as all notes issued are held by the Group.

29. Debt securities in issue *(continued)*

Medium term senior debt

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2009: €4.000 million).

Under the EMTN Programme, the Company issued in May 2009 the SEK 50 million 2009/2012 bonds, the redemption amount of which is linked to the OMX Stockholm 30 Index.

Also under the EMTN Programme, the Company issued in March 2010, SEK 100 million 2010/2014 bonds, the redemption amount of which is linked to the return of specific shares listed on the Stockholm Stock Exchange.

The RUB 1.500 million 2010 bonds were issued at par by CB Uniastrum Bank LLC in April 2007 and were redeemed at par at April 2010.

In May 2010, the Company issued the €2 million 2010/2016 and USD 2 million 2010/2016 bonds, the redemption amount of which is linked to the DJ EUROSTOXX 50 and S&P 500 indices, respectively.

The €500 million 2007/2010 bond which was issued in June 2007 matured in June 2010 and was redeemed at par.

The €500 million 2007/2010 bonds are listed on the Luxembourg Stock Exchange. The RUB 1.500 million 2010 bond was listed on the Moscow Interbank Currency Exchange (MICEX).

The three-month Euribor fluctuated during 2010 between 0,6% and 1,1% (2009: 0,7%-2,9%) per annum.

Short term commercial paper

The Company maintains a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2009: €1.000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted.

Other debt securities in issue

The RUB Certificates of Deposits and Promissory Notes were issued by CB Uniastrum Bank LLC at par, are unlisted and have maturities up to one year.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

30. Other liabilities

	2010	2009
	€000	€000
Income tax payable	19.885	13.755
Special defence contribution payable	6.292	9.386
Deferred tax liability (Note 14)	51.843	39.342
Liability of retirement benefit plans (Note 11)	8.155	6.785
Provision for pending litigation or claims	3.287	9.156
Financial guarantees	5.699	5.098
Liabilities for investment-linked contracts under administration	20.281	24.444
Accrued expenses and other provisions	50.276	29.683
Deferred income	12.070	5.223
Other liabilities	145.332	189.165
	323.120	332.037

Provision for pending litigation or claims

The movement for the year in the provision for pending litigation or claims is as follows:

	2010	2009
	€000	€000
1 January	9.156	3.244
(Decrease)/increase of provision in the year	(6.284)	5.810
Exchange adjustments	415	102
31 December	3.287	9.156

The provision for pending litigation or claims does not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries.

31. Subordinated loan stock

	Contractual interest rate	2010	2009
		€000	€000
Subordinated Bonds 2011/2016 (€200 million)	Three-month Euribor plus 0,60%	127.315	142.618
Subordinated Bonds in USD 2013/2014/2015	2,50%	6.584	6.058
Convertible Bonds 2013/2018 (€573 million)	7,50% until 30 June 2009 and six-month Euribor plus 1,00% thereafter	40.986	41.090
Convertible Capital Securities (€645 million)	5,50%	634.034	633.304
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	122.023	123.773
		930.942	946.843

The subordinated loan stock is not secured and the rights and claims of loan stockholders are subordinated to the claims of depositors and other creditors of the Company, but have priority over those of the shareholders of the Company.

The fair value of the Group's subordinated loan stock at 31 December 2010 was €852.234 thousand (2009: €933.340 thousand).

The Group purchases its subordinated loan stock in issue for trading purposes. The nominal amount of the subordinated loan stock held by the Group is:

	2010	2009
	€000	€000
Subordinated Bonds 2011/2016	73.000	57.550
Convertible Bonds 2013/2018	3.939	3.689
Convertible Capital Securities	2.616	1.364
Capital Securities 12/2007	4.465	2.680

Subordinated Bonds

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2009: €4.000 million).

Under the EMTN Programme, the Company issued in May 2006, €200 million 2011/2016 bonds maturing in May 2016. The Company has the option to call the bonds in whole during or after May 2011. The interest rate of the bonds was set at the three-month Euribor plus 0,60% until May 2011, increasing to plus 1,60% thereafter. The bonds are listed on the Luxembourg Stock Exchange.

The Subordinated Bonds in USD 2013/2014/2015 were issued by CB Uniastrum Bank LLC and mature as follows: USD 2 million on 31 December 2013, USD 2,5 million on 31 December 2014 and USD 2 million on 31 December 2015. The interest rate can be changed unilaterally by the issuer at any time until maturity.

31. Subordinated loan stock (continued)

Convertible Bonds

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with nominal value of €573 million, maturing in June 2018. The Convertible Bonds carried a fixed interest rate 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.

As a result of the rights issue to the Company's shareholders (Note 32) and the special distribution of interim dividend in the form of shares (Note 33) during 2010, the conversion price of the Convertible Bonds was adjusted in accordance with the relevant terms of issue from €10,50 to €8,11 per share. The conversion periods are between 15-30 September of years 2010-2012 and 15-31 March of years 2011-2013. The Convertible Bonds may be redeemed at the option of the Company on or after September 2013, subject to the prior consent of the Central Bank of Cyprus. The Convertible Bonds 2013/2018 are listed on the Cyprus Stock Exchange.

On 6 June 2009, Convertible Bonds 2013/2018 of nominal value €527 million were exchanged for Convertible Capital Securities of an equal nominal value.

During the first conversion period between 15-30 September 2010, 45.866 Convertible Bonds were converted into 4.971 shares.

Convertible Capital Securities

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

The Convertible Capital Securities bear a fixed interest rate of 5,50% per annum for the first five years and a floating interest rate of the 6-month Euribor plus 3,00% per annum thereafter. The Convertible Capital Securities may be converted into ordinary shares of the Company at the option of the holders. As a result of the rights issue to the Company's shareholders (Note 32) and the special distribution of interim dividend in the form of shares (Note 33) during 2010, the conversion price of the Convertible Capital Securities was adjusted in accordance with the relevant terms of issue from €5,50 to €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 Central Bank of Cyprus.

During the first conversion period between 15-30 September 2010, 90.001 Convertible Capital Securities were converted into 18.661 shares.

The Convertible Capital Securities are listed on the Cyprus Stock Exchange and the Athens Exchange.

Capital Securities

The €126 million Capital Securities 12/2007 were issued in Cyprus Pounds in December 2007. The Capital Securities are perpetual, but may be redeemed in whole, at the option of the Company, at par together with any accrued interest, five years after their issue date or on any interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus.

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

The three-month Euribor during 2010 ranged between 0,6% and 1,1% (2009: 0,7% - 2,9%) per annum and the six-month Euribor ranged between 0,9% and 1,3% (2009: 1,0% - 2,9%) per annum.

32. Share capital

	2010		2009	
	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €1,00 each	1.100.000	1.100.000	750.000	750.000
<i>Issued and fully paid</i>				
1 January	598.197	598.197	586.662	586.662
Issue of shares	172.630	172.630	-	-
Conversion of Convertible Bonds and Convertible Capital Securities	23	23	-	-
Dividend in the form of shares	113.199	113.199	-	-
Dividend reinvestment	10.899	10.899	11.535	11.535
31 December	894.948	894.948	598.197	598.197

Authorised share capital

On 23 July 2010, the Extraordinary General Meeting of the shareholders approved the increase of the authorised share capital of the Company from €750 million divided into 750 million ordinary shares of nominal value €1,00 each, to €1.100 million divided into 1.100 million ordinary shares of nominal value €1,00 each, by creating 350 million new ordinary shares of nominal value €1,00 each which rank pari passu with the existing ordinary shares of the Company.

Issued share capital

The Company has in force a Dividend Reinvestment Plan under which all shareholders have the option to reinvest all or part of their dividend in shares of the Company at a 10% discount on the market value of the shares. The reinvestment price for the dividend paid on 11 November 2010 was set at €3,04 per share, for the dividend paid on 17 June 2010 was set at €2,91 per share, for the dividend paid on 8 December 2009 was set at €4,25 per share and for the dividend paid on 10 June 2009 was set at €3,93 per share.

As a result of the dividend reinvestment during 2010, 10.899.362 (2009: 11.534.686) shares were issued and the Company's share capital and share premium increased by €10.899 thousand and €21.454 thousand respectively (2009: €11.535 thousand and €35.221 thousand respectively).

As a result of the conversion of Convertible Bonds and Convertible Capital Securities, 23.632 shares were issued on 30 September 2010 and the Company's share capital and share premium increased by €23 thousand and €112 thousand, respectively.

On 22 October 2010, the Group completed the increase of the Company's share capital through a rights issue of up to €345 million. Each outstanding ordinary share received one nil paid pre-emptive subscription right. Every 7 pre-emptive subscription rights exercised were converted into 2 new ordinary shares at €2,00 per each new share. As a result, 172.630.273 new shares were issued and the Company's share capital and share premium increased by €172.630 each.

On 11 November 2010 the Company paid a dividend in the form of shares (Note 33). As a result, 113.198.589 shares were issued and the share capital and share premium increased by €113.199 thousand and €254.697 thousand respectively.

32. Share capital (continued)

Issued share capital (continued)

Shares of the Company held by subsidiaries and associates are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares. The number of these shares at 31 December 2010 was 1.336 thousand (2009: 1.228 thousand). The cost of acquisition of these shares was €8.277 thousand (2009: €13.346 thousand).

In addition, the life insurance subsidiary of the Group held, as at 31 December 2010, a total of 6.510 thousand (2009: 4.521 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €24.606 thousand (2009: €20.304 thousand).

All issued ordinary shares carry the same rights.

The share premium is not available for distribution to equity holders.

Share-based payments – Share Options

On 14 May 2008, the Annual General Meeting of the Company's shareholders approved the granting of share options to Group employees, without these shares being first offered to existing shareholders and authorised the Board of Directors to issue up to 15 million shares of the Company.

In the context of the above decision, on 28 May 2008 the Board of Directors authorised the granting of 12,5 million share options to Group employees in Cyprus and Greece who were in service on 28 May 2008 ('Share Options 2008/2010'). The Extraordinary General Meeting of the shareholders of the Company on 23 June 2009 approved the amendment of the terms of the Share Options 2008/2010, modifying their exercise price and exercise period.

On 9 July 2009, the Board of Directors, authorised the granting of up to 2,5 million additional Share Options 2008/2010 to Group employees who were in service on 30 June 2009.

Each Share Option 2008/2010 gave its holder the right to purchase one share of the Company at the price of €5,50 per share. As a result of the rights issue to the Company's shareholders and the special distribution of interim dividend in the form of shares during 2010, the exercise price of the Share Options 2008/2010 has been adjusted in accordance with the relevant terms of issue from €5,50 to €4,24 per share.

On 31 December 2009, 2/3 of the Share Options 2008/2010 granted had vested to the beneficiaries; the remaining 1/3 of the share options has vested on 31 December 2010. The Share Options 2008/2010 can be exercised by their holders from 1 January to 31 March of 2011, 2012 and 2013 and from 1 November to 31 December 2012 and 2013. The Share Options 2008/2010 are not transferable and are unlisted.

The fair value of the 12,5 million Share Options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1,17 per share option. The main variables taken into account by the model are the share price (€8,56 on 28 May 2008), the exercise price (€9,41), the dividend yield (8,1%), the risk free interest rate (4,2%), the duration of the share options and the expected volatility of the share price (31,3% on an annual basis calculated using the historic volatility of the share).

As a result of the modification of their terms, the Share Options 2008/2010 were revalued using the same model as the initial valuation. The additional cost amounted to €0,42 per option.

The fair value of the additional 2.362 thousand Share Options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0,87 per share option. The main variables taken into account by the model are the share price (€4,10 on 9 July 2009), the exercise price (€5,50), the dividend yield (6,9%), the risk free interest rate (2,7%), the duration of the share options and the expected volatility of the share price (23,6% on an annual basis calculated using the historic volatility of the share).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

32. Share capital (continued)

Share-based payments – Share Options (continued)

The movement in the number of Share Options 2008/2010 is summarised below:

	2010	2009
	000	000
1 January	14.720	12.500
Share options granted	-	2.362
Share options forfeited	(157)	(142)
31 December	14.563	14.720

33. Dividends

	2010	2009
	€000	€000
Declared and paid during the year:		
Final dividend for 2009: €0,08 (2008: €0,12) per share	47.856	70.399
Interim dividend for 2010: €0,06 (2009: €0,08) per share	46.612	47.500
Interim dividend for 2010 in the form of shares: €0,50 (2009: Nil) per share	388.430	-
	482.898	117.899
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2010: €0,03 (2009: €0,08) per share	26.848	47.856

The final dividend will be paid out of retained earnings as at 31 December 2010 (2009: 31 December 2009).

The proposed ex-dividend date is 31 May 2011, that is buy transactions that take place before market close of the Cyprus Stock Exchange and the Athens Exchange on 30 May 2011 will be eligible to the dividend, which will be paid on 16 June 2011.

The interim dividend in cash in 2010 was set at €0,06 per share. In addition, the Board of Directors, taking into consideration the level of reserves and the applicable legislation for dividend distribution, decided the payment of a special interim dividend payable in the form of shares amounting to €0,50 per share at the issue price of €3,25. This decision was approved at the Extraordinary General Meeting of the Company's shareholders on 20 September 2010. The total amount of the cash dividend was €46.612 thousand and the scrip dividend (in the form of shares) was €388.430 thousand. The interim cash and scrip dividends were paid to shareholders on 11 November 2010.

The final dividend for 2009 of €0,08 per share, amounting to €47.856 thousand, was approved at the Annual General Meeting of the shareholders on 26 May 2010 and was paid on 17 June 2010.

The final dividend for year 2008 of €0,12 per share, amounting to €70.399 thousand, was paid to shareholders in June 2009.

The total dividend paid during 2010 includes an amount of €599 thousand (2009: €188 thousand) which relates to shares of the Company held by subsidiaries and associates.

34. Retained earnings

Retained earnings are the only distributable reserve.

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Cyprus Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders.

35. Fiduciary transactions

The Group offers fund management services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management at 31 December 2010 amounted to €1.781 million (2009: €803 million).

36. Contingent liabilities and commitments

To meet the financial needs of its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group (Note 41).

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2010 amount to €30.883 thousand (2009: €11.469 thousand).

Litigation

The Group's provision for pending litigation or claims is set out in Note 30. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.

In September 2009, an action was filed against the Company by the Trustees of the AremiSoft Corporation Liquidating Trust, which is similar in substance to the one filed in New York, in 2006. In the detailed statement of claim filed in October 2010 the Trustees, on behalf of the investors of AremiSoft, claim the amount of approximately USD 550 million (€411 million) plus interest and costs, in damages, which according to their allegations, have resulted from, inter alia, an alleged conspiracy between the Company and two of the major shareholders of AremiSoft, alleged fraudulent transactions through bank accounts held with the Company in Cyprus and the United Kingdom, alleged breach of contract and alleged negligence. The Group does not expect to have any material financial impact as a result of this action.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

37. Net cash flow from operating activities

	2010	2009
	€000	€000
Profit before tax	348.514	365.221
<i>Adjustments for:</i>		
Provisions for impairment of loans and advances	374.497	247.935
Depreciation of property and equipment	29.840	29.587
Amortisation of intangible assets	15.640	14.668
Cost of share-based payments	3.079	13.726
Amortisation of (premiums)/discounts of debt securities and subordinated loan stock	(49.472)	2.282
Profit on disposal of property and equipment	(236)	(330)
Interest on debt securities	(206.494)	(185.909)
Dividend income	(2.859)	(1.659)
Loss/(profit) on sale of investments in equity securities	34	(787)
Profit on sale of investments in debt securities	(34.223)	(101.335)
Share of loss/(profit) of associates	1.953	(910)
Profit on disposal of subsidiary	(1.944)	-
Loss transferred from the foreign currency translation reserve to the income statement following reduction of capital in a subsidiary	362	18.732
Profit from revaluation of debt securities designated as fair value hedges	(97.076)	(3.878)
Impairment/(reversal of impairment) of investments	31.406	(10.432)
Interest on subordinated loan stock	43.669	46.919
Change in present value of future income from in-force life insurance business	(10.071)	(8.377)
	446.619	425.453
<i>Change in:</i>		
Placements with banks	(178.554)	(1.968)
Obligations to central banks and amounts due to banks	(1.590.673)	2.458.599
Obligatory balances with central banks	(153.232)	(21.631)
Customer deposits	4.368.006	648.814
Value of in-force life insurance policies and liabilities	20.091	7.510
Loans and advances to customers	(2.477.972)	(1.458.844)
Other assets	(10.637)	(10.545)
Accrued income and prepaid expenses	617	(3.150)
Other liabilities	(72.876)	6.509
Accrued expenses and deferred income	27.440	(2.890)
Derivative financial instruments	85.322	70.537
Investments at fair value through profit or loss	12.702	(11.756)
Repurchase agreements	418.303	189.806
Reverse repurchase agreements	(29)	(137)
Subordinated loan stock held for trading	(17.837)	(50.217)
	877.290	2.246.090
Tax paid	(60.921)	(72.563)
Net cash flow from operating activities	816.369	2.173.527

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

37. Net cash flow from operating activities (continued)

Net cash flow from operating activities – interest and dividends

	2010	2009
	€000	€000
Interest paid	(1.038.962)	(1.190.369)
Interest received	1.981.587	1.987.541
Dividends received	2.859	1.659
	945.484	798.831

38. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2010	2009
	€000	€000
Cash and non-obligatory balances with central banks	1.499.512	454.708
Placements with banks with original maturity less than three months	4.840.255	5.701.948
	6.339.767	6.156.656

Cash and non-obligatory balances with central banks	1.499.512	454.708
Obligatory balances with central banks	742.313	589.083
Total cash and balances with central banks (Note 16)	2.241.825	1.043.791

Placements with banks with original maturity less than three months	4.840.255	5.701.948
Other placements with banks	424.373	245.820
Total placements with banks (Note 16)	5.264.628	5.947.768

Placements with banks repayable within three months for 2009 included an amount of €946 million which represents the proceeds of financing from the Central Bank of Cyprus through the pledging of special government bonds issued by the Cyprus government for this purpose (Note 16). These funds were used during 2010 for the provision of housing loans and loans to small and medium-sized enterprises, in accordance with the terms of issue of the government bonds.

39. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December are stated below:

	2010	2009
	€000	€000
Within one year	16.389	22.962
Between one and five years	42.956	40.231
After five years	17.318	31.313
	76.663	94.506

The above mainly relate to property leases for the Group's branches and offices.

40. Analysis of assets and liabilities by expected maturity

	2010			2009		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash and balances with central banks	1.465.866	775.959	2.241.825	506.214	537.577	1.043.791
Placements with banks	5.264.376	252	5.264.628	5.947.580	188	5.947.768
Reverse repurchase agreements	120.166	-	120.166	-	120.137	120.137
Investments	930.997	4.414.597	5.345.594	676.110	4.252.003	4.928.113
Derivative financial instruments	60.974	15.304	76.278	47.296	13.443	60.739
Life insurance business assets attributable to policyholders	13.084	548.611	561.695	42.871	498.703	541.574
Loans and advances to customers	6.173.486	21.551.965	27.725.451	5.520.057	20.115.723	25.635.780
Property, equipment and intangible assets	-	897.839	897.839	-	859.413	859.413
Other assets	182.786	217.673	400.459	148.287	119.247	267.534
Investments in associates	-	3.805	3.805	-	6.552	6.552
	14.211.735	28.426.005	42.637.740	12.888.415	26.522.986	39.411.401
Liabilities						
Obligations to central banks and amounts due to banks	3.012.972	694.003	3.706.975	4.851.884	439.013	5.290.897
Repurchase agreements	742.546	170.563	913.109	188.316	306.490	494.806
Derivative financial instruments	127.299	113.113	240.412	65.138	74.413	139.551
Customer deposits	16.703.808	16.248.759	32.952.567	15.979.771	12.604.790	28.584.561
Insurance liabilities	95.813	562.496	658.309	98.605	519.492	618.097
Debt securities in issue	61.548	22.409	83.957	513.568	5.543	519.111
Other liabilities	223.514	99.606	323.120	267.119	64.918	332.037
Subordinated loan stock	335	930.607	930.942	303	946.540	946.843
	20.967.835	18.841.556	39.809.391	21.964.704	14.961.199	36.925.903

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:

Loans and advances to customers and customer deposits in Cyprus are classified based on historic behavioural data. In Greece, the United Kingdom and Australia they are classified on the same basis as that used for regulatory purposes and in Russia, Romania and Ukraine they are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year column.

The expected maturity of all other assets and liabilities is the same as their contractual maturity.

41. Risk management – Credit risk

The Group is exposed to credit risk in its ordinary course of business, which is monitored through various control mechanisms in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

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

The Group Credit Risk Management unit defines the Group's credit disbursement policies and monitors compliance with the relevant credit sanctioning procedures and controls applicable to each business line (consumer, business and corporate) as well as to each geographical area where the Group operates. The 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 in order to assess the creditworthiness of customers.

The loan portfolio is assessed on the basis of customer creditworthiness, sector of the economy and country of operation and is regularly audited by a specialist unit of the Group Internal Audit.

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

The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

The Group Market Risk Management unit assesses the credit risk relating to investments in liquid assets (mainly placements with banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the Group Assets and Liabilities Committee (ALCO) for approval.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held and other credit enhancements.

	2010	2009
	€000	€000
Balances with central banks (Note 16)	2.047.251	796.166
Placements with banks	5.264.628	5.947.768
Reverse repurchase agreements	120.166	120.137
Trading investments - debt securities	2.353	136.322
Debt securities at fair value through profit or loss	182.377	178.705
Debt securities classified as available-for-sale, held-to-maturity and loans and receivables	5.081.942	4.502.298
Derivative financial instruments	76.278	60.739
Loans and advances to customers	27.725.451	25.635.780
Debtors (Note 25)	24.644	31.703
Reinsurers' share of insurance contract liabilities (Note 25)	67.163	57.127
Other financial assets	118.124	87.282
On-balance sheet total	40.710.377	37.554.027
<i>Contingent liabilities</i>		
Acceptances and endorsements	29.040	55.339
Guarantees	2.023.359	1.923.973
<i>Commitments</i>		
Documentary credits	48.109	46.192
Undrawn formal standby facilities, credit lines and other commitments to lend	4.151.187	4.170.277
Off-balance sheet total	6.251.695	6.195.781
Total credit risk exposure	46.962.072	43.749.808

The Group offers to its customers guarantee facilities under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as those of loans and advances and are monitored by the same control processes and policies.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group's maximum exposure to credit risk is also analysed by geographic area:

	2010	2009
On-balance sheet	€000	€000
Cyprus	24.898.799	22.807.629
Greece	10.402.813	10.285.190
Russia	1.989.176	1.545.119
United Kingdom	1.212.438	1.206.045
Australia	1.276.134	782.151
Romania	678.162	729.164
Ukraine	252.855	198.729
	40.710.377	37.554.027

Off-balance sheet		
Cyprus	2.643.180	3.212.817
Greece	2.708.863	2.660.141
Russia	646.441	185.893
United Kingdom	54.811	50.157
Australia	135.688	75.207
Romania	28.666	11.502
Ukraine	34.046	64
	6.251.695	6.195.781

Credit risk concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. In addition, total lending to customer groups whose borrowings exceed 10% of the Group's capital base, should not in aggregate exceed eight times its capital base. The Group is in compliance with both regulations.

In addition to the above, the Group's overseas subsidiaries must comply with large exposure guidelines set by the regulatory authorities of the countries in which they operate.

The Group's exposure to credit risk arising from customers whose credit facilities amounted to more than 10% of the Group's capital base as at 31 December 2010 was €1.391.259 thousand (2009: €1.293.693 thousand).

41. Risk management – Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

The Group Credit Risk Management unit determines the amount and type of collateral and other credit enhancements required.

The main types of collateral obtained by the Group include real estate mortgages on properties, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In some cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in the open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in cash or securities. Daily settlement limits are established for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Concentrations of loans and advances

	2010	2009
By economic activity	€000	€000
Trade	3.617.946	3.333.762
Manufacturing	1.755.320	1.545.488
Hotels and catering	2.297.776	2.121.902
Construction	2.747.557	2.462.311
Real estate	3.866.022	3.331.556
Private individuals	8.591.309	8.787.667
Professional and other services	4.065.604	3.076.706
Other sectors	1.944.316	1.848.656
	28.885.850	26.508.048
By geographical area		
Cyprus	13.882.964	12.753.230
Greece	10.154.385	9.780.263
Russia	1.887.215	1.409.405
United Kingdom	1.076.814	1.063.252
Australia	1.011.560	618.420
Romania	624.673	677.591
Ukraine	248.239	205.887
	28.885.850	26.508.048
By customer sector		
Corporate	11.915.470	10.766.195
Small and medium-sized enterprises (SMEs)	7.684.854	7.123.908
Retail		
- housing	5.573.178	4.990.559
- credit cards	399.742	346.715
- consumer and other	3.312.606	3.280.671
	28.885.850	26.508.048

41. Risk management – Credit risk (continued)

Analysis of loans and advances to customers

	2010	2009
	€000	€000
Neither past due nor impaired	23.014.242	22.371.566
Past due but not impaired	4.252.789	2.990.665
Impaired	1.618.819	1.145.817
	28.885.850	26.508.048

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired is managed by the Group using internal credit ratings. The table below shows the credit quality of loans and advances to customers that were neither past due nor impaired, based on the Group's credit rating system.

	Neither past due nor impaired			
	Grade 1	Grade 2	Grade 3	Total
2010	€000	€000	€000	€000
Cyprus	8.722.049	1.221.642	1.295.205	11.238.896
Greece	6.034.819	185.244	1.507.496	7.727.559
Russia	1.238.624	329.026	106.012	1.673.662
United Kingdom	756.672	97.638	58.138	912.448
Australia	202.885	637.440	21.704	862.029
Romania	465.920	4.112	3.035	473.067
Ukraine	67.672	7.926	50.983	126.581
	17.488.641	2.483.028	3.042.573	23.014.242

2009				
<i>Cyprus</i>	8.973.196	1.203.151	890.962	11.067.309
<i>Greece</i>	5.608.145	255.526	2.070.397	7.934.068
<i>Russia</i>	861.050	282.120	80.599	1.223.769
<i>United Kingdom</i>	753.845	108.741	60.009	922.595
<i>Australia</i>	120.525	188.141	222.894	531.560
<i>Romania</i>	548.790	39.542	-	588.332
<i>Ukraine</i>	91.249	9.513	3.171	103.933
	16.956.800	2.086.734	3.328.032	22.371.566

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months are classified as Grade 1. Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year are classified as Grade 2. Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year are classified as Grade 3.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Loans and advances to customers that are past due but not impaired

	2010	2009
<i>Past due:</i>	€000	€000
- up to 30 days	1.170.924	1.026.088
- 31-90 days	1.131.471	869.177
- 91-180 days	551.238	405.570
- 181-365 days	784.035	362.893
- over one year	615.121	326.937
	4.252.789	2.990.665

The fair value of collateral that the Group holds in respect of loans and advances to customers that are past due but not impaired as at 31 December 2010 amounts to €2.599.456 thousand (2009: €2.257.963 thousand).

Impaired loans and advances to customers on an individual basis

	2010		2009	
	<i>Loans and advances</i>	<i>Fair value of collateral</i>	<i>Loans and advances</i>	<i>Fair value of collateral</i>
	€000	€000	€000	€000
Cyprus	771.336	410.386	529.158	253.578
Greece	620.646	139.141	408.539	101.206
Russia	116.404	90.316	97.976	77.418
United Kingdom	40.383	19.399	44.306	29.512
Romania	27.707	20.389	24.497	23.531
Ukraine	42.343	28.042	41.341	30.047
	1.618.819	707.673	1.145.817	515.292

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers

The movement of provisions for impairment of loans and advances to customers is as follows:

	Cyprus	Greece	Russia	Other countries	Total
2010	€000	€000	€000	€000	€000
1 January	452.499	306.450	72.390	40.929	872.268
Exchange adjustments	2.283	-	3.379	1.765	7.427
Applied in writing off impaired loans and advances	(32.218)	(24.112)	(1.714)	(3.712)	(61.756)
Interest accrued on impaired loans and advances	(20.365)	(16.391)	-	-	(36.756)
Collection of loans and advances previously written off	4.719	-	-	-	4.719
Charge for the year	144.966	184.597	24.461	20.473	374.497
31 December	551.884	450.544	98.516	59.455	1.160.399
Individual impairment	393.168	390.254	43.657	46.033	873.112
Collective impairment	158.716	60.290	54.859	13.422	287.287
2009					
1 January	392.202	225.910	48.773	21.029	687.914
Exchange adjustments	348	-	(1.128)	603	(177)
Applied in writing off impaired loans and advances	(19.534)	(29.470)	(2.842)	(722)	(52.568)
Interest accrued on impaired loans and advances	(11.646)	(10.220)	-	(1.898)	(23.764)
Collection of loans and advances previously written off	12.928	-	-	-	12.928
Charge for the year	78.201	120.230	27.587	21.917	247.935
31 December	452.499	306.450	72.390	40.929	872.268
Individual impairment	321.383	258.284	27.689	32.114	639.470
Collective impairment	131.116	48.166	44.701	8.815	232.798

Renegotiated loans

Loans past due which were renegotiated in 2010 amounted to €1.652.620 thousand (2009: €376.136 thousand). These loans are subject to the Group's assessment for impairment of loans and advances to customers.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Collateral and other credit enhancements obtained

The carrying amount of assets obtained during the year by taking possession of collateral held as security was as follows:

	2010	2009
	€000	€000
Residential property	6.434	2.909
Commercial and other property	87.927	20.577
	94.361	23.486

The majority of the repossessed assets are subsequently disposed and the net proceeds are used to recover the original funds advanced to the customer. Any excess proceeds are either returned to the customer or are credited to the income statement, depending on the underlying agreement with the customers.

Analysis by rating agency designation

Balances with central banks and placements with banks are analysed by Moody's rating as follows:

	2010	2009
	€000	€000
Aaa – Aa3	5.350.909	3.820.678
A1 – A3	697.368	2.414.446
Baa1 – Baa3	710.148	147.872
Ba1 – Ba3	5.395	-
Unrated	542.420	300.271
Other receivables from banks	5.639	60.667
	7.311.879	6.743.934

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

Investments in debt securities are analysed as follows:

	2010	2009
	€000	€000
<i>Analysis by Moody's rating:</i>		
Aaa – Aa3	2.132.201	3.140.181
A1 – A3	291.391	1.459.672
Baa1 – Baa3	471.050	181.611
Ba1 – Ba3	2.370.701	-
Unrated	1.329	35.861
	5.266.672	4.817.325
<i>Issued by:</i>		
- Cyprus government	771.009	1.051.877
- other governments	2.666.315	1.118.242
- banks and other corporations	1.828.810	2.639.169
- local authorities	538	8.037
	5.266.672	4.817.325
<i>Classified as:</i>		
- trading investments	2.353	136.322
- investments at fair value through profit or loss	182.377	178.705
- available-for-sale investments	2.257.442	4.088.368
- held-to-maturity investments	1.022.850	93.079
- loans and receivables investments	1.801.650	320.851
	5.266.672	4.817.325

42. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management unit is responsible for monitoring compliance with the various market risk policies and procedures.

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.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to calculate the annual impact on net interest income of any changes in interest rates for the next twelve months per currency.

In order to manage interest rate risk, there are maximum loss limits from interest rate mis-matches for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. Maximum loss limits apply for each of the first three years. These limits are set as a percentage of Group capital (1,5%) and as a percentage of net interest income (5%) and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the effect on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euros	US Dollars	British Pounds	Other Currencies	Total
<i>Change in interest rates</i>	€000	€000	€000	€000	€000
2010					
+1% for all currencies	20.581	18.444	1.994	3.946	40.432
-0,25% for US Dollars, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(9.358)	(3.850)	(790)	(1.838)	(14.206)
2009					
+0,5% for all currencies	12.257	2.468	1.453	894	16.392
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(4.231)	1.146	(559)	(705)	(4.398)

The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

42. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

In addition to the above fluctuations in net interest income, the results of the Group are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit before tax and equity (excluding the effect on equity from the impact on profit) as a result of reasonably possible changes in interest rates of the major currencies.

	Impact on profit before tax	Impact on equity
<i>Change in interest rates</i>	€000	€000
2010		
+1% for all currencies	28.060	(15.306)
-0,25% for US Dollars, Japanese Yen, Swiss Franc and - 0,5% for all other currencies	(14.925)	7.072
2009		
+0,5% for all currencies	4.540	(21.510)
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(5.378)	10.869

Currency risk

Currency 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 manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for each currency or group of currencies and total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are monitored daily by market risk officers in all banking units of the Group. A report indicating the overnight foreign currency position of each unit is sent to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

42. Risk management – Market risk (continued)

Currency risk (continued)

The table below sets out the Group's foreign exchange risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on historical price fluctuations. The impact on equity presented below includes the effect of changes from the translation of the net assets of overseas subsidiaries and branches and does not include the effect of changes in exchange rates on net profit.

	Change in exchange rate	Impact on profit before tax	Impact on equity
2010	%	€000	€000
US Dollar	+8	3.502	-
Russian Rubble	+8	905	25.014
Romanian Lei	+8	(340)	908
Ukrainian Hryvnia	+5	43	5.083
Swiss Franc	+8	3.050	-
British Pound	+8	190	-
Australian Dollar, Japanese Yen	+10	1.742	-
Other currencies	+8	1.773	-

US Dollar	-8	(3.502)	-
Russian Rubble	-8	(905)	(25.014)
Romanian Lei	-8	340	(908)
Ukrainian Hryvnia	-20	-	(20.331)
Swiss Franc	-8	(3.050)	-
British Pound	-8	(190)	-
Australian Dollar, Japanese Yen	-10	(1.742)	-
Other currencies	-8	(1.773)	-

2009			
US Dollar	+8	2.171	-
Russian Rubble	+8	2.878	39.990
Romanian Lei	+8	(468)	4.434
Ukrainian Hryvnia	+5	15	4.049
Swiss Franc	+8	2.646	-
Other currencies	+8	1.115	-

US Dollar	-8	(2.171)	-
Russian Rubble	-8	(2.878)	(35.409)
Romanian Lei	-8	468	(4.434)
Ukrainian Hryvnia	-20	(60)	(16.197)
Swiss Franc	-8	(2.646)	-
Other currencies	-8	(1.115)	-

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

42. Risk management – Market risk (continued)

Price risk

Equity securities price risk

The risk of loss from changes in the price of equity shares, arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity shares in the trading book and other restrictions, like maximum amount invested in a specific issuer, specific industry, etc.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the profit of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired). The table below indicates how the profit before tax and equity (excluding the effect on equity from the impact on profit) of the Group will be affected from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on profit before tax	Impact on equity
2010	%	€000	€000
Cyprus Stock Exchange	+25	1.966	4.403
Athens Exchange	+25	1.146	301
Moscow Interbank Currency Exchange (MICEX)	+20	-	219
Bucharest Stock Exchange	+25	-	10.598
Cyprus Stock Exchange	-25	(2.372)	(3.997)
Athens Exchange	-25	(1.146)	(301)
Moscow Interbank Currency Exchange (MICEX)	-20	-	(219)
Bucharest Stock Exchange	-25	(10.598)	-
2009			
Cyprus Stock Exchange	+25	3.178	5.259
Athens Exchange	+15	1.198	113
Moscow Interbank Currency Exchange (MICEX)	+25	-	222
Bucharest Stock Exchange	+30	-	15.966
Cyprus Stock Exchange	-25	(3.178)	(5.259)
Athens Exchange	-15	(1.198)	(113)
Moscow Interbank Currency Exchange (MICEX)	-25	-	(222)
Bucharest Stock Exchange	-30	-	(15.966)

42. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers changes. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2010 was Baa1 (2009: Aa3).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired). The table below indicates how the profit before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

	Impact on profit before tax	Impact on equity
<i>Change in market prices</i>	<i>€000</i>	<i>€000</i>
2010		
+4%	7.084	88.136
-4%	(7.084)	(88.136)
2009		
+2,5%	7.633	100.703
-2,5%	(7.633)	(100.703)

43. Risk management – Liquidity risk

Liquidity risk is the risk that the Group is unable to fully or promptly meet current and future 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.

Deposits are the main funding source of the Group. 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.

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

Group Market Risk Management is responsible for monitoring the liquidity position of all banking units of the Group in order to ensure compliance with both internal policies and the limits set by the regulatory authorities in the countries where the Group operates.

43. Risk management – Liquidity risk (continued)

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

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 with the minimum acceptable ratio set at 25%. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities.

The liquidity ratio was as follows:

	2010	2009
	%	%
31 December	28,10	26,31
Average ratio	27,83	26,57
Highest ratio	30,60	27,47
Lowest ratio	26,31	25,21

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is presented in the table below. The analysis is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets

Financial assets are presented on the same basis as that of the liquidity reports provided to Group ALCO as this presentation is considered to be the most appropriate presentation of the Group's liquidity. The analysis of financial information does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts and overdrafts are included within the first time band which reflects their contractual maturity. All other loans and advances are analysed according to their repayment schedule.

Placements with banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date.

Investments in debt securities and other financial assets which are considered by the Central Bank of Cyprus to be eligible as collateral (for the purposes of open market operations for monetary policy) and highly liquid assets that can be accepted as collateral by other banks (for the purposes of providing financing) were classified in the first time band at their fair value less discounts (as determined by the Central Bank of Cyprus). The amounts of the discounts are presented in the time band of the maturity of the related asset. All other investments were placed in the relevant time bands according to the number of days remaining from 31 December until their contractual maturity date.

43. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial liabilities

All financial liabilities for the repayment of which notice is required were included in the relevant time bands, as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date.

The amounts presented in this table are not equal to the balance sheet amounts since the table below presents all cash flows (including interest) on an undiscounted basis.

Derivative financial instruments

Derivative financial instruments were classified according to whether they settle net or gross.

For net settled derivatives, the fair value of the derivatives was included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingencies

The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

43. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2010	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances at central banks	2.045.480	93.014	93.847	9.484	-	2.241.825
Placements with banks	4.684.306	158.047	422.023	149	103	5.264.628
Reverse repurchase assets	-	-	120.166	-	-	120.166
Investments at fair value through profit or loss	170.482	-	-	22.464	7.909	200.855
Loans and advances to customers	5.126.185	856.351	3.930.649	8.574.904	9.237.362	27.725.451
Fair value of net settled derivative assets	18.043	7.573	2.067	32.588	4.887	65.158
Non trading investments	2.705.580	834.685	524.533	403.839	162.935	4.631.572
Other assets	38.625	2.859	3.595	999	4.715	50.793
Total undiscounted financial assets	14.788.701	1.952.529	5.096.880	9.044.427	9.417.911	40.300.448
Financial liabilities						
Obligations to central banks and amounts due to banks	428.041	2.233.690	367.256	600.327	160.318	3.789.632
Repurchase agreements	-	162.707	587.124	176.245	-	926.076
Customer deposits	19.297.233	7.373.669	5.852.595	631.205	82.326	33.237.028
Debt securities in issue	5.337	27.924	30.284	18.771	3.644	85.960
Fair value of net settled derivative liabilities	1.042	1.322	5.367	38.659	83.187	129.577
Subordinated loan stock	-	1.647	131.394	932.175	7.079	1.072.295
Other liabilities	109.841	1.937	1.214	1.038	-	114.030
Total undiscounted financial liabilities	19.841.494	9.802.896	6.975.234	2.398.420	336.554	39.354.598

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

43. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2009	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances at central banks	911.839	62.703	59.891	7.241	2.117	1.043.791
Placements with banks	5.486.234	211.516	249.831	-	187	5.947.768
Reverse repurchase assets	-	-	-	120.137	-	120.137
Investments at fair value through profit or loss	337.493	18	-	-	171	337.682
Loans and advances to customers	5.120.738	805.401	3.371.324	7.297.503	9.040.814	25.635.780
Fair value of net settled derivative assets	611	2.605	7.146	2.370	4.325	17.057
Non trading investments	2.069.242	403.558	1.500.142	203.611	2.114	4.178.667
Other assets	39.813	5.401	14.132	6.328	4.063	69.737
Total undiscounted financial assets	13.965.970	1.491.202	5.202.466	7.637.190	9.053.791	37.350.619
Financial liabilities						
Obligations to central banks and amounts due to banks	712.008	447.291	3.725.340	325.283	159.427	5.369.349
Repurchase agreements	188.353	-	-	324.602	-	512.955
Customer deposits	16.141.441	6.087.162	6.066.029	567.828	45.338	28.907.798
Debt securities in issue	38.426	17.450	463.181	5.349	197	524.603
Fair value of net settled derivative liabilities	5.419	1.532	5.743	60.095	15.436	88.225
Subordinated loan stock	303	1.464	6.127	1.127.658	4.230	1.139.782
Other liabilities	194.031	9.495	2.001	11.808	2	217.337
Total undiscounted financial liabilities	17.279.981	6.564.394	10.268.421	2.422.623	224.630	36.760.049

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

43. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2010	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	600.136	186.377	66.517	12.216	-	865.246
Contractual amounts payable	(598.541)	(185.989)	(64.671)	(10.536)	-	(859.737)
	1.595	388	1.846	1.680	-	5.509
<i>Financial liabilities</i>						
Contractual amounts receivable	2.128.927	493.053	428.262	175.671	-	3.225.913
Contractual amounts payable	(2.166.979)	(506.793)	(448.182)	(222.436)	-	(3.344.390)
	(38.052)	(13.740)	(19.920)	(46.765)	-	(118.477)

Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	53	11.865	16.856	266	-	29.040
Guarantees	57.248	82.554	226.389	864.823	792.345	2.023.359
<i>Commitments</i>						
Documentary credits	-	19.745	18.535	6.564	3.265	48.109
Undrawn formal standby facilities, credit lines and other commitments to lend	1.084	3.748.146	288.549	81.413	31.995	4.151.187
	58.385	3.862.310	550.329	953.066	827.605	6.251.695

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

43. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2009	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	658.088	78.420	626.837	8.449	-	1.371.794
Contractual amounts payable	(674.190)	(79.824)	(633.794)	(8.589)	-	(1.396.397)
	(16.102)	(1.404)	(6.957)	(140)	-	(24.603)
<i>Financial liabilities</i>						
Contractual amounts receivable	475.678	302.479	212.257	3.006	-	993.420
Contractual amounts payable	(472.861)	(297.644)	(204.836)	(3.045)	-	(978.386)
	2.817	4.835	7.421	(39)	-	15.034

Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	25.756	11.565	17.591	427	-	55.339
Guarantees	29.168	88.703	224.990	774.904	806.208	1.923.973
<i>Commitments</i>						
Documentary credits	-	24.930	13.454	7.758	50	46.192
Undrawn formal standby facilities, credit lines and other commitments to lend	-	3.665.710	427.603	52.609	24.355	4.170.277
	54.924	3.790.908	683.638	835.698	830.613	6.195.781

44. Risk management – Other risks

Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength and credit rating.

Life insurance contracts

The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional exclusions and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes, climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by the thorough investigation of all claims.

The Group uses an analysis based on its embedded value for the management of risks faced, for the understanding of earnings volatility and for planning its operations. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

	2010	2009
Change in embedded value	€000	€000
Change in interest rates +0,25%	583	527
Change in expenses +10%	(4.956)	(4.901)
Change in lapsation rates +10%	(871)	(835)
Change in mortality rates+10%	(10.237)	(9.621)

General insurance contracts

The risk of a general insurance contract arises from the uncertainty regarding the amount and timing of presentation of claims. Therefore the level of risk is determined by the frequency, the severity and the evolution of claims from one period to the next.

44. Risk management – Other risks (continued)

Insurance risk (continued)

General insurance contracts (continued)

The major risks for the general insurance business are the results of natural disasters and other major catastrophic events such as terrorist acts. These risks vary depending on their location, type and nature. The variability of risks is mitigated by the diversification of the risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio. The Group's exposure to insurance risks is also mitigated by the following measures: introduction of strict underwriting policies, strict review of all claims occurring, immediate assessment and processing of claims to minimise the possibility of negative development in the long run, and use of effective reinsurance arrangements in order to limit exposure to catastrophic events.

Operational risk

Operational risk is the inherent risk arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events.

The Group recognises that the control of operational risk is concerned fundamentally with good management practices. To that effect, the overall Group strategy is geared towards risk prevention rather than relying on the adequacy of capital charges. The Group's operational risk policy aims primarily at managing operational risk in an effective and proactive manner and secondly at assessing and quantifying this risk.

The operational risk management framework adopted by the Group is based on three lines of defence, governance and risk ownership structure through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the internal audit function and the Audit Committee of the Board of Directors which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

The Group is steadily adopting various best practice methodologies and tools to effectively identify, measure and assess operational risk.

Operational risk loss events are classified and recorded in the Group's Internal Loss Database to enable risk identification, corrective action and statistical analysis. During 2010, 622 (2009: 554) loss events with potential loss over €1.000 were recorded.

The Group uses risk self assessment methods and key risk indicators to identify and assess operational risk and has escalation procedures in place for the timely internal reporting of risks and incidents.

The internal audit and compliance functions of the Group also provide assurance in relation to Group-wide operational risk management and the effectiveness of the Group's internal control system through continuous monitoring of activities and reporting.

The Group aims to increase awareness by its employees on operational risk issues through ongoing staff training.

The Group also has insurance policies to cover unexpected operational losses through a number of insurers and reinsurers.

Business Continuity Plans and Disaster Recovery Plans are being developed for all markets in which the Group operates to ensure continuity and timely recovery after a catastrophic event.

44. Risk management – Other risks (continued)

Regulatory risk

The Group's operations in Cyprus and overseas, are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework as well as closely observing and monitoring ongoing developments and emerging risks and appropriately adjusting its monitoring and regulatory procedures and operations. The subsidiaries and overseas branches of the Group are similarly supervised by the corresponding monetary authorities in the countries where they operate. The continuing and increasing regulatory obligations imposed on the Group may have both positive as well as adverse impact on its operations. In December 2010 the Basel Committee on Banking Supervision published the Basel III framework, which presents the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. Basel III's focus is on capital and funding. It specifies new capital target ratios, sets new standards for short-term funding and requirements for long term funding. Basel III is in the process of being adopted by the EU and it will then need to be transposed into national legislation in Cyprus.

The operations of the Cyprus insurance companies are supervised by the Registrar of Insurance Companies. Legal and regulatory changes may be introduced in the future by the European Union or by the Registrar of Insurance Companies which may have a significant effect on the operations and financial position of the Group's insurance companies. Solvency II, the updated set of regulatory requirements for insurance firms that operate in the EU, is scheduled to come into effect on 1 January 2013 and establishes a revised set of market consistent EU-wide capital requirements and risk management standards. Solvency requirements are expected to have an impact on the capital requirements of the Group's insurance undertakings and involve more complex calculations of factor-based formulas, stress testing and financial models.

The investment banking and the mutual fund management companies of the Group are supervised by the relevant capital market commissions.

Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The accession of Cyprus to the European Union and the introduction of the Euro in 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

In Greece, the Group mainly competes with Greek banks, which control the largest share of the banking system's assets. It also competes with branches of foreign (mainly European) banks and with co-operative banks.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 36) and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

Political risk

External factors which are beyond the control of the Group, such as political developments in Cyprus and overseas, may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union, European Central Bank and Central Bank of Cyprus policies, political instability or military conflict which affect Europe and/or other overseas areas and social developments in the countries in which the Group operates.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Capital management

The adequacy of the Group's capital is monitored by reference to the regulations established by the Central Bank of Cyprus through its Directive for the Calculation of the Capital Requirements and Large Exposures.

Capital management

The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the risk profile of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, or it can issue subordinated debt (under its EMTN Programme), capital securities (hybrid capital) or other forms of capital (such as convertible bonds). In addition, the Group may opt for equity increases through a rights issue or an issue of warrants, or through the issue of share options.

The Central Bank of Cyprus requires each bank to maintain a minimum ratio of capital to risk weighted assets of 8% in order to cover the risks under Pillar I. It may also impose additional capital requirements for risks not covered by Pillar I.

During 2010 and 2009 the Group was in compliance with all externally imposed capital requirements.

	2010	2009
<i>Regulatory capital</i>	€000	€000
Original own funds	2.885.662	2.115.637
Additional own funds	242.842	689.751
Total regulatory capital	3.128.504	2.805.388
Risk weighted assets – credit risk	23.854.855	21.522.351
Risk weighted assets – market risk	2.588	94.125
Risk weighted assets – operational risk	2.419.175	2.448.425
Total risk weighted assets	26.276.618	24.064.901
	%	%
Tier 1 ratio	11,0	8,8
Tier 2 ratio	0,9	2,9
Total capital ratio	11,9	11,7

There are also local regulatory capital requirements for banking subsidiaries operating overseas. These subsidiaries comply with the regulatory capital requirements of their host regulator as well as the requirements of the directives of the Central Bank of Cyprus. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance, including minimum solvency ratios.

The increase of regulatory capital during 2010 is mainly attributable to current year profit (net of dividends), the capital increase following the rights issue and the dividend reinvestment, net of losses on revaluation of available-for-sale investments. The increase in risk weighted assets reflects the growth of balance sheet assets due to business growth during the year.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Related party transactions

	2010	2009	2010	2009
	Number of directors		€000	€000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Group's net assets per director	1	3	184.753	187.737
- less than 1% of the Group's net assets per director	16	12	57.821	23.454
	17	15	242.574	211.191
Loans and advances to key management personnel and connected persons			1.769	2.581
Total loans and advances			244.343	213.772
Loans and advances:				
- members of the Board of Directors and key management personnel			7.330	8.576
- connected persons			237.013	205.196
			244.343	213.772
Interest income			10.641	9.551
Deposits:				
- members of the Board of Directors and key management personnel			71.069	82.906
- connected persons			25.568	42.787
			96.637	125.693
Interest expense on deposits			4.607	6.274
Debt securities in issue and subordinated loan stock:				
- members of the Board of Directors and key management personnel			17.133	17.508
- connected persons			2.401	3.615
			19.534	21.123
Interest expense on debt securities in issue and subordinated loan stock			1.086	1.094

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €113.102 thousand (2009: €58.094 thousand). Of these, €86.928 thousand (2009: €55.473 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to Group key management personnel and their connected persons amounting to €327 thousand (2009: €512 thousand). Using forced-sales values, the total unsecured amount of the loans and advances and contingent liabilities and commitments in respect of related parties at 31 December 2010 amounted to €8.065 thousand (2009: €27.086 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Related party transactions (continued)

During 2010 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €283 thousand (2009: €303 thousand) to companies of the Commercial General Insurance Group in which Mr Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €541 thousand (2009: €400 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs Anna Diogenous holds an indirect interest; purchases of equipment amounting to €855 thousand (2009: €324 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs Anna Diogenous; and insurance commissions amounting to €149 thousand (2009: €144 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis.

Connected persons include spouses, minor children and companies in which directors/key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as directors or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

Fees and emoluments of members of the Board of Directors and key management personnel

	<i>2010</i>	<i>2009</i>
	<i>€000</i>	<i>€000</i>
Director emoluments		
<i>Executives</i>		
Salaries and other short term benefits	1.749	1.543
Employer's contributions	58	57
Retirement benefit plan costs	381	182
	2.188	1.782
Share options	486	1.944
<i>Non-executives</i>		
Fees	813	822
Emoluments of a non-executive director who is also an employee of the Company	154	142
Total director emoluments	3.641	4.690
Key management personnel emoluments		
Salaries and other short term benefits	901	1.218
Employer's contributions	51	59
Retirement benefit plan costs	123	153
Share options	182	972
Total key management personnel emoluments	1.257	2.402
Total	4.898	7.092

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and key management personnel (continued)

Fees and emoluments of non-executive directors

	2010	2009
	€000	€000
Theodoros Aristodemou	171	171
Andreas Artemis	85	85
Vassilis G. Rologis	58	58
Costas Z. Severis	57	58
Christakis G. Christofides	49	48
Evdokimos Xenophontos	39	42
Anna Diogenous	51	56
George M. Georgiades	63	68
Andreas J. Jacovides	49	44
Christos Mouskis	55	61
Manthos Mavrommatis	51	59
Costas Hadjipapas	35	39
Nikolas P. Tsakos	32	33
Stavros J. Constantinides	18	-
	813	822

Mr Costas Hadjipapas, a non-executive director, had emoluments during 2010 amounting to €154 thousand (2009: €142 thousand), which includes €3 thousand (2009: €12 thousand) relating to 12 thousand Share Options 2008/2010 which were granted to him in 2008 in his capacity as employee of the Company.

The fees of the non-executive directors include fees as members of the Board of Directors of the Company and its subsidiaries as well as of Committees of the Board of Directors.

Fees and emoluments of executive directors

During 2010 the number of executive directors was three (2009: two).

The salaries and other short term benefits of executive directors amounting to €1.749 thousand (2009: €1.543 thousand) relate to Mr Andreas Eliades €898 thousand (2009: €980 thousand), Mr Yiannis Pehlivanidis €334 thousand (2009: Nil) and Mr Yiannis Kypri €517 thousand (2009: €563 thousand).

The salaries and other short term benefits of executive directors include a bonus which is determined by the Board of Directors based on the recommendation of the Remuneration Committee. The maximum bonus for each executive director is specified in his contract of employment with the Group. For 2010, the Board of Directors, having considered the performance of the Group as regards the achievement of its goals and profitability, has approved a total bonus of €341 thousand (2009: €327 thousand) for Mr Andreas Eliades and €195 thousand (2009: €187 thousand) for Mr Yiannis Kypri. The bonus will be paid in the form of shares of the Company, which will be purchased immediately and will be bestowed to a trust that will transfer the shares to the beneficiaries provided all specified conditions are satisfied.

46. Related party transactions *(continued)*

Fees and emoluments of members of the Board of Directors and key management personnel *(continued)*

Fees and emoluments of executive directors (continued)

One third of the bonus has vested and will be paid immediately, while the remaining two thirds will vest equally at the end of 2011 and 2012, provided the Group achieves the goals set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. After vesting, the shares awarded will be subject to a retention period of one year. Additionally, 25% of the shares granted to executive directors, must be kept until their retirement or the expiry of their contracts of employment.

Based on the above terms, the cost recognised in the financial statements in relation to the 2010 bonus is €209 thousand for Mr Andreas Eliades and €119 thousand for Mr Yiannis Kypri.

The bonus for 2009 was paid 50% in cash and 50% in shares of the Company in the name of the executive directors, which are subject to a retention period of three years.

The retirement benefit plan costs amounting to €381 thousand (2009: €182 thousand) relate to Mr Andreas Eliades €133 thousand (2009: €118 thousand), Mr Yiannis Pehlivanides €175 thousand (2009: Nil) and Mr Yiannis Kypri €73 thousand (2009: €64 thousand).

In the context of the Share Options 2008/2010 granted by the Company on 28 May 2008 to the Group's employees, 1.500 thousand share options were granted to Mr Andreas Eliades and 500 thousand options were granted to Mr Yiannis Kypri. The cost of share options granted to Messrs Andreas Eliades and Yiannis Kypri amounted to €364 thousand (2009: €1.458 thousand) and €122 thousand (2009: €486 thousand) respectively. Each Share Option 2008/2010 gives its holders the right to purchase one share of the Company at €4,24 per share. The theoretical fair value of the Share Options 2008/2010 granted on 28 May 2008 was measured at the grant date and amounted to €1,17 per option. As a result of the amendment of the terms of the Share Options 2008/2010 on 23 June 2009, the Share Options were revalued and the additional cost amounted to €0,42 per option. The Company's share price at 31 December 2010 was significantly lower than the exercise price of the options. Additional information on share options is presented in Note 32.

Messrs Andreas Eliades and Yiannis Kypri participate in the main retirement benefit plan for the Group's employees in Cyprus, which is a defined benefit plan. Mr Yiannis Pehlivanides participates in the retirement benefit plans for the Group's employees in Greece, which are the defined contribution plan and the defined benefit plan for retirement benefits which are required by the law. The total retirement benefits of the executive directors increased during 2010 by €800 thousand (2009: €771 thousand).

Fees and emoluments of key management personnel

The fees and emoluments of the three key management personnel (2009: four) comprise the amounts of the Group Chief General Manager and the two Senior Group General Managers and include the bonus that has been approved by the Board of Directors. The bonus will be paid in the form of shares of the Company, which will be purchased immediately and will be bestowed to a trust that will transfer the shares to the beneficiaries provided all specified conditions are satisfied. One third of the bonus has vested and will be paid immediately, while the remaining two thirds will vest equally at the end of 2011 and 2012, provided the Group achieves the goals set with respect to profitability and key performance indicators, taking into account the performance of other peer banks. After vesting, the shares awarded will be subject to a retention period of one year.

In the context of the Share Options 2008/2010 granted by the Company to Group employees on 28 May 2008, 750 thousand (2009: 1.000 thousand) options were granted to Group key management personnel the total cost of which amounted to €182 thousand (2009: €972 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

47. Group companies

The companies and branches included in the consolidated financial statements of the Group, their activities, their country of incorporation and the percentage held by the Company (directly or indirectly) are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Kermia Hotels Ltd	Cyprus	Hotel business	100
BOC Ventures Ltd	Cyprus	Management of venture capital investments	100
Tefkros Investments Ltd	Cyprus	Investment fund	100
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	50
Diners Club (Cyprus) Ltd	Cyprus	Diners Club credit card facilities	100
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80
Otherland Properties Ltd	Cyprus	Intermediate holding company	100
Gosman Properties Ltd	Cyprus	Intermediate holding company	100
Pittsburg Properties Ltd	Cyprus	Intermediate holding company	100
Battersee Properties Ltd	Cyprus	Intermediate holding company	100
Trecoda Properties Ltd	Cyprus	Intermediate holding company	100
Bonayia Properties Ltd	Cyprus	Intermediate holding company	100
Bank of Cyprus Public Company Ltd (branch)	Greece	Commercial bank	N/A
Kyprou Leasing SA	Greece	Leasing	100
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100
Kyprou Securities SA	Greece	Investment banking	100
Kyprou Asset Management (AEDAK)	Greece	Management of mutual funds	100
Kyprou Properties SA	Greece	Property management	100
Kyprou Insurance Services Ltd	Greece	General insurance brokers	100
Katoikia I Mortgage Finance Plc	United Kingdom	Special purpose entity	-
Katoikia I Holdings Ltd	United Kingdom	Special purpose entity	-
Misthosis Funding Plc	United Kingdom	Special purpose entity	-
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	-
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	100
Bank of Cyprus Australia Ltd	Australia	Commercial bank	100
Bank of Cyprus Romania (branch)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
Otherland Properties Dorobanti SRL	Romania	Property investment	100
S.C. ONT Carpati S.A.	Romania	Hotel business	94
Pittsburg Properties SRL	Romania	Property investment	100
Battersee Real Estate SRL	Romania	Property investment	100
Trecoda Real Estate SRL	Romania	Property investment	100

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

47. Group companies (continued)

Company	Country	Activities	%
Green Hills Properties SRL	Romania	Property investment	100
CB Uniastrum Bank LLC	Russia	Commercial bank	80
Leasing Company Uniastrum Leasing	Russia	Leasing	100
PJSB Bank of Cyprus	Ukraine	Commercial bank	100
Kyprou Finance (NL) B.V.	Netherlands	Financing company	100

All Group companies are accounted for as subsidiaries using the consolidation method.

Acquisition of subsidiary

On 1 April 2010, in the context of an arrangement in debt satisfaction with a customer, the Company acquired control of Gosman Properties Ltd which owns 94% of the share capital of S.C. ONT Carpati S.A., incorporated in Romania. The cost of acquisition amounted to €8.213 thousand and represents the fair value of the identifiable assets and liabilities of S.C. ONT Carpati S.A. as at the date of acquisition.

The fair value of the net assets acquired at the acquisition date was:

	€000
Net assets	8.754
Non-controlling interest	(541)
Net assts acquired	8.213
Goodwill	-
Total cost of acquisition	8.213
Net cash and cash equivalents acquired with the subsidiary	4.571

Reduction of capital and disposal of subsidiary

During 2009 the Group proceeded with a reduction in the share capital of the subsidiary company LLC CB Bank of Cyprus, which was renamed to Leadbank LLC on 26 January 2010. On 9 June 2010 the Group sold 100% of the share capital of Leadbank LLC. The profit on disposal amounted to €1.944 thousand. As part of the sale agreement, the Group has placed funds in escrow accounts amounting to €1.956 thousand to cover potential liabilities relating to a leasehold property of Leadbank LLC.

Dissolution of subsidiary

On 10 December 2010, the business and the assets and liabilities of the subsidiary company Mortgage Bank of Cyprus Ltd were transferred to the Company, with a parallel dissolution without liquidation of the subsidiary.

47. Group companies (continued)

Change in shareholding in subsidiary

On 31 October 2008, the Company acquired (through BOC Russia (Holdings) Ltd) 80% of the share capital of CB Uniastrum Bank LLC and Uniastrum Leasing LLC in Russia. The two founding shareholders of CB Uniastrum Bank LLC and Uniastrum Leasing LLC maintain, through BOC Russia (Holdings) Ltd, a 10% interest each.

Until 27 July 2009, this residual shareholding in CB Uniastrum Bank LLC was subject to a put/call option arrangement and extinguishment of the liability over a three year period, payable in cash, depending on the financial performance of the two companies during this period. This arrangement was accounted for in the consolidated financial statements as a liability. This resulted in accounting as if the Group had already acquired the shares subject to this arrangement. Therefore, no non-controlling interest was recognised for reporting purposes in relation to the shares that were subject to this arrangement. On 27 July 2009 the Company signed a new five year shareholder agreement with the two founding shareholders of CB Uniastrum Bank LLC, under which they will each maintain their management roles as well as continue to hold a residual 10% interest in CB Uniastrum Bank LLC.

The signing of the above agreement resulted in a change in the accounting treatment of CB Uniastrum Bank LLC in the consolidated financial statements of the Group. Pursuant to the signing of the agreement and the cancellation of the put/call option arrangement and extinguishment of the related liability, CB Uniastrum Bank LLC is included in the consolidated financial statements of the Group as an 80% subsidiary with the corresponding recognition of a 20% non-controlling interest. Upon this change in ownership, the difference between the extinguished liability and the share of assets and liabilities attributable to the non-controlling interest was treated as a transaction between owners.

As a result, non-controlling interests increased by €62.015 thousand of which €26.685 thousand relates to the share of exchange differences of the disposed non-controlling interest. An amount of €18.245 thousand was recognised in retained earnings.

Merger of subsidiaries

On 1 September 2009, Cyprus Leasing LLC and Uniastrum Leasing LLC merged to form Leasing Company Uniastrum Leasing which provides finance lease services in Russia and is 100% owned by the Group.

Special purpose entities

During 2009, Katoikia I Mortgage Finance Plc, Katoikia I Holdings Ltd, Misthosis Funding Plc and Misthosis Funding (Holding) Ltd were incorporated as special purpose entities for the securitisation of housing loans and finance lease receivables. The securitisations aim at enhancing the prudential liquidity ratios of the Group.

48. Investments in joint ventures and associates

(i) JCC Payment Systems Ltd

The Group owns 45% of the share capital of JCC Payment Systems Ltd, for which proportional consolidation is used.

The Group's share in the key financial figures of the jointly controlled entity, JCC Payment Systems Ltd, is:

	2010	2009
	€000	€000
Gross income	9.401	10.762
Profit before tax	2.507	4.490
Net assets	12.039	21.105
Total assets	20.048	28.728

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

48. Investments in joint ventures and associates (continued)

(ii) Interfund Investments Plc

The Group has a 22,83% interest in Interfund Investments Plc, which is a closed-end investment company listed on the Cyprus Stock Exchange. The holding was acquired on 21 May 2007.

The Group's interest in Interfund Investments Plc is as follows:

	2010	2009
	€000	€000
Total assets	3.883	6.696
Liabilities	(78)	(144)
Net assets	3.805	6.552
Carrying amount of the investment	3.805	6.552
Market value of the investment on the Cyprus Stock Exchange	2.353	4.967
<i>Share of associate's income and profit</i>		
Operating (loss)/profit	(1.952)	1.004
(Loss)/profit after tax	(1.954)	907

During the year, there were no material transactions between the Group and the associate.

(iii) Grand Hotel Enterprises Society Ltd

As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010 (Note 47), the Group acquired 30% of the share capital of the company Grand Hotel Enterprises Society Ltd (GHES), which is incorporated in Romania and owns a hotel in Romania. The Group's share of the associate at 31 December 2010 did not have any value as the net assets of the associate had a negative balance.

The Group has granted a loan to GHES which amounted to €104.139 thousand at 31 December 2010 and which is secured by a mortgage on the hotel owned by GHES. In addition, GHES owes an amount of €17.446 thousand to the Group. The Group's income statement for 2010 includes interest income of €4.074 thousand from GHES for the period since the acquisition.

49. Events after the balance sheet date

On 28 February 2011, the Board of Directors of the Company, taking into consideration the importance of maintaining high capital adequacy ratios for the continuous expansion of the Group, the global stricter regulatory environment with regards to capital and the importance of further strengthening its capital position ahead of Basel III, has decided to propose at an Extraordinary General Meeting of shareholders the issue of Convertible Enhanced Capital Securities (CECS) of up to €1.342 million.

CECS will be offered via a priority right to subscribe to the existing shareholders of the Company ('Eligible Shareholders'). Eligible Shareholders and other applicants may subscribe to the Convertible Enhanced Capital Securities issue by paying the corresponding consideration for the CECSs either in cash or in the form of 'Eligible Securities' of the Bank and specifically (i) Convertible Bonds 2013/18 (ii) Convertible Capital Securities and (iii) Capital Securities 12/2007, of an equal nominal value, which have priority after the Eligible Shareholders and before any other applicants.

Within the context of the above, the Company will take all necessary actions for the approval of the issue by the relevant regulatory authorities.

The proposed issue will further strengthen and enhance the Group's strong, high quality capital base, with the pro-forma capital adequacy ratio and the Tier 1 ratio at 31 December 2010 reaching 14,0% and 12,7% respectively, based on the assumption that all Eligible Securities (€818 million) are exchanged for the new CECS.

Also on 28 February 2011, the Board of Directors of the Company decided to propose for approval to the Company's shareholders a resolution amending the exercise price of the Share Options 2008/2010 of Group employees to €3,30 per share, so that their exercise price will be in line with the conversion price of the proposed issue of Convertible Enhanced Capital Securities.

Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company, the 'Group') on pages 10 to 123, which comprise the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the Directors' Report on pages 3 to 9 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Directors' Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Ltd

Certified Public Accountants and Registered Auditors

Nicosia
28 February 2011