Emporiki Bank

QUESTIONNAIRE ON MARKET PRACTICES ON LARGE EXPOSURES

General approach to concentration risk

1. Yes in general terms we adopt an approach to concentration risk measurement and management, which is closely linked to the limits and reporting requirements contained inn the current national regulatory regime.

Nature of concentration risk

2. Not relevant/applicable. Small size of portfolio/High awareness of customers activities

Counterparties and relationships between counterparties for single-name concentration risk

3. Account of relationships/connections between counterparties is taken both during the credit proposal evaluation process (for new or additional facilities), as well as in decisions regarding the pricing of facilities and types of collateral accepted/changes in collateral (in many cases one type of collateral covers the facilities granted to more than one of related parties). Specific rules as to what should be considered "connectedness of counterparties", have been issued by the Central Bank of Cyprus and these rules are followed by our Bank.

4. Not relevant/ applicable

Measurement of exposures

5. The amount at risk is generally defined as the amount of loan/facility plus the amount of accrued interest. In measuring the amount of risk we take into account not just funded facilities but also non-funded, like guarantees and letters of credit, as well as yet undrawn but already approved facilities. No derivative exposures, structured transactions etc currently exist in our portfolio.

6. When we want to measure single name concentration risk we group together the facilities (both funded and non-funded) that have been granted to all related counterparties of that "single name". No other kind of concentration risk e.g. sectoral/ geographic is currently systematically measured. Strategic decisions as to which sectors of the economy to avoid/support each year, are in general taken by the mother company in Greece.

7. Measurement of single name concentration risk is integrated in our internal business decision-making. For example whenever a proposal for a new/additional facility is

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being discussed/examined, total facility exposure to that "single name" is taken into consideration.

8. No securities financing transactions are currently undertaken by our Bank.

Monitoring and management of risk

9. The type of counterparty is a material factor in determining the approach to managing and mitigating the risk of a single name. For example the risk of facilities granted to government and semi-government organizations or local authorities, is considered to be zero, in case the facilities are fully secured/covered by the government guarantee of the Republic of Cyprus. The risk of a corporate, is considered to be closely correlated to the size of the corporate, its nature of business, years in business, previous credit history etc.

   The creditworthiness of a corporate is always an important factor in measuring and mitigating risk, especially when we evaluate its repayment ability and the type and value of security required (secutiry cover). In any case a thorough analysis including business and financial analysis, credit history, ownership, repayment ability, security and profitability, is undertaken before any decision to grant a new or additional facility/change a collateral, is taken, with only exception the case of facilities fully covered, by the counter guarantee of the parent company Emporiki Bank S.A

   Furthermore in managing single name concentration risk, an approach based on limits is used, following the guidelines set by the Central Bank of Cyprus for capital adequacy requirements:

   - Facilities granted to a single name should not exceed 25% of the regulatory capital of the Bank.
   - The sum of all facilities granted (when the facility granted to a single customer exceeds the 10% of the regulatory capital), should not be above 800% of total regulatory capital.

   No other factors like product type/ type of counterparty are currently taken into account. No specific approach is used to manage other types of concentration risk like sectoral, geographic, collateral issuer etc. Baisle I is being currently used for calculating capital adequacy requirements. Moreover the portfolio of the Bank is small and focused to Cypriot entities (no country limits)

Stress Testing

10. Not relevant/ applicable

Single Entity vs Group Level

11. Apart from the limits described above set by the Central Bank of Cyprus, which are measured at individual entity level, concentration risk is also measured also at group level, by the parent bank Emporiki Bank S.A. For this purpose a report is being prepared every three months showing all customers/group of customers for which the

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gross credit exposure of our Bank is equal/greater than 10% of Bank's shareholders funds.

12. Cross-Border intra-group exposures are currently monitored by the parent Bank. A more systematic approach is going to be adopted when we are going to implement Baisle II rules.

Credit Risk Mitigation

13. No distinction currently exists between the credit risk mitigation techniques used for internal purposes, to reduce large exposures concentration risk and those applied to mitigate risks of smaller exposures.

The following types of collateral are currently used by our bank:

- Mortgage over property
- Bank guarantees
- Government guarantees
- Pledged deposits
- Assignment of shares
- Fixed charge over the assets of a corporate entity
- Floating charge over the assets of a corporate entity
- Discounting of cheques
- Personal guarantees
- Other (assignment of contract proceeds, assignment of sale agreement, of life insurance policy etc)

For regulatory capital purposes not all of the above collateral is recognised. Mortgages carry a 50% weight, government guarantees and pledged deposits 100% weight and bank guarantees a 80% weight.

Haircutting is driven by regulatory authorities instructions.

Correlation between collateral asset values and events, "top slicing" approach, netting agreements, substitution of unfunded protection, correlation between credit quality of protection provider and events

Indirect concentration Risk

14. Single name concentration risk arising in respect of indirect exposures to the issuers of collateral, is not currently taken into consideration, except for the case of other banks proving unfunded credit protection, in the form of bank guarantee issues. Certain limits are set each year by the parent Bank as far as the indirect exposure from other Banks. The rest of the issues are going to be dealt with when adopting the Baisle II rules.

Governance and reporting

15. The limits set by the parent Bank for indirect exposure to third Banks are considered to be soft rather than hard, as there exist certain limitations in monitoring compliance

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with these limits (the management information system does not support automatic monitoring of breaches of limits and as a result this is done manually-human error, delays in reporting). Furthermore sometimes there exists significant delay in the parent bank approving the limits in the first place, in which case temporal limits are used.

Information and reports provided to senior management relating to single name concentration risk are the same to those prepared for the regulatory authorities in Cyprus and the parent bank in Greece.

Regulatory Environment

16. The large exposures regime is effective in addressing the key risks inherent in large exposures, as the market in Cyprus is small and exposures are limited to the Cypriot market. In that respect current limits are satisfactory both from a prudential and from a level playing field perspective.

    For certain the current regulatory regime constrains actions that would otherwise have taken, as they impact in many cases business decisions to extend customer relations and increase exposure towards a specific customer. Business opportunities to grant additional facilities to clients who are classified as "large exposures" by the regulatory authorities, are lost to competitors with higher regulatory capital requirements and thus profitability is certainly affected.

    Nevertheless the large exposures regulatory regime could capture and limit other kinds of concentration risks (like sectoral for example) as there appears to be significant concentration of facilities granted to certain sectors of the Cypriot economy, which is a small and open economy, volatile to external factors.

17. No information is currently available to us as to how the large exposures regime is applied across different member states.

16 June 2006
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