



FINANCIAL REPORT 2001

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BANK OF CYPRUS GROUP

DIRECTORS AND EXECUTIVES

Directors of Bank of Cyprus Ltd (Holding Company)

Solon A. Triantafyllides
CHAIRMAN

Christos S. Pantzaris
VICE-CHAIRMAN

Andronikos Agathocleous
Dimitris P. Ioannou
Vassilis G. Rologis
Costas Z. Severis
Theodoros Aristodemou
Dimitris Z. Pierides
Evdokimos Xenophontos
Christakis G. Christofides

Andreas Pittas
Polys G. Polyviou
George A. David
Constantinos Leventis
Andreas Artemis
Christos Ioannou
Anna Diogenous
George M. Georgiades

Group Executives

Christos S. Pantzaris
CHIEF EXECUTIVE OF BANK OF CYPRUS

Evdokimos Xenophontos
GROUP CHIEF GENERAL MANAGER

Group General Managers

George Charalambous
SENIOR GENERAL MANAGER BANKING SERVICES IN CYPRUS
& GROUP CREDIT RISK MANAGEMENT

Antonis Jacouris
GENERAL MANAGER SUPPORT SERVICES

Yiannis Kypri
GENERAL MANAGER FINANCE

Vassos Shiarly
GENERAL MANAGER BRANCH BANKING

Charalambos C. Charalambides
GENERAL MANAGER CORPORATE BANKING

Charilaos G. Stavrakis
GENERAL MANAGER INTERNATIONAL BANKING SERVICES

Andreas Eliades
GENERAL MANAGER BANK OF CYPRUS, GREECE

Group Financial Controller

Christis Hadjimitsis

Secretary

Yiannis Kypri

Legal Advisers

Chryssafinis & Polyviou

Auditors

Ernst & Young *Chartered Accountants*

Registered Office

Group Headquarters
51 Stassinou Street, Ay. Paraskevi, Strovolos
P.O. Box 24884, 1398 Nicosia, Cyprus
Telephone: 22378000, Telefax: 22378327

BANK OF CYPRUS LTD

REPORT OF THE DIRECTORS

The Directors submit to the shareholders their report together with the audited financial statements for the year ended 31 December 2001.

Activities

Bank of Cyprus Ltd is the holding company of the Group. The principal activities of the Company and its subsidiaries during the year were the provision of banking and financial services, insurance business and property and hotel business.

Results

	C£000
The profit after the tax for the year 2001 amounts to	46 517
compared with the profit for the year 2000 of	42 773
an increase of	8,8%

Dividends

Following the payment of an interim dividend of 10% (5 cents per share), the Board of Directors proposes the payment of a final dividend of 16% (8 cents per share) giving a total dividend for the year 2001 of 26% (13 cents per share).

Share Capital

During the year, the issued share capital increased by C£52 thousand, as a result of the conversion of loan stock (*Note 31*).

Board of Directors

The directors of the Company are listed on page 2. All of them were members of the Board throughout the year 2001, except for Mr. Chr. Ioannou who was appointed on 11 May 2001 and Ms A. Diogenous and Mr. G. M. Georgiades who were appointed on 7 February 2002.

Mr. D. Ioannou, director of the Company since 1995, resigned on 11 May 2001. Mr. K. Chr. Economides, director of the Company since 1961 and the Bank of Cyprus (Holdings) Ltd since 1973, retired on 7 February 2002. Mr. E. P. Tseriotis, director of Bank of Cyprus (Holdings) Ltd since 1975 and of the Company since 1999, also retired on 7 February 2002. The other members of the Board express their appreciation for the valuable services that the aforementioned directors have offered to the Group.

In accordance with the Company's Articles of Association, Messrs. Th. Aristodemou, D. Z. Pierides, A. Pittas, G. A. David, C. Leventis, Chr. Ioannou, G. M. Georgiades and Ms A. Diogenous retire and, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Auditors

Ernst & Young have signified their willingness to continue in office. A resolution for their reappointment and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

S. A. Triantafyllides
Chairman

26 February 2002

BANK OF CYPRUS GROUP
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	<i>Notes</i>	2001 C£000	2000 C£000
Turnover	2	<u>589 542</u>	<u>582 479</u>
Interest receivable	3	439 529	424 502
Interest payable	4	<u>(279 788)</u>	<u>(277 478)</u>
Net interest income		159 741	147 024
Fees and commissions receivable		73 578	72 460
Fees and commissions payable		(3 462)	(2 341)
Foreign exchange income		14 807	14 389
Losses on sale and revaluation of investments	5	(429)	(22 292)
Profit on disposal of investment in jointly controlled entity	6	8 833	-
Net income from insurance business	7	15 460	15 719
Other income	8	<u>5 021</u>	<u>5 553</u>
Total net income		<u>273 549</u>	<u>230 512</u>
Staff costs	9	(101 210)	(80 433)
Other administrative expenses		(72 823)	(58 643)
Provisions for bad and doubtful debts	16	<u>(33 077)</u>	<u>(21 580)</u>
Total expenses		<u>(207 110)</u>	<u>(160 656)</u>
Profit before tax	10	66 439	69 856
Tax	11	<u>(19 922)</u>	<u>(27 083)</u>
Profit after tax		<u>46 517</u>	<u>42 773</u>
Earnings per share (cents)	12	<u>10,8</u>	<u>10,9</u>
Fully diluted earnings per share (cents)	12	<u>10,4</u>	<u>10,1</u>

BANK OF CYPRUS GROUP
CONSOLIDATED BALANCE SHEET
as at 31 December 2001

	<i>Notes</i>	2001 C£000	2000 C£000
Assets			
Cash and balances with central banks	<i>13</i>	364 528	401 287
Treasury bills	<i>14</i>	243 411	237 587
Placements with banks	<i>15</i>	1 206 973	775 294
Loans and advances to customers	<i>16</i>	4 224 794	3 783 048
Debt securities	<i>17</i>	1 067 682	543 015
Equity shares	<i>18</i>	52 884	71 105
Property and equipment	<i>20</i>	138 428	126 952
Intangible fixed assets	<i>21</i>	11 502	8 943
Other assets	<i>22</i>	119 873	83 435
Prepayments and accrued income	<i>23</i>	67 439	57 301
		<u>7 497 514</u>	<u>6 087 967</u>
Life assurance business net assets attributable to policyholders	<i>24</i>	<u>183 352</u>	<u>202 641</u>
Total assets		<u>7 680 866</u>	<u>6 290 608</u>
Liabilities			
Due to banks	<i>25</i>	330 637	206 838
Customer deposits	<i>26</i>	6 277 184	5 139 795
Debt securities in issue	<i>27</i>	3 750	3 750
Other liabilities	<i>28</i>	82 965	84 676
Accruals and deferred income	<i>29</i>	74 681	52 027
		<u>6 769 217</u>	<u>5 487 086</u>
Life assurance business liabilities to policyholders	<i>24</i>	<u>183 352</u>	<u>202 641</u>
Subordinated loan stock	<i>30</i>	<u>187 242</u>	<u>29 501</u>
Shareholders' funds			
Share capital	<i>31</i>	216 181	216 129
Share premium		213 430	213 349
Revaluation reserves		25 121	43 529
Exchange adjustments		(2 075)	(2 013)
Retained earnings		88 398	100 386
		<u>541 055</u>	<u>571 380</u>
Total liabilities and shareholders' funds		<u>7 680 866</u>	<u>6 290 608</u>
Contingent liabilities and commitments			
Contingent liabilities	<i>33</i>	<u>570 221</u>	<u>400 162</u>
Commitments	<i>33</i>	<u>828 296</u>	<u>593 782</u>

S. A. Triantafyllides, *Chairman*
Chr. S. Pantzaris, *Vice Chairman and Chief Executive of Bank of Cyprus*
E. Xenophontos, *Director and Group Chief General Manager*
Y. Kypri, *Group General Manager Finance*
Chr. Hadjimitsis, *Group Financial Controller*

BANK OF CYPRUS GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2001

	Share capital	Share premium	Revaluation reserves	Exchange adjustments	Retained earnings	Total shareholders' funds
	C€000	C€000	C€000	C€000	C€000	C€000
YEAR 2000						
At 1 January 2000	159 578	70 988	62 014	(1 743)	100 855	391 692
Profit after tax	-	-	-	-	42 773	42 773
Dividends (<i>Note 32</i>)	-	-	-	-	(41 733)	(41 733)
Revaluation of equity shares held for investment purposes	-	-	(7 225)	-	-	(7 225)
Exchange adjustments	-	-	-	(270)	-	(270)
Deferred tax	-	-	(430)	-	-	(430)
Costs of issue of shares	-	(7 671)	-	-	-	(7 671)
Conversion of loan stock into shares	1 029	2 162	-	-	-	3 191
Issue of shares	19 500	183 892	-	-	-	203 392
Bonus issue of shares	36 022	(36 022)	-	-	-	-
Increase in value of life assurance policies in force	-	-	2 403	-	(2 403)	-
Reclassification of associated company reserve	-	-	(894)	-	894	-
Transfer to the Profit and Loss account, on sale of equity shares held for investment purposes	-	-	(12 339)	-	-	(12 339)
At 31 December 2000	<u>216 129</u>	<u>213 349</u>	<u>43 529</u>	<u>(2 013)</u>	<u>100 386</u>	<u>571 380</u>
YEAR 2001						
At 1 January 2001	216 129	213 349	43 529	(2 013)	100 386	571 380
Effect of adopting IAS 39, on the valuation of debt securities as at 1 January 2001	-	-	1 508	-	-	1 508
As restated	216 129	213 349	45 037	(2 013)	100 386	572 888
Profit after tax	-	-	-	-	46 517	46 517
Dividends (<i>Note 32</i>)	-	-	-	-	(56 202)	(56 202)
Revaluation of available for sale investments	-	-	(21 617)	-	-	(21 617)
Deferred tax	-	-	(312)	-	-	(312)
Exchange adjustments	-	-	-	(139)	-	(139)
Conversion of loan stock into shares	52	81	-	-	-	133
Increase in value of life assurance policies in force	-	-	2 990	-	(2 990)	-
Transfer to retained earnings of the realised profit on disposal of property	-	-	(687)	-	687	-
Transfer to the Profit and Loss account, on sale of available for sale investments and disposal of jointly controlled entity	-	-	(290)	77	-	(213)
At 31 December 2001	<u>216 181</u>	<u>213 430</u>	<u>25 121</u>	<u>(2 075)</u>	<u>88 398</u>	<u>541 055</u>

BANK OF CYPRUS GROUP
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2001

	<i>Notes</i>	2001 C£000	2000 C£000
Net cash inflow from operating activities	<i>35</i>	571 286	112 489
Investing activities			
Purchase of debt securities		(455 193)	(186 158)
Proceeds on sale and redemption of debt securities		120 514	58 162
Interest received on debt securities		42 395	33 989
Purchase of equity shares		(11 329)	(37 855)
Proceeds on sale of equity shares		221	6 987
Dividend income from equity shares		1 265	627
Purchase of property and equipment		(24 602)	(20 594)
Proceeds on disposal of tangible fixed assets		3 003	1 511
Purchase of intangible fixed assets		(5 620)	(7 659)
Acquisition of subsidiary company	<i>36</i>	(2 522)	-
Disposal of jointly controlled entity	<i>6</i>	10 390	-
		(321 478)	(150 990)
Financing activities			
Issue of share capital		-	195 721
Issue/(repayment) of loan stock		157 693	(939)
Interest paid on loan stock		(6 687)	(2 191)
Dividends paid		(56 202)	(41 733)
		94 804	150 858
Net increase in cash and cash equivalents for the year	<i>37</i>	344 612	112 357

BANK OF CYPRUS LTD
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	<i>Notes</i>	2001 C£000	2000 C£000
Turnover		474 195	445 618
Interest receivable	<i>3</i>	385 303	372 634
Interest payable	<i>4</i>	(259 564)	(257 045)
Net interest income		125 739	115 589
Fees and commissions receivable		60 443	57 883
Fees and commissions payable		(2 846)	(2 102)
Foreign exchange income		13 587	13 536
Dividends received from subsidiary companies		13 006	-
Profit/(loss) on sale and revaluation of investments	<i>5</i>	3 594	(7 921)
Profit on disposal of investment in jointly controlled entity	<i>6</i>	11 966	-
Other income	<i>8</i>	1 856	1 565
Total net income		227 345	178 550
Staff costs	<i>9</i>	(79 040)	(64 758)
Other administrative expenses		(55 401)	(44 411)
Provisions for bad and doubtful debts	<i>16</i>	(27 442)	(15 114)
Total expenses		(161 883)	(124 283)
Profit before tax	<i>10</i>	65 462	54 267
Tax	<i>11</i>	(12 896)	(19 008)
Profit after tax		52 566	35 259

BANK OF CYPRUS LTD**BALANCE SHEET**

as at 31 December 2001

	<i>Notes</i>	2001 C£000	2000 C£000
Assets			
Cash and balances with central banks	13	357 422	399 254
Treasury bills	14	242 787	236 508
Placements with banks	15	1 104 281	725 428
Loans and advances to customers	16	3 424 179	3 023 719
Due from Group companies		480 620	461 342
Debt securities	17	939 221	430 346
Equity shares	18	24 885	40 219
Investments in Group companies	19	206 839	194 319
Property and equipment	20	103 693	93 577
Intangible fixed assets	21	9 313	6 587
Other assets	22	71 655	43 478
Prepayments and accrued income	23	62 977	51 457
Total assets		7 027 872	5 706 234
Liabilities			
Due to banks	25	327 327	176 847
Customer deposits	26	5 769 308	4 728 124
Due to Group companies		93 438	101 722
Other liabilities	28	51 130	56 011
Accruals and deferred income	29	58 372	42 649
		6 299 575	5 105 353
Subordinated loan stock	30	187 242	29 501
Shareholders' funds			
Share capital	31	216 181	216 129
Share premium		213 430	213 349
Revaluation reserves		9 112	22 215
Revaluation of investments in Group companies		60 959	75 174
Exchange adjustments		(916)	(964)
Retained earnings		42 289	45 477
		541 055	571 380
Total liabilities and shareholders' funds		7 027 872	5 706 234
Contingent liabilities and commitments			
Contingent liabilities	33	585 058	432 367
Commitments	33	774 726	577 236

S. A. Triantafyllides, *Chairman***Chr. S. Pantzaris**, *Vice Chairman and Chief Executive of Bank of Cyprus***E. Xenophontos**, *Director and Group Chief General Manager***Y. Kypri**, *Group General Manager Finance***Chr. Hadjimitsis**, *Group Financial Controller*

BANK OF CYPRUS LTD**STATEMENT OF CHANGES IN EQUITY****for the year ended 31 December 2001**

	Share capital	Share premium	Revaluation reserves	Revaluation of investments in Group companies	Exchange adjustments	Retained earnings	Total shareholders' funds
	C€000	C€000	C€000	C€000	C€000	C€000	C€000
YEAR 2000							
At 1 January 2000	159 578	70 988	30 453	79 454	(732)	51 951	391 692
Profit after tax	-	-	-	-	-	35 259	35 259
Dividends (<i>Note 32</i>)	-	-	-	-	-	(41 733)	(41 733)
Revaluation of equity shares held for investment purposes	-	-	(3 774)	-	-	-	(3 774)
Exchange adjustments	-	-	-	-	(232)	-	(232)
Deferred tax	-	-	(466)	-	-	-	(466)
Cost of issue of shares	-	(7 671)	-	-	-	-	(7 671)
Conversion of loan stock into shares	1 029	2 162	-	-	-	-	3 191
Issue of shares	19 500	183 892	-	-	-	-	203 392
Bonus issue of shares	36 022	(36 022)	-	-	-	-	-
Revaluation for the year	-	-	-	1 885	-	-	1 885
Reclassification of associated company reserve	-	-	6 165	(6 165)	-	-	-
Transfer to the Profit and Loss account, on sale of equity shares held for investment purposes	-	-	(10 163)	-	-	-	(10 163)
At 31 December 2000	<u>216 129</u>	<u>213 349</u>	<u>22 215</u>	<u>75 174</u>	<u>(964)</u>	<u>45 477</u>	<u>571 380</u>
YEAR 2001							
At 1 January 2001	216 129	213 349	22 215	75 174	(964)	45 477	571 380
Effect of adopting IAS 39, on the valuation of debt securities as at 1 January 2001	-	-	395	1 113	-	-	1508
As restated	216 129	213 349	22 610	76 287	(964)	45 477	572 888
Profit after tax	-	-	-	-	-	52 566	52 566
Dividends (<i>Note 32</i>)	-	-	-	-	-	(56 202)	(56 202)
Revaluation of available for sale investments	-	-	(12 378)	-	-	-	(12 378)
Deferred tax	-	-	(663)	-	-	-	(663)
Exchange adjustments	-	-	-	-	48	-	48
Conversion of loan stock into shares	52	81	-	-	-	-	133
Transfer to the Profit and Loss account, on disposal of investment in jointly controlled entity	-	-	-	(3 056)	-	-	(3 056)
Transfer to retained earning of the realised profit on disposal of property	-	-	(448)	-	-	448	-
Transfer to the Profit and Loss account, on sale of available for sale investments	-	-	(9)	-	-	-	(9)
Revaluation of investments in Group Companies	-	-	-	(12 272)	-	-	(12 272)
At 31 December 2001	<u>216 181</u>	<u>213 430</u>	<u>9 112</u>	<u>60 959</u>	<u>(916)</u>	<u>42 289</u>	<u>541 055</u>

BANK OF CYPRUS GROUP

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in respect of items that are considered material for the results and the financial position of the Group and the Company are stated below.

Basis of preparation

These financial statements are drawn up in accordance with the provisions of the Cyprus Companies Law, the Cyprus Stock Exchange Law and Regulations and International Accounting Standards (IAS).

They are expressed in Cyprus pounds and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investments in debt securities and equity shares and investments in Group companies.

In 2001 the Group adopted IAS 39 “Financial Instruments: Recognition and Measurement”. The financial effects of adopting IAS 39 are reported in the Statement of Changes in Equity. Further information is disclosed in the accounting policies for loans and advances, debt securities, equity shares and derivative financial instruments and in the related notes.

In accordance with the requirements of IAS 39, the comparative amounts are not restated.

Where necessary, comparative amounts were restated to conform with the presentation adopted in the current year.

Consolidated financial statements

The consolidated financial statements include the accounts of Bank of Cyprus Ltd (the “Company”) and all its subsidiaries and jointly controlled companies, which together are referred to as the “Group”.

The interest in jointly controlled companies is included in the consolidated financial statements in proportion to the Group’s share in the capital of the investee company (proportional consolidation).

All significant intercompany transactions and balances are eliminated on consolidation.

Both positive and negative differences between the fair value of the net assets of new Group companies and the cost of acquisition are amortised over a period of ten years to the Profit and Loss account.

Foreign currency translation

Transactions in foreign currencies are recorded at the rates ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on the balance sheet date. The results from overseas operations are expressed in Cyprus pounds at the average rates of exchange for the year.

All exchange differences are taken to the Profit and Loss account, except for those arising from the retranslation of the assets and liabilities of overseas branches and subsidiaries and of directly related foreign currency borrowings, which are taken to the reserve for exchange adjustments.

Turnover

Group turnover represents interest income, fees and commissions receivable, foreign exchange income, gross insurance premiums, turnover of property and hotel business and other income.

Company turnover represents interest income, fees and commissions receivable, foreign exchange income, dividends received from subsidiary companies and other income.

Interest, fees and commissions

Generally, interest income is recognised in the Profit and Loss account on an accruals basis. Interest is suspended on all loans and advances that are considered doubtful and for which a specific provision has been made. Such interest is not credited to income but is taken to an interest in suspense account and is only released to the Profit and Loss account when its collectability is no longer subject to significant doubt.

Fees and commissions receivable are recognised on the basis of work done to match the cost of providing the service and those in respect of credit risk are recognised on a systematic basis over the period of the exposure.

BANK OF CYPRUS GROUP

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance business

Insurance premiums are recognised when these are due, except for premiums on unit linked investment plans which are recognised when they are received. Reinsurance premiums are recognised at the same time as the respective insurance premiums.

Full provision is made for the estimated cost of claims, less amounts recoverable from reinsurers.

The results from insurance business are arrived at after the deduction of the provisions for claims and the transfers to reserves for unexpired risks. The actuarial reserves for the life assurance business are determined on the basis of an annual actuarial valuation.

Loans and advances

Loans and advances are stated net of specific and general provisions. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

Specific provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the interest rate at inception.

General provision is also made for losses which have not been specifically identified but for which there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These are estimated on the basis of past experience, current economic conditions, the credit ratings assigned to borrowers and other relevant factors.

Leasing and hire purchase transactions

Amounts due from customers under finance leases and hire purchase agreements are included in loans and advances to customers, after the deduction of unearned charges. Rental income and charges are credited to the Profit and Loss account on a pattern reflecting the instalments falling due.

Debt securities and equity shares

At 1 January 2001 the Group adopted IAS39 and classified its investments in debt securities and equity shares into three categories: investments held-to-maturity, investments available-for-sale and investments held-for-trading. Management determines the appropriate classification of investments at the time of purchase.

Investments with fixed maturity, where the Group has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Investments which are either acquired for generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists, are classified as held-for-trading.

Investments are initially recognised at cost which includes transaction costs.

Investments held-to-maturity are carried at amortised cost using the effective yield method, less any provision for impairment. Premiums and discounts are amortised on a systematic basis to maturity and taken to the Profit and Loss account.

Available-for-sale investments are subsequently remeasured at fair value. The fair value of traded securities is based on quoted prices whereas fair values of unquoted securities are estimated using valuation models and ratios, refined to reflect the particular circumstances of the issuer.

Unrealised gains and losses from changes in the fair value of available-for-sale investments are recognised in the revaluation reserve. When the securities are sold or impaired the related gain or loss included in the revaluation reserve is transferred to the Profit and Loss account.

BANK OF CYPRUS GROUP

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Trading securities are remeasured at fair value based on prevailing market prices. All related realised and unrealised gains and losses are included in the Profit and Loss account.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss of assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investments in debt securities is reported as interest income. Dividends receivable from equity shares are included separately in dividend income when received.

All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Prior to the adoption of IAS 39, all debt securities held for investment purposes were measured at amortised cost. Equity shares held for investment purposes were measured at market value based on quoted prices or at fair value for unquoted shares. Increases in value were credited to the revaluation reserve. Decreases in value were debited to the revaluation reserve up to the amount already credited. Further decreases (below historic cost) were debited to the Profit and Loss account. Securities held for trading were measured at market value with changes in the value of these securities taken to the Profit and Loss account.

Shares in subsidiaries and jointly controlled entities

The Company's investments in subsidiaries and jointly controlled entities are stated at the Group's share of their net assets. Changes in the share of net assets are taken to the parent Company's revaluation reserve.

Life assurance business

The value placed on the Group's life assurance business attributable to shareholders represents the attributable net assets plus a prudent estimate, based on the advice of qualified actuaries, of the present value of the future earnings from policies in force. Changes in the value placed on life assurance business are taken to the Profit and Loss account, grossed up for notional tax.

Property, equipment and computer software

Freehold land and buildings are stated at fair value less accumulated depreciation. Valuations are carried out periodically by independent valuers. Depreciation is provided to write off the revalued amount less the estimated residual value of buildings on a straight line basis over their expected useful life (35 to 67 years). On disposal of freehold land and buildings, the related revaluation reserve balance is transferred to retained earnings.

Leasehold property is stated at cost less accumulated depreciation. The cost of short leases is amortised over the period of the lease. The cost of adapting/improving leasehold property for use by the Group is amortised over 5 years or the lease period if less than 5 years.

Equipment and computer software are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of equipment on a straight line basis over its expected useful life of 5 to 10 years. Computer software cost is amortised on a straight line basis over its expected useful life of 3 to 5 years.

Derivative financial instruments

Derivative financial instruments, including forward foreign exchange contracts, currency and interest rate swaps, equity linked swaps and options, currency and interest rate options and other derivative financial instruments, are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

BANK OF CYPRUS GROUP

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

All derivatives are treated as derivatives held-for-trading with fair value gains and losses reported in the Profit and Loss account.

Retirement benefits

For defined benefit plans the pension obligation and the cost of current service are estimated annually using the projected unit credit actuarial valuation method. The surplus or deficit arising from differences between the expected and actual return on plan assets and other actuarial assumptions are recognised as income or expense in the Profit and Loss account over the expected average remaining working lives of the employees participating in the plans.

The cost of providing benefits under defined contribution schemes is charged to the Profit and Loss account on an accruals basis.

Taxation

Provision is made for taxation in accordance with the fiscal regulations and rates which apply in the countries of operation. Deferred tax is also provided in respect of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets are recognised for all deductible temporary differences only to the extent that it is probable that future taxable profits will be available.

Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash equivalents comprise highly liquid investments that are readily convertible into known amounts of cash or are repayable within three months.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Bank of Cyprus Lt was incorporated in Cyprus as a public company within the meaning of the provisions of the Cyprus Companies, Cyprus Stock Exchange and Income Tax laws.

The Company is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiaries during the year were the provision of banking and financial services, insurance business and property and hotel business.

2. SEGMENTAL ANALYSIS

The Group has three principal areas of activity: banking and financial services, life and general insurance business and property and hotel business. The Group's business is mainly conducted in three geographical markets: (a) Cyprus, (b) Greece and (c) other countries, mainly the United Kingdom and Australia. The primary reporting format is for the areas of activity.

Areas of Activity

	Banking and financial services C€000	Insurance business C€000	Property and hotel business C€000	Total C€000
2001				
Turnover	<u>530 583</u>	<u>52 260</u>	<u>6 699</u>	<u>589 542</u>
Profit before tax	<u>55 727</u>	<u>8 489</u>	<u>2 223</u>	<u>66 439</u>
Profit after tax	<u>39 077</u>	<u>5 865</u>	<u>1 575</u>	<u>46 517</u>
Assets	7 429 341	236 389	35 265	7 700 995
Inter-segment assets				(20 129)
Total assets				<u>7 680 866</u>
Liabilities	6 932 093	202 634	11 017	7 145 744
Inter-segment liabilities				(5 933)
Total liabilities				<u>7 139 811</u>
Capital expenditure	<u>27 796</u>	<u>2 046</u>	<u>380</u>	<u>30 222</u>
Depreciation and amortisation	<u>14 094</u>	<u>570</u>	<u>202</u>	<u>14 866</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENTAL ANALYSIS *(continued)*

Areas of Activity

	Banking and financial services C€000	Insurance business C€000	Property and hotel business C€000	Total C€000
2000				
Turnover	<u>513 304</u>	<u>61 616</u>	<u>7 559</u>	<u>582 479</u>
Profit before tax	<u>55 708</u>	<u>10 708</u>	<u>3 440</u>	<u>69 856</u>
Profit after tax	<u>31 749</u>	<u>8 453</u>	<u>2 571</u>	<u>42 773</u>
Assets	6 025 653	253 662	35 422	6 314 737
Inter-segment assets				(24 129)
Total assets				<u>6 290 608</u>
Liabilities	5 495 053	219 654	12 718	5 727 425
Inter-segment liabilities				(8 197)
Total liabilities				<u>5 719 228</u>
Capital expenditure	<u>25 807</u>	<u>2 170</u>	<u>276</u>	<u>28 253</u>
Depreciation and amortisation	<u>11 946</u>	<u>364</u>	<u>227</u>	<u>12 537</u>

Geographical areas

	Cyprus C€000	Greece C€000	Other countries C€000	Total C€000
2001				
Turnover	423 867	129 558	55 855	609 280
Inter-segment turnover, mainly interest income	<u>(13 826)</u>	<u>(3 624)</u>	<u>(2 288)</u>	<u>(19 738)</u>
Turnover with external customers	<u>410 041</u>	<u>125 934</u>	<u>53 567</u>	<u>589 542</u>
Profit before tax	<u>35 548</u>	<u>26 113</u>	<u>4 778</u>	<u>66 439</u>
Profit after tax	<u>23 571</u>	<u>19 873</u>	<u>3 073</u>	<u>46 517</u>
Assets	4 972 372	2 158 219	936 670	8 067 261
Inter-segment assets				(386 395)
Total assets				<u>7 680 866</u>
Capital expenditure	<u>14 419</u>	<u>13 624</u>	<u>2 179</u>	<u>30 222</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENTAL ANALYSIS *(continued)*

Geographical areas

	Cyprus	Greece	Other countries	Total
	C€000	C€000	C€000	C€000
2000				
Turnover	424 832	124 035	56 192	605 059
Inter-segment turnover, mainly interest income	(17 403)	(4 429)	(748)	(22 580)
Turnover with external customers	<u>407 429</u>	<u>119 606</u>	<u>55 444</u>	<u>582 479</u>
Profit before tax	<u>38 512</u>	<u>22 924</u>	<u>8 420</u>	<u>69 856</u>
Profit after tax	<u>22 398</u>	<u>14 354</u>	<u>6 021</u>	<u>42 773</u>
Assets	4 618 096	1 427 320	798 017	6 843 433
Inter-segment assets				(552 825)
Total assets				<u>6 290 608</u>
Capital expenditure	<u>14 889</u>	<u>8 961</u>	<u>4 403</u>	<u>28 253</u>

The analyses by geographical area are generally based on the location of the office recording the transaction. The profit on disposal of the jointly controlled entity is included in the geographical area of Greece. Even though the activities of some of the Group companies are interdependent, the analyses by area of activity and geographical area are presented without adjustments for the cost of the net investment, the allocation of the benefit of earnings on the Group capital and for Group head office expenses, as such adjustments would necessarily be subjective.

3. INTEREST RECEIVABLE

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
Loans and advances to customers	328 366	296 101	282 024	249 869
Placements with banks	54 901	70 160	53 904	72 113
Treasury bills	13 867	24 252	13 830	24 206
Debt securities	42 395	33 989	35 545	26 446
	<u>439 529</u>	<u>424 502</u>	<u>385 303</u>	<u>372 634</u>

4. INTEREST PAYABLE

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
Customer deposits	269 123	250 820	249 111	230 584
Due to banks	3 978	24 467	3 766	24 270
Subordinated loan stock	6 687	2 191	6 687	2 191
	<u>279 788</u>	<u>277 478</u>	<u>259 564</u>	<u>257 045</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

5. GAINS/(LOSSES) ON SALE AND REVALUATION OF INVESTMENTS

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
(Losses)/gains from trading portfolio	(241)	(15 504)	4 019	(260)
Gain on sale of available-for-sale investments	662	-	425	-
Provision for impairment	(850)	-	(850)	-
Gains on sale of equity shares held for investment purposes	-	4 869	-	3 708
Decrease in the market value of equity shares held for investment purposes below cost	-	(11 657)	-	(11 369)
	<u>(429)</u>	<u>(22 292)</u>	<u>3 594</u>	<u>(7 921)</u>
Realised gains on sale of investments	875	5 786	534	3 708
Unrealised (losses)/gains on revaluation of investments	(1 304)	(28 078)	3 060	(11 629)
	<u>(429)</u>	<u>(22 292)</u>	<u>3 594</u>	<u>(7 921)</u>

The comparative amounts have not been restated, in accordance with the requirements of IAS 39.

BANK OF CYPRUS GROUP**NOTES TO THE FINANCIAL STATEMENTS**

6. PROFIT ON DISPOSAL OF INVESTMENT IN JOINTLY CONTROLLED ENTITY

On 21 December 2001 the Group disposed of its 50% shareholding in ABC Factors SA of Greece to the Alpha Bank Group. The company provides factoring services in Greece.

The profit after tax of the jointly controlled entity for the period 1 January to 21 December 2001 which is included in the Consolidated Profit and Loss Account was C£675 thousand (C£758 thousand for the year 2000).

The details of the assets and liabilities disposed and the disposal consideration are as follows:

	C£000
Cash and cash equivalents	6 476
Loans and advances to customers	81 509
Other assets	412
Due to banks	(77 708)
Customer deposits	(1 571)
Other liabilities	(1 162)
Net assets	<u>7 956</u>
Proceeds from sale of investment in jointly controlled entity	<u>16 866</u>
Exchange difference arising on consolidation	<u>(77)</u>
Profit on disposal of jointly controlled entity per Consolidated Profit and Loss account	8 833
Transfer from revaluation reserve to the Profit and Loss account of the Holding Company	<u>3 133</u>
Profit on disposal of jointly controlled entity per Profit and Loss account of the Holding Company	<u><u>11 966</u></u>
The net cash inflow on disposal is:	
Proceeds from disposal	16 866
Less: Cash and cash equivalents in entity sold	<u>(6 476)</u>
Net cash inflow on disposal of investment in jointly controlled entity	<u><u>10 390</u></u>

7. NET INCOME FROM INSURANCE BUSINESS

	The Group	
	2001	2000
	C£000	C£000
Life assurance business	10 435	11 671
General insurance business	5 025	4 048
	<u>15 460</u>	<u>15 719</u>

The net income from insurance business comprises the gross insurance premiums less direct expenses such as reinsurance premiums, net claims and agents commissions, and the increase/decrease in insurance business funds and the value of life assurance policies in force.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

8. OTHER INCOME

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
Dividend income from equity shares	1 265	627	925	481
Profit on disposal of property held for sale	1 931	3 240	212	211
Other income	1 825	1 686	719	873
	<u>5 021</u>	<u>5 553</u>	<u>1 856</u>	<u>1 565</u>

9. STAFF COSTS

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
Salaries and employer's contributions	87 471	73 120	68 372	58 856
Retirement benefit costs	13 739	7 313	10 668	5 902
	<u>101 210</u>	<u>80 433</u>	<u>79 040</u>	<u>64 758</u>

The number of persons employed by the Group as at 31 December 2001 was 5 312 (31 December 2000: 4 771) and by the Company 4 372 (31 December 2000: 3 927).

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
<i>Retirement benefits cost</i>				
Defined benefit plans	10 929	6 859	8 746	5 536
Defined contribution plans	175	88	-	-
Early retirement plans	2 635	366	1 922	366
	<u>13 739</u>	<u>7 313</u>	<u>10 668</u>	<u>5 902</u>

The Group has established several retirement benefit plans covering substantially all of its employees. The plans are funded and their assets are held independently of the Group's assets in a separate fund.

The main retirement Scheme is a defined benefit plan for the Group's permanent employees in Cyprus, representing 61% of total staff of the Group. The plan provides for lump sum payments on retirement, or earlier death, calculated on the basis of the length of service and the average salary in the period of 30–36 months before retirement. A small number of staff has the option to receive part or the whole of their entitlement by way of a pension for life.

The net present value of the obligations under the Scheme is estimated annually, using the projected unit credit actuarial valuation method, by independent actuaries. The principal actuarial assumptions used at 31 December 2001 and 2000 were the following:

	2001	2000
	%	%
Discount rate	6,5	7,5
Expected rate of return on plan assets	6,5	7,5
Future salary increases	7,5	7,5

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

9. STAFF COSTS *(continued)*

The terms of the retirement plans of employees in Greece, the United Kingdom and other countries and the respective actuarial assumptions, reflect the economic conditions prevailing in these countries.

The results of the actuarial valuations for all the Group's defined benefit plans are as shown below:

	2001 C£000	2000 C£000
Present value of obligations	159 858	131 984
Fair value of plan assets	(95 552)	(120 764)
Unrecognised actuarial losses	<u>64 306</u>	<u>11 220</u>

The plan assets include securities issued by Bank of Cyprus Ltd as follows:

	Fair value	
	2001 C£000	2000 C£000
Ordinary shares	51 801	87 119
Share warrants	1 047	2 342
Loan stock	418	411
	<u>53 266</u>	<u>89 872</u>

The amounts recognised in the Consolidated Profit and Loss account for defined benefit plans are as follows:

	2001 C£000	2000 C£000
Current service cost	9 935	6 872
Interest cost	5 127	4 493
Expected return on plan assets	(4 133)	(4 506)
	<u>10 929</u>	<u>6 859</u>
Actual return on Plan assets (negative)	<u>(32 097)</u>	<u>(3 055)</u>

The unrecognised actuarial losses resulted mainly from the changes in the discount rate and the negative return on the assets of the defined benefit plans. They will be recognized in the Profit and Loss account over the average remaining working lives of the employees participating in the relevant plans.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

10. PROFIT BEFORE TAX

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
Profit before tax is stated after crediting/(charging):				
Aggregate rentals receivable under finance leases	591	752	-	-
Profit/(loss) on disposal of property and equipment and write offs of intangible fixed assets	144	(624)	81	(18)
Interest on loan stock	(6 687)	(2 191)	(6 687)	(2 191)
Operating lease rentals for land and buildings	(3 044)	(2 433)	(2 549)	(2 312)
Depreciation of property and equipment	(10 799)	(9 156)	(8 127)	(6 932)
Amortisation of intangible fixed assets	(4 067)	(3 381)	(3 010)	(2 775)
Amortisation of goodwill arising on consolidation of subsidiary company	(117)	-	(117)	-
Auditors' remuneration	(361)	(293)	(127)	(108)
Directors' emoluments:				
Fees	(205)	(199)	(145)	(144)
Emoluments in executive capacity	(537)	(483)	(537)	(483)

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

11. TAX

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
On profit for the year:				
Cyprus corporation tax (at 20%-25%)	8 209	13 983	4 912	10 164
Cyprus defence contribution (at 3%-4%)	1 339	2 034	823	1 359
Overseas taxation	8 172	10 603	5 850	7 378
Tax for prior years	1 090	124	11	210
Deferred tax	1 112	339	1 300	(103)
Tax expense for the year	<u>19 922</u>	<u>27 083</u>	<u>12 896</u>	<u>19 008</u>
Analysis of the tax expense for the year:				
Profit before tax	<u>66 439</u>	<u>69 856</u>	<u>65 462</u>	<u>54 267</u>
Corporation tax and defence contribution on the profit for the year at the normal tax rates in Cyprus (23% - 29%)	18 592	19 735	18 323	15 321
Effect of higher overseas tax rates	1 977	2 259	1 498	1 932
Tax effect of:				
Expenses not deductible for tax purposes	1 480	8 153	160	2 714
Income not subject to tax	<u>(3 217)</u>	<u>(3 188)</u>	<u>(7 096)</u>	<u>(1 169)</u>
	18 832	26 959	12 885	18 798
Tax for prior years	1 090	124	11	210
	<u>19 922</u>	<u>27 083</u>	<u>12 896</u>	<u>19 008</u>

An additional tax expense of about C£3,4 million will arise in the event of distribution of the whole of the undistributed profit of overseas branches.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

12. EARNINGS PER SHARE

	2001	2000
Basic earnings per share		
Profit after tax (C£ thousand)	<u>46 517</u>	<u>42 773</u>
Weighted average number of shares in issue during the year (thousand)	<u>432 316</u>	<u>393 834</u>
Earnings per share (cents)	<u>10,8</u>	<u>10,9</u>
Fully diluted earnings per share		
Fully diluted earnings, adjusted for the conversion of convertible loan stock (C£ thousand)	<u>46 729</u>	<u>42 992</u>
Weighted average number of shares, adjusted for the conversion of convertible loan stock and the exercise of share warrants (thousand)	<u>451 228</u>	<u>424 161</u>
Fully diluted earnings per share (cents)	<u>10,4</u>	<u>10,1</u>

13. CASH AND BALANCES WITH CENTRAL BANKS

Deposits with central banks include the obligatory deposits for liquidity purposes, which amount to C£318 760 thousand (2000: C£374 433 thousand) for the Group and C£318 541 thousand (2000: C£374 167 thousand) for the Company.

14. TREASURY BILLS

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
Treasury bills	<u>243 411</u>	<u>237 587</u>	<u>242 787</u>	<u>236 508</u>

The bills are short term in maturity and include obligatory placements for liquidity purposes of C£155 553 thousand (2000: C£194 629 thousand) for the Group and C£154 929 thousand (2000: C£193 818 thousand) for the Company.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

15. PLACEMENTS WITH BANKS

	The Group		The Company	
	2001 C€000	2000 C€000	2001 C€000	2000 C€000
<i>Repayable:</i>				
On demand	85 095	103 030	73 825	82 342
Within three months	1 040 223	646 880	955 450	621 758
Between three months and one year	80 586	25 384	75 006	21 328
Between one and five years	1 069	-	-	-
	<u>1 206 973</u>	<u>775 294</u>	<u>1 104 281</u>	<u>725 428</u>

16. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Company	
	2001 C€000	2000 C€000	2001 C€000	2000 C€000
Loans, overdrafts and other advances	4 079 663	3 649 739	3 581 770	3 144 190
Hire purchase and finance lease debtors	334 636	282 830	-	-
Gross loans and advances	<u>4 414 299</u>	<u>3 932 569</u>	<u>3 581 770</u>	<u>3 144 190</u>
Provisions for bad and doubtful debts	<u>(189 505)</u>	<u>(149 521)</u>	<u>(157 591)</u>	<u>(120 471)</u>
	<u>4 224 794</u>	<u>3 783 048</u>	<u>3 424 179</u>	<u>3 023 719</u>
<i>Repayable:</i>				
On demand	1 360 337	1 339 290	1 217 108	1 190 661
Within three months	408 148	455 015	331 914	295 059
Between three months and one year	678 053	518 049	588 709	430 326
Between one and five years	1 380 183	1 197 587	1 055 408	948 253
After five years	587 578	422 628	388 631	279 891
	<u>4 414 299</u>	<u>3 932 569</u>	<u>3 581 770</u>	<u>3 144 190</u>
<i>By economic activity :</i>				
Trade	818 060	742 919	760 221	685 189
Manufacturing	287 482	293 965	252 544	251 826
Tourism	442 377	434 969	333 162	313 379
Property and construction	485 732	407 379	291 515	254 573
Personal, home loans and professional	1 650 328	1 466 791	1 351 893	1 172 268
Other sectors	730 320	586 546	592 435	466 955
	<u>4 414 299</u>	<u>3 932 569</u>	<u>3 581 770</u>	<u>3 144 190</u>
<i>By geographical area:</i>				
Cyprus	2 631 710	2 432 252	2 364 541	2 121 406
Greece	1 201 887	965 342	1 060 979	853 008
United Kingdom	539 324	534 975	156 250	169 776
Australia	41 378	-	-	-
	<u>4 414 299</u>	<u>3 932 569</u>	<u>3 581 770</u>	<u>3 144 190</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

16. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

Provisions for bad and doubtful debts

	Specific C£000	Interest in suspense C£000	General C£000	Total C£000
The Group				
2001				
At 1 January	82 206	56 882	10 433	149 521
Exchange adjustments	93	50	72	215
Applied in writing off advances	(8 281)	(654)	-	(8 935)
Disposal of investment in jointly controlled entity	-	-	(1 179)	(1 179)
Suspended interest for the year	-	16 806	-	16 806
Charge for the year	30 503	(408)	2 982	33 077
At 31 December	<u>104 521</u>	<u>72 676</u>	<u>12 308</u>	<u>189 505</u>
2000				
At 1 January	68 313	46 647	7 059	122 019
Exchange adjustments	(440)	(172)	(228)	(840)
Applied in writing off advances	(4 056)	(1 340)	-	(5 396)
Suspended interest for the year	-	12 158	-	12 158
Charge for the year	18 389	(411)	3 602	21 580
At 31 December	<u>82 206</u>	<u>56 882</u>	<u>10 433</u>	<u>149 521</u>
The Company				
2001				
At 1 January	60 409	53 022	7 040	120 471
Exchange adjustments	33	10	20	63
Applied in writing off advances	(5 697)	(129)	-	(5 826)
Suspended interest for the year	-	15 441	-	15 441
Charge for the year	25 464	-	1 978	27 442
At 31 December	<u>80 209</u>	<u>68 344</u>	<u>9 038</u>	<u>157 591</u>
2000				
At 1 January	51 983	43 013	3 257	98 253
Exchange adjustments	(423)	(163)	(165)	(751)
Applied in writing off advances	(2 317)	(901)	-	(3 218)
Suspended interest for the year	-	11 073	-	11 073
Charge for the year	11 166	-	3 948	15 114
At 31 December	<u>60 409</u>	<u>53 022</u>	<u>7 040</u>	<u>120 471</u>

All loans are originated by the Group.

The loans and advances for which specific provision is made and interest is suspended amounted to C£300 893 thousand (2000: C£235 772 thousand) for the Group and C£257 386 thousand (2000: C£201 222 thousand) for the Company.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

17. DEBT SECURITIES

The Group

	Held-for- trading 2001 C€000	Available- for-sale 2001 C€000	Held-to- maturity 2001 C€000	Total 2001 C€000	Total 2000 C€000
Cyprus Government	70 910	179 058	-	249 968	123 418
Other governments	-	266 456	-	266 456	14 701
Local authorities	1 354	179	-	1 533	1 288
Banks and other	415 970	122 427	10 274	548 671	403 027
Cyprus public companies	574	480	-	1 054	581
	<u>488 808</u>	<u>568 600</u>	<u>10 274</u>	<u>1 067 682</u>	<u>543 015</u>
<i>Repayable:</i>					
Within one year	96 220	129 522	7 406	233 148	73 299
Between two and five years	375 286	183 469	2 868	561 623	467 144
After five years	17 302	255 609	-	272 911	2 572
	<u>488 808</u>	<u>568 600</u>	<u>10 274</u>	<u>1 067 682</u>	<u>543 015</u>
Listed on the Cyprus Stock Exchange	71 484	171 746	-	243 230	123 691
Listed on European stock exchanges	415 970	396 653	10 274	822 897	408 336
Unlisted-certificates of deposit, bank and local authorities bonds	1 354	201	-	1 555	10 988
	<u>488 808</u>	<u>568 600</u>	<u>10 274</u>	<u>1 067 682</u>	<u>543 015</u>

The movement for the year in available-for-sale and held-to-maturity investments in debt securities is summarised as follows:

	Available- for-sale C€000	Held-to- maturity C€000
At 1 January 2001	222 050	12 180
Fair value adjustment on adoption of IAS 39 on 1 January 2001	1 508	-
Exchange adjustments	5 737	297
Acquisitions	455 193	-
Disposals and redemptions	(117 957)	(2 163)
Gain from changes in fair value	2 912	-
Amortisation of premiums/discounts	(843)	(40)
At 31 December 2001	<u>568 600</u>	<u>10 274</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

17. DEBT SECURITIES *(continued)*

The Company

	Held-for- trading 2001 C£000	Available- for-sale 2001 C£000	Held-to- maturity 2001 C£000	Total 2001 C£000	Total 2000 C£000
Cyprus Government	70 910	173 813	-	244 723	120 336
Other governments	-	265 628	-	265 628	13 937
Banks and other	415 970	2 626	10 274	428 870	296 073
	<u>486 880</u>	<u>442 067</u>	<u>10 274</u>	<u>939 221</u>	<u>430 346</u>
<i>Repayable:</i>					
Within one year	96 065	100 320	7 406	203 791	28 835
Between two and five years	375 085	88 019	2 868	465 972	400 497
After five years	15 730	253 728	-	269 458	1 014
	<u>486 880</u>	<u>442 067</u>	<u>10 274</u>	<u>939 221</u>	<u>430 346</u>
Listed on the Cyprus Stock Exchange	70 910	168 551	-	239 461	120 336
Listed on European Stock Exchanges	415 970	273 516	10 274	699 760	310 010
	<u>486 880</u>	<u>442 067</u>	<u>10 274</u>	<u>939 221</u>	<u>430 346</u>

The movement for the year in available-for-sale and held-to-maturity investments in debt securities is summarised below:

	Available- for-sale C£000	Held-to- maturity C£000
At 1 January 2001	113 115	10 017
Fair value adjustment on adoption of IAS 39 on 1 January 2001	395	-
Exchange adjustments	3 053	297
Acquisitions	392 049	-
Disposals and redemptions	(68 710)	-
Gain from changes in fair value	2 991	-
Amortisation of premiums/discounts	(826)	(40)
At 31 December 2001	<u>442 067</u>	<u>10 274</u>

Debt securities held-for-trading and available-for-sale are measured at fair value.

Debt securities held-to-maturity are measured at amortised cost that is, cost plus any unamortised premium or less any unamortised discount on their purchase. Their fair value at 31 December 2001 was C£10 342 thousand. The net unamortised premium at 31 December 2001 was C£48 thousand.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

18. EQUITY SHARES

The Group

	Held-for- trading 2001 C€000	Available - for-sale 2001 C€000	Total 2001 C€000	Total 2000 C€000
Listed on the Cyprus Stock Exchange	6 755	21 578	28 333	45 807
Listed on European stock exchanges	238	1 340	1 578	569
Unlisted	1 320	21 653	22 973	24 729
	<u>8 313</u>	<u>44 571</u>	<u>52 884</u>	<u>71 105</u>

The movement for the year in available-for-sale investments in equity shares is summarised as follows:

	Cost C€000	Revaluation C€000	Book value C€000
At 1 January 2001	48 457	10 400	58 857
Exchange adjustments	7	-	7
Additions	11 329	-	11 329
Disposals	(216)	(27)	(243)
Loss from changes in fair value	-	(24 529)	(24 529)
Provision for impairment	(850)	-	(850)
At 31 December 2001	<u>58 727</u>	<u>(14 156)</u>	<u>44 571</u>

The Company

	Available- for-sale 2001 C€000	Total 2000 C€000
Listed on the Cyprus Stock Exchange	14 765	23 389
Listed on European stock exchanges	1 130	2 107
Unlisted	8 990	14 723
	<u>24 885</u>	<u>40 219</u>

The movement for the year in available-for-sale investments in equity shares is summarised as follows:

	Cost C€000	Revaluation C€000	Book value C€000
At 1 January 2001	30 815	9 404	40 219
Exchange adjustments	2	-	2
Additions	883	-	883
Loss from changes in fair value	-	(15 369)	(15 369)
Provision for impairment	(850)	-	(850)
At 31 December 2001	<u>30 850</u>	<u>(5 965)</u>	<u>24 885</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENTS IN GROUP COMPANIES

The Company

	2001	2000
	C£000	C£000
Cost at the beginning of the year	99 484	60 935
Issue of shares by subsidiaries and jointly controlled entities	28 520	38 549
Acquisition of brokerage company Kyprou Securities SA (ex Victory Securities SA)	1 551	-
Disposal of investment in jointly controlled entity ABC Factors SA	(5 299)	-
Cost at the end of the year	124 256	99 484
Adjustment to reflect the Company's share of the net assets of the Group companies	70 629	81 079
Disposal of jointly controlled entity – Company's share in the net assets of ABC Factors SA	(2 657)	-
Company's share of net assets in Group companies	192 228	180 563
Long term loans to subsidiary companies	14 611	13 756
	206 839	194 319

Issue of shares by subsidiaries and jointly controlled entities:

	2001	2000
	C£000	C£000
Bank of Cyprus (London) Ltd	7 468	-
Bank of Cyprus Australia Pty Ltd	3 236	18 539
Mortgage Bank of Cyprus Ltd	-	2 000
Kyprou Leasing SA	3 539	-
ABC Factors SA	2 104	-
BOC Ventures Ltd	-	500
Tefkros Investments (CI) Ltd	12 173	-
Tefkros Investments Ltd	-	10
Bank of Cyprus Mutual Funds Ltd	-	500
The Cyprus Investment and Securities Corporation Ltd (CISCO)	-	17 000
	28 520	38 549

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENTS IN GROUP COMPANIES *(continued)*

The Group companies and their activities are:

Cyprus

Mortgage Bank of Cyprus Ltd	<i>Real estate and industrial development bank</i>
Bank of Cyprus Finance Corporation Ltd	<i>Hire purchase and leasing business</i>
Bank of Cyprus (Factors) Ltd	<i>Factoring services</i>
JCC Payment Systems Ltd	<i>Processing of credit card transactions</i>
The Cyprus Investment and Securities Corporation Ltd (CISCO)	<i>Investments and Securities House</i>
General Insurance of Cyprus Ltd	<i>General Insurance business</i>
EuroLife Ltd	<i>Life assurance business</i>
Kermia Ltd	<i>Property trading and development</i>
Kermia Properties & Investments Ltd	<i>Property development</i>
Kermia Hotels Ltd	<i>Hotel business</i>
BOC Ventures Ltd	<i>Management of venture capital investments</i>
Tefkros Investments Ltd	<i>Investments in private companies</i>
Bank of Cyprus Mutual Funds Ltd	<i>Sale of investment products</i>

Greece

Bank of Cyprus Ltd (branch)	<i>Commercial bank</i>
Kyprou Leasing SA	<i>Leasing business</i>
Kyprou Commercial SA	<i>Financing of motor vehicles and other consumer products</i>
Kyprou Securities SA	<i>Brokerage company</i>
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	<i>Sale of investment products</i>
Kyprou Properties SA	<i>Property trading</i>
Kyprou Insurance Services Ltd	<i>General insurance brokers</i>

United Kingdom

Bank of Cyprus (London) Ltd	<i>Commercial bank</i>
Bank of Cyprus Ltd (branch)	<i>Commercial bank</i>

Channel Islands

Bank of Cyprus (Channel Islands) Ltd	<i>Commercial bank</i>
Tefkros Investments (CI) Ltd	<i>Investments in private companies</i>

Australia

Bank of Cyprus Australia Pty Ltd	<i>Commercial bank</i>
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Ireland

BOC International Fund Management Ltd	<i>Management of mutual funds</i>
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BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENTS IN GROUP COMPANIES *(continued)*

All the above mentioned companies are wholly owned subsidiaries, except for JCC Payment Systems Ltd in which the Group holds 45% of the issued share capital of C£1 million. The company is accounted for as an interest in a jointly controlled entity.

The investment in ABC Factors SA which was disposed on 21 December 2001, amounted to 50% of its total issued share capital of C£6 933 thousand. The company was accounted for as a jointly controlled entity up to the date of disposal.

The Group's aggregate share in key financial statement items of the jointly controlled entities (including ABC Factors SA up to the date of disposal) is as follows:

	2001	2000
	C£000	C£000
Turnover	8 197	6 648
Profit before tax	2 864	2 315
Net assets	11 476	7 451
Total assets	92 772	54 278

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT

The Group	Property 2001 C£000	Equipment 2001 C£000	Total 2001 C£000	Total 2000 C£000
<i>Cost or valuation</i>				
At 1 January	114 559	56 365	170 924	153 996
Exchange adjustments	216	253	469	(1 299)
Additions	14 400	10 202	24 602	20 594
Acquisition of subsidiary company	108	156	264	-
Disposals and write offs	(2 507)	(1 449)	(3 956)	(2 367)
Disposal of investment in jointly controlled entity	-	(245)	(245)	-
At 31 December	<u>126 776</u>	<u>65 282</u>	<u>192 058</u>	<u>170 924</u>
<i>Depreciation</i>				
At 1 January	10 534	33 438	43 972	36 002
Exchange adjustments	22	164	186	(262)
Acquisition of subsidiary company	37	20	57	-
Disposals and write offs	(89)	(1 100)	(1 189)	(924)
Disposal of investment in jointly controlled entity	-	(195)	(195)	-
Charge for the year	3 819	6 980	10 799	9 156
At 31 December	<u>14 323</u>	<u>39 307</u>	<u>53 630</u>	<u>43 972</u>
<i>Net book value</i>				
At 31 December	<u>112 453</u>	<u>25 975</u>	<u>138 428</u>	<u>126 952</u>

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

	2001 C£000	2000 C£000
Freeholds	97 840	94 520
Leaseholds up to 50 years unexpired	14 613	9 505
	<u>112 453</u>	<u>104 025</u>

Property includes land as well as buildings under construction amounting to C£28 955 thousand (2000: C£39 869 thousand) for which no depreciation is charged.

The net book value of freehold land and buildings, on a cost less accumulated depreciation basis, would be C£73 286 thousand (2000: C£69 159 thousand).

The cumulative surplus on revaluation of C£24 866 thousand (2000: C£25 537 thousand) is included in the revaluation reserve.

There are no fixed charges in favour of third parties on the Group's tangible fixed assets as at 31 December 2001.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

20. PROPERTY AND EQUIPMENT *(continued)*

The Company

	Property 2001 C£000	Equipment 2001 C£000	Total 2001 C£000	Total 2000 C£000
<i>Cost or valuation</i>				
At 1 January	87 368	38 894	126 262	114 020
Exchange adjustments	67	20	87	(1 111)
Additions	13 023	6 882	19 905	15 534
Disposals and write offs	(1 648)	(476)	(2 124)	(2 181)
At 31 December	<u>98 810</u>	<u>45 320</u>	<u>144 130</u>	<u>126 262</u>
<i>Depreciation</i>				
At 1 January	9 562	23 123	32 685	26 730
Exchange adjustments	5	12	17	(192)
Disposals and write offs	(37)	(355)	(392)	(785)
Charge for the year	3 210	4 917	8 127	6 932
31 December	<u>12 740</u>	<u>27 697</u>	<u>40 437</u>	<u>32 685</u>
<i>Net book value</i>				
31 December	<u>86 070</u>	<u>17 623</u>	<u>103 693</u>	<u>93 577</u>

The net book value at the Company's property comprises:

	2001 C£000	2000 C£000
Freeholds	72 397	68 834
Leaseholds upto 50 years unexpired	13 673	8 972
	<u>86 070</u>	<u>77 806</u>

Property includes land as well as buildings under construction amounting to C£19 702 thousand (2000: C£26 631 thousand) for which no depreciation is charged.

The net book value of freehold land and buildings, on a cost less accumulated depreciation basis, would be C£57 586 thousand (2000: C£53 471 thousand).

The cumulative surplus on revaluation of C£14 981 thousand (2000: C£15 427 thousand) is included in the revaluation reserve.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

21. INTANGIBLE FIXED ASSETS

The Group

	Computer software	Goodwill on consolidation of subsidiary company	Total	Total
	2001	2001	2001	2000
	C€000	C€000	C€000	C€000
<i>Cost</i>				
At 1 January	23 124	-	23 124	18 609
Transfer of goodwill of associated company to investments in equity shares	-	-	-	(2 142)
Acquisition of subsidiary company	97	-	97	-
Exchange adjustments	25	-	25	(135)
Additions	5 620	1 173	6 793	7 659
Write offs	(92)	-	(92)	(867)
Disposal of investment in jointly controlled entity	(171)	-	(171)	-
At 31 December	<u>28 603</u>	<u>1 173</u>	<u>29 776</u>	<u>23 124</u>
<i>Amortisation</i>				
At 1 January	14 181	-	14 181	11 890
Transfer of goodwill of associated company to investments in equity shares	-	-	-	(856)
Acquisition of subsidiary company	39	-	39	-
Exchange adjustments	16	-	16	(59)
Write offs	-	-	-	(175)
Disposal of investment in jointly controlled entity	(146)	-	(146)	-
Charge for the year	4 067	117	4 184	3 381
At 31 December	<u>18 157</u>	<u>117</u>	<u>18 274</u>	<u>14 181</u>
<i>Net book value</i>				
At 31 December	<u>10 446</u>	<u>1 056</u>	<u>11 502</u>	<u>8 943</u>

The Company

	Computer software	Goodwill on consolidation of subsidiary company	Total	Total
	2001	2001	2001	2000
	C€000	C€000	C€000	C€000
<i>Cost</i>				
At 1 January	19 301	-	19 301	16 652
Transfer of goodwill of associated company to investments in equity shares	-	-	-	(2 142)
Exchange adjustments	5	-	5	(74)
Additions	4 682	1 173	5 855	4 867
Write offs	(4)	-	(4)	(2)
At 31 December	<u>23 984</u>	<u>1 173</u>	<u>25 157</u>	<u>19 301</u>
<i>Amortisation</i>				
At 1 January	12 714	-	12 714	10 843
Transfer of goodwill of associated company to investments in equity shares	-	-	-	(856)
Exchange adjustments	3	-	3	(48)
Charge for the year	3 010	117	3 127	2 775
At 31 December	<u>15 727</u>	<u>117</u>	<u>15 844</u>	<u>12 714</u>
<i>Net book value</i>				
At 31 December	<u>8 257</u>	<u>1 056</u>	<u>9 313</u>	<u>6 587</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

22. OTHER ASSETS

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
Debtors	8 751	12 670	293	2 898
Property held for sale	16 390	13 286	6 240	6 804
Value of life assurance policies in force	15 760	12 770	-	-
Taxes refundable	3 826	2 317	3 253	1 921
Deferred tax	811	-	-	-
Fair value of derivative financial instruments (<i>note 34</i>)	14 774	15 993	11 317	14 128
Items in course of collection and other assets	59 561	26 399	50 552	17 727
	119 873	83 435	71 655	43 478

23. PREPAYMENTS AND ACCRUED INCOME

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
Accrued interest, fees and commissions	63 233	53 041	59 405	47 672
Prepaid expenses	4 206	4 260	3 572	3 785
	67 439	57 301	62 977	51 457

24. LIFE ASSURANCE BUSINESS

The Group

The value placed on the life assurance business of the subsidiary company EuroLife Ltd comprises:

	2001	2000
	C€000	C€000
Net assets attributable to shareholders	9 431	13 316
Value of life assurance policies in force	15 760	12 770
	25 191	26 086

Life assurance business net assets attributable to policyholders comprise:

Investments:		
Equity shares	69 733	98 658
Debt securities	39 850	53 681
Mortgages and loans	9 457	14 611
Bank deposits	64 844	37 192
	183 884	204 142
Liabilities less other assets	(532)	(1 501)
Life assurance business net assets attributable to policyholders	183 352	202 641

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

24. LIFE ASSURANCE BUSINESS *(continued)*

Investments valued at C£169 762 thousand (2000: C£176 859 thousand) are held in trust for the benefit of the policyholders.

In determining the value of policies in force, assumptions are made relating to gross investment yields, future mortality, persistence and level of expenses. Profits attributable to shareholders which are expected to arise in the future are discounted at 10,5% per annum (2000: 12%).

25. DUE TO BANKS

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
<i>Repayable:</i>				
On demand	29 127	28 543	26 886	23 766
Within three months	182 471	96 403	181 402	71 189
Between three months and one year	119 018	81 892	119 018	81 892
Between one and five years	21	-	21	-
	<u>330 637</u>	<u>206 838</u>	<u>327 327</u>	<u>176 847</u>

26. CUSTOMER DEPOSITS

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
<i>Repayable:</i>				
On demand	1 250 580	1 263 011	1 172 868	1 213 010
Within three months	2 851 926	2 174 585	2 549 147	1 906 263
Between three months and one year	1 784 044	1 516 341	1 730 258	1 472 522
Between one and five years	383 784	183 390	310 185	133 861
After five years	6 850	2 468	6 850	2 468
	<u>6 277 184</u>	<u>5 139 795</u>	<u>5 769 308</u>	<u>4 728 124</u>
<i>By category:</i>				
Demand deposits	609 346	700 765	447 342	574 408
Savings deposits	316 294	244 015	308 009	241 891
Time deposits	5 351 544	4 195 015	5 013 957	3 911 825
	<u>6 277 184</u>	<u>5 139 795</u>	<u>5 769 308</u>	<u>4 728 124</u>
<i>By geographical area:</i>				
Cyprus	4 266 012	3 912 163	4 264 008	3 909 604
Greece	1 482 930	814 822	1 482 930	813 076
United Kingdom	496 904	412 810	22 370	5 444
Australia	31 338	-	-	-
	<u>6 277 184</u>	<u>5 139 795</u>	<u>5 769 308</u>	<u>4 728 124</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

27. DEBT SECURITIES IN ISSUE

The Group

	2001	2000
	C€000	C€000
7,25% Guaranteed Debenture Stock Kermia Ltd 1999/2002	3 200	3 200
Interest-free loan from the European Development Bank	550	550
	<u>3 750</u>	<u>3 750</u>
<i>Repayable:</i>		
Between one and five years	3 200	3 200
After five years	550	500
	<u>3 750</u>	<u>3 750</u>

28. OTHER LIABILITIES

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
General insurance business funds	3 986	4 090	-	-
Taxes payable	3 798	10 111	1 888	7 508
Deferred tax	11 544	9 323	8 287	6 343
Fair value of derivative financial instruments (<i>note 34</i>)	16 252	13 247	13 657	12 400
Items in course of settlement and other liabilities	<u>47 385</u>	<u>47 905</u>	<u>27 298</u>	<u>29 760</u>
	<u>82 965</u>	<u>84 676</u>	<u>51 130</u>	<u>56 011</u>
The deferred tax liability is attributable to the following items:				
Difference between wear and tear allowances and depreciation	3 420	3 172	2 777	2 570
Property revaluation reserve	4 942	5 081	1 858	3 154
Investments revaluation reserve	1 793	-	3 039	-
Other temporary differences	1 383	1 070	610	619
Exchange adjustments	6	-	3	-
	<u>11 544</u>	<u>9 323</u>	<u>8 287</u>	<u>6 343</u>

29. ACCRUALS AND DEFERRED INCOME

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
Accrued interest, fees and commissions	69 104	49 012	58 058	42 235
Other accrued expenses	4 459	3 005	314	414
Deferred income	1 118	10	-	-
	<u>74 681</u>	<u>52 027</u>	<u>58 372</u>	<u>42 649</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

30. SUBORDINATED LOAN STOCK

The Group and the Company

	2001	2000
	C€000	C€000
Step-up Floating rate Subordinated Bonds in Euro 2006/2011	157 874	-
6,75% Convertible Loan Stock, 2003	4 368	4 501
Floating rate Loan Stock, 2003/2008	25 000	25 000
	187 242	29 501
<i>Repayable:</i>		
Between two and five years	4 368	4 501
After five years	182 874	25 000
	187 242	29 501

The loan stocks were issued by Bank of Cyprus Ltd and rank behind the claims of depositors and other creditors of the Bank. They are considered second tier capital in determining the capital base of the Bank.

On 20 June 2001 Bank of Cyprus Ltd issued €275 million Step-up Floating rate subordinated bonds in Euro maturing on 20 June 2011. The Company has the option to redeem the bonds in whole on or at any date after 20 June 2006. The interest rate is 1,20% above the offered rate for three month Euro deposits (euribor) and will increase to 2,40% after 20 June 2006.

The 6,75% Convertible Loan Stock, 2003 may be converted into shares of the Company at the option of its holders at C€1,29 per share. The conversion price is adjusted every time there is a new issue of shares. During the year, loan stock of nominal value C€133 thousand was converted into 103 thousand shares of nominal value 50 cents each. The fair value of the conversion option of this loan stock at the date of its issue was estimated at about C€2,5 million of which an amount of C€0,2 million relates to the loan stock outstanding as at 31 December 2001.

The interest on the Loan Stock, 2003/2008 is payable every six months and is 0,75% higher than the interest rate offered for fixed deposits of one year maturity.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

31. SHARE CAPITAL

The Group and the Company

	2001	2000
	C€000	C€000
<i>Authorised</i>		
Shares of 50 cents each	300 000	300 000
<i>Issued and fully paid</i>		
At 1 January	216 129	159 578
Conversion of convertible loan stock	52	1 029
Issue of shares	-	19 500
Bonus issue of shares	-	36 022
At 31 December	216 181	216 129

As a result of the conversion of Convertible Loan Stock due 2003, 103 thousand new shares were issued during the year.

During the year 2000, there were also two other issues of shares:

- Issue of 39 million shares in Greece by Public Offering that took place from 17 to 20 October 2000 at the price of GRD 3 100 per share. The trading of the shares of Bank of Cyprus Ltd on the Main Market of the Athens Stock Exchange commenced on 8 November 2000. The total amount received was C€203,4 million of which C€19,5 million represent share capital and the remaining C€183,9 million represent share premium.
- The issue of bonus shares, by applying part of the share premium reserve, in the ratio of one for every five shares held on 6 December 2000, was approved at the Extraordinary General Meeting held on 22 November 2000.

The Centenary Share Warrants which have not yet been exercised as at 31 December 2001 were 33 664 thousand. The warrants may be exercised in October 2003. The exercise price of the warrants as at 31 December 2001 was C€1,25 per warrant.

The Company has granted share options to all Group personnel who were in service at 31 December 2000. The total number of share options granted was 3 216 700 and gives the holder the right to buy one share of the Company at the price of C€3,50 per share. Upto 50% of the share options may be exercised in the period from 31 January 2003 to 31 December 2003. The remaining options may be exercised in the period from 31 January 2004 to 31 December 2007.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

32. DIVIDENDS PAID AND PROPOSED FINAL DIVIDEND

	C£000
2001	
Final dividend for 2000, at 16% (8 cents per share)	34 585
Interim dividend for 2001, at 10% (5 cents per share)	21 617
Total dividends paid	<u>56 202</u>
2000	
Final dividend for 1999, at 16% (8 cents per share)	25 532
Additional final dividend for 1999	146
Interim dividend for 2000, at 10% (5 cents per share)	<u>16 055</u>
Total dividends paid	<u>41 733</u>

The additional final dividend for 1999 represents the dividend on shares issued as a result of the conversion of convertible loan stock after the end of the relevant year.

The Board of Directors proposes the payment of a final dividend for the year 2001 of 8 cents per share (totalling C£34 589 thousand). The proposal will be submitted for approval at the Annual General Meeting of the shareholders which will take place on 24 April 2002. The Board of Directors also proposes that the ex-dividend date will be 29 April 2002. As a result, registered shareholders on 26 April 2002 will be entitled to receive the final dividend for year 2001. The final dividend, subject to approval at the Annual General Meeting, will be paid on 20 May 2002.

The total dividend for 2001 amounts to 13 cents per share (proposed final dividend 8 cents and interim dividend paid 5 cents). The total dividend for 2000 was 13 cents per share.

The proposed final dividend for 2001 has not been recognised as a liability in the financial statements as required by IAS 10 "Events After the Balance Sheet Date".

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

33. CONTINGENT LIABILITIES AND COMMITMENTS

Financial instruments

In common with other banking companies, the Group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the balance sheet.

The following table summarises the nominal principal amount of contingent liabilities and commitments as at 31 December:

	The Group		The Company	
	2001	2000	2001	2000
	C£000	C£000	C£000	C£000
<i>Contingent liabilities</i>				
Acceptances and endorsements	50 110	42 774	46 891	39 653
Guarantees and performance bonds	520 111	357 388	538 167	392 714
	570 221	400 162	585 058	432 367
<i>Commitments</i>				
Documentary credits	35 948	44 300	35 948	44 300
Undrawn formal standby facilities, credit lines and other commitments to lend	792 348	549 482	738 778	532 936
	828 296	593 782	774 726	577 236

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that payment is not honoured by the customer. Most acceptances are expected to be presented for payment, but reimbursement by the customer is normally immediate.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by a bank and subsequently rediscounted.

Guarantees and performance bonds are generally written by a bank to support the performance of a customer to third parties. As the bank will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the bank to make payments to third parties on production of documents and provided that the terms of the documentary credit are satisfied. The repayment by the customer is usually immediate.

Commitments to lend are agreements to lend to a customer in the future subject to certain conditions. Such commitments are made for a fixed period and are cancellable by the bank subject to notice requirements. Most commitments expire without being fully drawn upon and hence the cash requirements of such commitments are considerably less than the commitment limits that are reported.

Capital Commitments

Commitments for contracted capital expenditure amount to C£13 808 thousand (2000: C£9 632 thousand) for the Group and C£13 655 thousand (2000: C£8 596 thousand) for the Company.

Litigation

There is no pending litigation, claims or assessments against the Group the outcome of which would have a material effect on the Group's financial position and operations.

34. DERIVATIVE FINANCIAL INSTRUMENTS

The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities.

These instruments are also used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices as part of its asset and liability management activities.

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

A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

An interest rate swap is an agreement 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.

An equity linked swap is an agreement between two parties to exchange the return on an equity index for a stream of cash flows based on a short-term interest rate index.

An interest rate, currency and equity option provides the buyer with the right, but not the obligation either to purchase or sell a specified stock or stock index at a specified price or level on or before a specified date.

Credit exposure of derivative instruments represents the cost to replace contracts with a positive value. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for lending decisions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity price indices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

34. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

The nominal and fair values of derivative instruments held are summarised as follows:

Year ended 31 December 2001:

	The Group			The Company		
	Nominal value C£000	Fair value		Nominal value C£000	Fair value	
		Assets C£000	Liabilities C£000		Assets C£000	Liabilities C£000
Forward foreign exchange rates contracts	293 856	4 201	3 711	191 577	2 436	2 277
Currency swaps	786 205	5 107	1 544	680 017	4 364	797
Interest rate swaps	546 262	5 275	6 490	428 195	4 368	6 208
Equity linked swaps	44 019	188	991	32 569	147	859
Equity options	95 558	-	3 516	95 559	-	3 516
Interest rate options	22 637	3	-	18 816	2	-
	<u>1 788 537</u>	<u>14 774</u>	<u>16 252</u>	<u>1 446 733</u>	<u>11 317</u>	<u>13 657</u>

The book value of the derivatives as at 1 January 2001 has not been restated as a result of the adoption of IAS 39, as these were already included in the balance sheet at fair value.

Year ended 31 December 2000:

	The Group			The Company		
	Nominal value C£000	Fair value		Nominal value C£000	Fair value	
		Assets C£000	Liabilities C£000		Assets C£000	Liabilities C£000
Forward foreign exchange rates contracts	434 107	8 620	7 185	315 913	8 048	6 721
Currency swaps	914 524	5 154	468	914 524	5 154	468
Interest rate swaps	219 920	1 606	1 986	156 565	837	1 664
Equity linked swaps	44 123	613	1 392	31 668	89	1 331
Equity options	77 258	-	2 216	77 258	-	2 216
	<u>1 689 932</u>	<u>15 993</u>	<u>13 247</u>	<u>1 495 928</u>	<u>14 128</u>	<u>12 400</u>

BANK OF CYPRUS GROUP**NOTES TO THE FINANCIAL STATEMENTS****35. NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2001	2000
	C€000	C€000
Profit before tax	66 439	69 856
Provisions for bad and doubtful debts	33 077	21 580
Depreciation of property and equipment	10 799	9 156
Amortisation of intangible fixed assets	4 184	3 381
Amortisation of discounts and premiums	883	(105)
Increase in prepayments and accrued income	(10 138)	(24 534)
Decrease in the market value of trading securities	454	16 421
Increase in accruals and deferred income	22 654	1 652
Profit/(loss) on disposal of tangible fixed assets and write offs of intangible fixed assets	(144)	624
Interest income on debt securities	(42 395)	(33 989)
Dividend income from equity shares	(1 265)	(627)
Profit on sale of investments in equity shares	(5)	(4 869)
Profit on sale of investments in debt securities	(657)	-
Decrease in the market value of equity shares held for investment purposes, below cost	-	11 657
Provision for impairment	850	-
Profit on disposal of investment in jointly controlled entity	(8 833)	-
Interest on loan stock	6 687	2 191
	82 590	72 394
<i>Increase in</i>		
Due to banks	201 507	35 704
Customer deposits	1 132 677	891 792
Placements with banks	(56 271)	(20 915)
General insurance business funds	6 835	552
Other assets of life assurance business	(1 064)	-
Loans and advances to customers	(556 547)	(828 002)
Debt securities and shares held for trading	(176 542)	(29 456)
Other assets	(32 072)	(98)
Other liabilities	-	15 126
<i>Decrease in</i>		
Other assets of life assurance business	-	348
Other liabilities	(3 527)	-
	597 586	137 445
Tax paid	(26 300)	(24 956)
	571 286	112 489

BANK OF CYPRUS GROUP

NOTES TO THE FINANCIAL STATEMENTS

36. ACQUISITION OF BROKERAGE COMPANY

On 9 May 2001 Bank of Cyprus Ltd acquired 100% of the issued share capital of Victory Securities SA, a brokerage company which was renamed Kyprou Securities SA. Kyprou Securities SA is registered in Greece and its principal activity is the provision of brokerage services.

The cost of acquisition was C£2 724 thousand and was settled in cash. The fair value of the net assets acquired was C£1 551 thousand and included cash and cash equivalents of C£202 thousand. The goodwill arising on acquisition will be amortised to the Profit and Loss account over a period of ten years.

	C£000
The assets and liabilities acquired are summarised as follows:	
Cash and cash equivalents	202
Tangible and intangible fixed assets	265
Other assets	1 319
Other liabilities	(235)
Fair value of net assets acquired	<u>1 551</u>
Cost of acquisition	<u>2 724</u>
Goodwill	<u>1 173</u>
The net cash outflow on acquisition is:	
Cost of acquisition	2 724
Cash and cash equivalents acquired	(202)
Net cash outflow on acquisition of subsidiary	<u>2 522</u>

37. CASH AND CASH EQUIVALENTS

	2001	2000
	C£000	C£000
Balance at 1 January	1 388 784	1 276 697
Exchange adjustments	(139)	(270)
Net cash inflow for the year	344 612	112 357
Balance at 31 December	<u>1 733 257</u>	<u>1 388 784</u>
Cash and balances with central banks	364 528	401 287
Treasury bills	243 411	237 587
Placements with banks repayable within three months	1 125 318	749 910
	<u>1 733 257</u>	<u>1 388 784</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

38. OPERATING LEASES

The amounts of annual commitments under non-cancellable operating leases and the period for which the commitment is in force are:

	The Group	
	2001	2000
	C£000	C£000
Operating leases which expire:		
Within one year	4	-
Between two and five years	821	723
After five years	994	1 540
	<u>1 819</u>	<u>2 263</u>

The operating leases of the Company are considered cancellable.

39. RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a variety of risks, the most important of which are credit risk, market risk and liquidity risk.

These risks are identified, measured and monitored through various control mechanisms across the Group in order to price facilities and products on a risk adjusted basis and to prevent undue risk concentrations.

Credit risk

Credit risk is the risk of default by counterparties to transactions. The management of specific credit risk is devolved to individual business units.

The Group credit risk management function ensures that appropriate policies are established and monitors compliance with the related credit sanction monitoring procedures and controls at the business unit level. Credit exposures are aggregated from individual business units and are monitored at Group level on a regular basis.

Portfolio monitoring is carried out by asset quality (credit rating), sector of the economy and country. As in other parts of the Group's businesses, a program of regular audits is followed by Group credit control staff.

The Group's exposure to risk from its lending activities is diversified both geographically and in the various sectors of the economy (*Note 16*).

Market risk

Market risk is the risk of adverse movements in the level of interest rates, in the rates of exchange between currencies and the current prices of securities and other financial contracts. Accordingly, these movements may affect the Group's profitability. Market risk is actively managed at an individual business unit level and is monitored and reviewed at both individual business and Group level by an independent Group risk management function to ensure compliance with market risk limits.

Interest rate risk is the Group's exposure to adverse movements in interest rates. It arises as a result of timing differences on the repricing of assets and liabilities. The Group closely monitors interest rate movements and the repricing maturity structure of its assets and liabilities.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

39. RISK MANAGEMENT *(continued)*

Currency risk results from adverse movements in the rates of exchange between currencies if there is a net currency position in one or more currencies. The net position in any currency is monitored on a continuous basis so that it lies within set limits.

Structural currency risk exposure arises primarily out of the Group's investments in overseas branches and subsidiaries. These investments are hedged by maintaining liabilities for the same amount in the same currency as the investment.

The risk on adverse movements in the current values of equities and debt securities is limited to the holdings of equity shares and debt securities, as stated in Notes 17 and 18.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses.

The Group's banking businesses require a stable flow of funds both to replace existing deposits as they mature and to satisfy demands of customers for additional borrowing. Undrawn borrowing facility commitments and the level of outstanding contingent obligations are taken into consideration in monitoring the Group's liquidity position.

A substantial portion of Group assets is funded with core deposits. The distribution of sources and maturities of deposits is managed actively in order to avoid a concentration of funding needs at any one time or from a small number of depositors.

To manage this risk, the Group maintains at all times a diversified stock of highly liquid assets in the principal currencies.

The responsibility for liquidity rests with asset and liability management committees at each location, subject to overall control by Group treasury.

40. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	The Group		The Company	
	2001	2000	2001	2000
	C€000	C€000	C€000	C€000
<i>Assets</i>				
Cyprus pounds	3 367 628	2 926 720	3 322 487	3 071 282
Other currencies	4 313 238	3 363 888	3 705 385	2 634 952
	<u>7 680 866</u>	<u>6 290 608</u>	<u>7 027 872</u>	<u>5 706 234</u>
<i>Liabilities</i>				
Cyprus pounds	3 435 680	2 986 914	3 285 121	3 131 546
Other currencies	4 245 186	3 303 694	3 742 751	2 574 688
	<u>7 680 866</u>	<u>6 290 608</u>	<u>7 027 872</u>	<u>5 706 234</u>

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is generally the amount which an asset could be exchanged for, or a liability settled at an arm's length transaction.

The majority of assets and liabilities are carried at fair value.

The fair value for loans and advances to customers and finance lease receivables is approximately equal to their book value, net of the related provisions for bad and doubtful debts.

Management is of the opinion that the fair value of other financial instruments is approximately equal to their carrying values.

42. DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

The beneficial interest in shares of the Company of the directors, their spouses and minor children and of companies in which they hold (directly or indirectly) at least 20% of the voting shares, at 31 December 2001 and 26 February 2002 is stated below:

	31 December 2001 %	26 February 2002 %
S. A. Triantafyllides	0,057	0,057
Chr. S. Pantzaris	0,099	0,099
K. Chr. Economides	0,321	*
E. P. Tseriotis	0,007	*
A. Agathocleous	0,007	0,007
D. P. Ioannou	0,401	0,401
V. G. Rologis	0,002	0,002
C. Z. Severis	0,459	0,459
Th. Aristodemou	0,021	0,021
D. Z. Pierides	0,001	0,001
E. Xenophontos	0,004	0,004
Chr. G. Christofides	0,064	0,064
A. Pittas	0,037	0,037
P. G. Polyviou	0,055	0,055
K. Leventis	-	-
G. A. David	0,001	0,001
A. Artemis	0,007	0,007
Chr. Ioannou	-	-
A. Diogenous	**	0,001
G. M. Georgiades	**	0,001
	1,543	1,217

* Messrs K. Chr. Economides and E. P. Tseriotis were not members of the Board of Directors as at 26 February 2002.

** Ms A. Diogenous and Mr. G. M. Georgiades were not members of the Board of Directors as at 31 December 2001.

BANK OF CYPRUS GROUP
NOTES TO THE FINANCIAL STATEMENTS

43. SHAREHOLDERS WHICH HOLD MORE THAN 5% OF THE SHARE CAPITAL OF THE COMPANY

There are no shareholders holding more than 5% of the issued share capital of the Company.

44. TRANSACTIONS WITH DIRECTORS

	Number of Directors	Total C£000
Loans and other advances to directors and connected persons:		
More than 1% of the net assets of the Company, per director	5	48 563
Less than 1% of the net assets of the Company, per director	13	11 985
	<u>18</u>	<u>60 548</u>

In addition to the above-mentioned loans and other advances, there were contingent liabilities for account of directors, in the form of documentary credits, guarantees and commitments to lend, of C£14 644 thousand. Out of these C£13 772 thousand relate to directors and their connected persons, whose total credit facilities exceed an amount equivalent to 1% of the net assets of the Company.

Connected persons include spouses, minor children and companies in which a director holds (directly or indirectly) at least 20% of the voting shares.

45. APPROVAL OF ACCOUNTS

These financial statements have been approved for issue by the Board of Directors of the Company on 26 February 2002.

Report of the Auditors to the members of Bank of Cyprus Ltd

We have audited the financial statements on pages 4 to 50 and have obtained all the information and explanations we considered necessary. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper books of account have been kept by the Company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the Company at 31 December 2001, of the results from operations and changes in equity of the Group and the Company and of the cash flows of the Group for the year then ended in accordance with International Accounting Standards and comply with the Cyprus Companies Law, Cap. 113.

Ernst & Young
Chartered Accountants
Nicosia.

26 February 2002

