



Bank of Cyprus Group Financial Statements

For the year ended 31 December 2005

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Bank of Cyprus Group Directors and Executives

<p>Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)</p>	<p>Vassilis G. Rologis CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Christos S. Pantzaris Dimitris P. Ioannou Costas Z. Severis Theodoros Aristodemou Demetris Z. Pierides Evdokimos Xenophontos Christakis G. Christofides Andreas Pittas</p> <p>Polys G. Polyviou George A. David Anna Diogenous George M. Georgiades Andreas J. Jacovides Christos Mouskis Eleftherios P. Ioannou Manthos Mavrommatis</p>
<p>Group Executive Management</p>	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Charilaos G. Stavarakis CHIEF EXECUTIVE OFFICER – CYPRUS AND DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri GROUP CHIEF GENERAL MANAGER</p>
<p>Group General Managers</p>	<p>Antonis Jacouris GENERAL MANAGER INFORMATION AND OPERATIONS</p> <p>Vassos Shiarly GENERAL MANAGER DOMESTIC BANKING</p> <p>Christis Hadjimitsis GENERAL MANAGER FINANCE</p> <p>Nicolas Karydas GENERAL MANAGER RISK MANAGEMENT</p> <p>Constantinos Vasilakopoulos GENERAL MANAGER BANK OF CYPRUS GREECE</p> <p>Panayiotis Kanaris GROUP INTERNAL AUDITOR</p>
<p>Secretary</p>	<p>Yiannis Kypri</p>
<p>Legal Advisers</p>	<p>Chryssafinis & Polyviou</p>
<p>Auditors</p>	<p>Ernst & Young</p>
<p>Registered Office</p>	<p>Group Headquarters 51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY - 1398 Nicosia, Cyprus Telephone: +357 22842100, Telefax: +357 22336258</p>

Bank of Cyprus Public Company Ltd

DIRECTORS' REPORT

The Board of Directors submit to the shareholders their Report together with the audited consolidated financial statements for the year ended 31 December 2005.

Activities

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

Branches

The Company provides banking and financial services in Greece and the United Kingdom. The companies General Insurance of Cyprus Ltd and EuroLife Ltd operate through branches in Greece.

Financial Results

Group profit after tax for 2005 recorded an increase of 88% compared to 2004. The improvement in all of the Group's profitability indicators was also significant. The reorganisation of the Group's activities in Cyprus, combined with the cost containment and income enhancement plans, the positive track of the Group's insurance operations and the continuation of its dynamic expansion in Greece contributed to the profitability improvement. As a result, the targets set, by the Group were exceeded.

Group Financial Highlights			
in C£ thousand		Year 2005	Year 2004
Profit before provisions	+32%	181.645	137.749
Profit before tax	+78%	90.558	50.937
Profit after tax	+88%	72.417	38.529
Earnings per Share	+87%	14,4 cent	7,7 cent
Dividend per Share	+75%	7 cent	4 cent
Cost/Income	-5,6 p.p.*	56,7%	62,3%
Return on Equity	+4,8 p.p.*	11,9%	7,1%

in C£ million	Annual increase	31.12.2005	31.12.2004
Deposits	+24%	10.724	8.656
Advances	+17%	6.984	5.979
Equity	+36%	762	559

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

- Group profit after tax for 2005 reached C£72.417 thousand compared to C£38.529 thousand for 2004, recording an 88% increase.
- As a result of the significant increase in the Group's profitability, the Group return on equity increased by 4,8 percentage points compared to 2004, reaching 11,9%.
- Profit before provisions reached C£181.645 thousand for 2005, recording an annual increase of 32%.
- The cost to income ratio further improved to 56,7% compared to 62,3% for 2004.

Bank of Cyprus Public Company Ltd

DIRECTORS' REPORT

- The above results reflect the positive effect of the action taken for:
 - Improvement of income (14% increase in net interest income and 29% increase in income from insurance operations).
 - Containment of the rate of increase of expenses to 4% compared to the rate of increase of deposits and advances, before provisions and suspension of income, of 24% and 15%, respectively.
- The Group's customer deposits at 31 December 2005 reached C£10.724 million recording an annual increase of 24%.
- The Group's advances at 31 December 2005 reached C£6.984 million, recording an annual increase of 17%.
- The Group's equity following the share capital increase in December 2005 reached C£762 million.

Dividends

The Board of Directors proposes the payment of a dividend at 14% (2004: 8%) which is equivalent to 7 cent per share (2004: 4 cent) per share.

Future developments

The Group's three-year strategic plan 2006-2008 adopts the intensification of a series of actions, primarily aiming at profitability improvement, such as:

- productivity increase, resulting from changes in the organisational structure of the customer service network and the introduction of more developed and flexible systems and procedures,
- improvement in customer service, introduction of new products and entry into new markets,
- loan portfolio quality improvement, and
- continuation of the Group's dynamic expansion of profitable operations overseas.

The above actions focus on five basic pillars:

- strengthening of the Group's presence in Cyprus with improvement in both market share and profitability,
- further expansion in Greece through branch network expansion, increase in size and improvement of profitability,
- consolidation of the Group's presence in the United Kingdom and further expansion in Australia,
- further exploitation of synergies between the Group's Cyprus and Greek operations, where available, so that costs are further reduced and the foundations for cost-efficient expansion in new markets are further strengthened, and
- entry into new markets, such as Russia and the Balkans.

Based on the Group financial results to date and further actions planned for the continuing improvement of its profitability indicators, the Group has upgraded its targets for 2008 aimed at improvement of both the cost to income ratio and return on equity.

Risk Management

Like other financial organisations the Group is exposed to risks, the most significant of which are credit risk and market risk that arises from adverse movements in exchange rates, interest rates, equity shares and other securities prices. The Group monitors and manages these risks through various procedures. Detailed information relating to Group risk management is shown in Note 37.

Share capital

During the year the share capital of the Company increased by C£38.951 thousand through a rights issue and by C£1.322 thousand as a result of dividend reinvestment as described in Note 28.

Post balance sheet events

Post balance sheet events are described in Note 42.

Bank of Cyprus Public Company Ltd

DIRECTORS' REPORT

Board of Directors

The members of the Board of Directors of the Company are listed on Page 1. All directors were members of the Board throughout the year 2005 except Messrs Eleftherios P. Ioannou and Manthos Mavrommatis, who were appointed on 15 December 2005, in replacement of Messrs Solon A. Triantafyllides and Andronicos Agathocleous who retired from the Board of Directors on 18 May 2005 and 3 October 2005 respectively. On 18 May 2005 the Company's Board of Directors elected Messrs Vassilis G. Rologis as Chairman and Andreas Artemis as Vice Chairman.

The Board of Directors express their gratitude to the retired Chairman Mr. Solon A. Triantafyllides for his valuable contribution to the Bank of Cyprus Group for 42 years as a member of the Board of Directors and the achievements of his 17-year tenure as Chairman of the Group. They also express their gratitude to Mr. Andronicos Agathocleous for his long period of service on the Board of Directors of the Company and its subsidiaries.

As from 1 January 2005, the members of the Board of Directors Messrs Solon A. Triantafyllides, Christos S. Pantzaris and Evdokimos Xenophontos have non-executive duties. The new Group Executive Management is composed of Messrs Andreas Eliades, Group Chief Executive Officer, Charilaos G. Stavrakis, Chief Executive Officer – Cyprus and Deputy Group Chief Executive Officer and Yiannis Kypri, Group Chief General Manager.

In accordance with the Company's Articles of Association, Messrs Christakis G. Christofides, Andreas J. Jacovides, Andreas Artemis, Christos Mouskis, Eleftherios P. Ioannou and Manthos Mavrommatis retire and, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Auditors

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

V. G. Rologis
Chairman

27 February 2006

Bank of Cyprus Group Consolidated Income Statement

For the year ended 31 December 2005

		2005	<i>2004 restated</i>
	Notes.	C£000	<i>C£000</i>
Turnover	3	797.255	691.411
Interest income	4	605.305	512.293
Interest expense	5	(325.539)	(266.413)
Net interest income		279.766	245.880
Fee and commission income		97.908	90.941
Fee and commission expenses		(8.204)	(5.028)
Foreign exchange income		14.493	15.489
Net profit/(loss) on sale and change in fair value of financial instruments	6	6.022	(4.567)
Income from insurance business	7	23.375	18.106
Other income	8	5.882	4.720
		419.242	365.541
Staff costs	9	(151.331)	(138.288)
Other operating expenses		(86.266)	(89.504)
Profit before provisions		181.645	137.749
Provisions for bad and doubtful debts	15	(91.087)	(83.695)
Provision for impairment of available-for-sale investments	30	-	(3.117)
Profit before tax	10	90.558	50.937
Tax	11	(18.141)	(12.408)
Profit after tax		72.417	38.529
Basic and diluted earnings per share (cent)	12	14,4	7,7

Bank of Cyprus Group

Consolidated Balance Sheet

As at 31 December 2005

		2005	2004
	Notes	€000	€000
Assets			
Cash and balances with central banks	13	611.681	439.314
Placements with banks	13	2.578.300	1.511.577
Investments at fair value through profit or loss	14	89.331	95.486
Loans and advances to customers	15	6.984.211	5.979.252
Investments available-for-sale and held-to-maturity	17	1.945.261	1.689.957
Property and equipment	18	159.664	157.531
Intangible assets	19	10.927	13.296
Other assets	20	129.424	83.291
Prepayments and accrued income	21	61.584	94.728
		12.570.383	10.064.432
Life assurance business net assets attributable to policyholders	22	231.806	195.551
Total assets		12.802.189	10.259.983
Liabilities			
Amounts due to banks		177.749	131.380
Customer deposits and other accounts	23	10.724.485	8.655.882
Debt securities in issue	24	318.216	148.612
Other liabilities	25	169.576	134.799
Accruals and deferred income	26	54.125	67.053
		11.444.151	9.137.726
Life assurance business liabilities to policyholders	22	231.806	195.551
Subordinated loan stock	27	364.581	367.593
Equity			
Share capital	28	272.658	232.385
Share premium		311.399	238.955
Revaluation reserves and other reserves	30	95.919	56.918
Exchange adjustments reserve		(2.898)	(2.828)
Retained earnings	30	84.573	33.683
		761.651	559.113
Total liabilities and equity		12.802.189	10.259.983
Contingent liabilities and commitments			
Contingent liabilities	32	770.809	710.600
Commitments	32	1.389.717	1.184.972

V. G. Rologis	Chairman
A. Artemis	Vice Chairman
A. Eliades	Group Chief Executive Officer
Y. Kypri	Group Chief General Manager
Chr. Hadjimitsis	Group General Manager Finance

Bank of Cyprus Group

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital	Share premium	Revaluation reserves and other reserves (Note 30)	Exchange adjustments reserve	Retained earnings (Note 30)	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2005						
As previously reported	232.385	238.955	54.063	(2.828)	36.538	559.113
Adjustment for the transfer of investments to the fair value through profit or loss category	-	-	2.855	-	(2.855)	-
As restated	232.385	238.955	56.918	(2.828)	33.683	559.113
Gains from change in fair value of available-for-sale investments						
- treasury bills and debt securities	-	-	30.087	-	-	30.087
- equity shares	-	-	5.072	-	-	5.072
Transfer to the income statement from termination of cash flow hedges	-	-	4.043	-	-	4.043
Deferred tax	-	-	1.807	-	-	1.807
Exchange adjustments	-	-	-	(70)	-	(70)
Increase in value of life assurance policies in force (Note 22)	-	-	2.200	-	(2.200)	-
Transfer of realised profits on disposal of property	-	-	(148)	-	148	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(4.060)	-	-	(4.060)
Profit/(loss) recognised directly in equity			39.001	(70)	(2.052)	36.879
Profit after tax	-	-	-	-	72.417	72.417
Total profit/(loss) for the year	-	-	39.001	(70)	70.365	109.296
Dividend paid (Note 29)	-	-	-	-	(18.591)	(18.591)
Defence contribution on deemed dividend distribution (Note 30)	-	-	-	-	(884)	(884)
Dividend reinvestment	1.322	2.907	-	-	-	4.229
Issue of shares	38.951	70.112	-	-	-	109.063
Share capital issue costs	-	(575)	-	-	-	(575)
At 31 December 2005	272.658	311.399	95.919	(2.898)	84.573	761.651

Bank of Cyprus Group

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Share capital	Share premium	Revaluation reserves and other reserves (Note 30)	Exchange adjustments reserve	Retained earnings (Note 30)	Total equity
	C€000	C€000	C€000	C€000	C€000	C€000
At 1 January 2004						
As previously reported	232.385	238.955	54.140	(2.379)	183	523.284
Adjustment for the transfer of investments to the fair value through profit or loss category	-	-	3.876	-	(3.876)	-
As restated	232.385	238.955	58.016	(2.379)	(3.693)	523.284
Gains from change in fair value of available-for-sale investments:						
- treasury bills and debt securities	-	-	(5.752)	-	-	(5.752)
- equity shares	-	-	(2.868)	-	-	(2.868)
Fair value change of financial instruments designated as cash flow hedges	-	-	2.287	-	-	2.287
Transfer to the income statement of impairment loss of available-for-sale investments in equity shares	-	-	3.117	-	-	3.117
Deferred tax	-	-	1.185	-	-	1.185
Exchange adjustments	-	-	-	(449)	-	(449)
Increase in value of life assurance policies in force (Note 22)	-	-	2.260	-	(2.260)	-
Transfer of realised profits on disposal of property	-	-	(1.107)	-	1.107	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(220)	-	-	(220)
Profit/(loss) recognised directly in equity	-	-	(1.098)	(449)	(1.153)	(2.700)
Profit after tax	-	-	-	-	38.529	38.529
Total profit/(loss) for the year	-	-	(1.098)	(449)	37.376	35.829
At 31 December 2004	232.385	238.955	56.918	(2.828)	33.683	559.113

Bank of Cyprus Group

Consolidated Cash Flow Statement

For the year ended 31 December 2005

		2005	2004
	Note	€000	€000
Net cash flow from operating activities	34	1.264.754	596.128
Cash flow from investing activities			
Purchases of investments			
- treasury bills		(62.044)	(296.808)
- debt securities		(1.035.297)	(1.179.547)
- equity shares		(224)	(1.095)
Proceeds from sale/redemption of investments			
- treasury bills		139.282	429.456
- debt securities		738.960	543.113
- equity shares		1.241	785
Interest on treasury bills		4.210	10.126
Interest on debt securities		69.002	44.546
Dividend income from equity shares		428	201
Purchase of property and equipment		(17.991)	(13.144)
Proceeds on disposal of property and equipment		1.437	4.182
Purchase of intangible assets		(2.967)	(3.327)
Proceeds on disposal of investment properties		895	-
Net cash flow used in investing activities		(163.068)	(461.512)
Cash flow from financing activities			
Issue of share capital		108.488	-
Issue of subordinated loan stock		-	30.000
Dividend payment		(14.362)	-
Interest on subordinated loan stock		(16.772)	(14.645)
Net cash flow from financing activities		77.354	15.355
Net increase in cash and cash equivalents for the year		1.179.040	149.971
Cash and cash equivalents			
At 1 January		1.601.133	1.451.611
Exchange adjustments		(70)	(449)
Net increase in cash and cash equivalents for the year		1.179.040	149.971
At 31 December	35	2.780.103	1.601.133

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 Bank of Cyprus Public Company Ltd (the “Company”) and the Group are stated below.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

All IFRS issued by the International Accounting Standards Board and effective at the time of preparing these consolidated financial statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of the International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement”. With Regulations 2086/2004 and 1864/2005, the European Commission requires the use, as of 1 January 2005, of IAS 39 (revised 2003 and amended 2005), with the exception of certain of the provisions relating to portfolio hedge accounting. Since the Group is not affected by these provisions, these consolidated financial statements comply with both the IFRS as adopted by the EU and the IFRS issued by the International Accounting Standards Board.

In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and of the Cyprus Stock Exchange Law and Regulations.

Furthermore the consolidated financial statements are drawn up in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Law and Regulations

The consolidated financial statements are presented in Cyprus pounds (C£) and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investment property, investments at fair value through profit or loss, available-for-sale investments, derivatives and designated hedged items in fair value hedges.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Bank of Cyprus Public Company Ltd and all its subsidiaries companies, which together are referred to as the ‘Group’. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

In order to reflect the different nature of the shareholders’ and policyholders’ interests in the long-term life assurance business, the value of long-term life assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

The financial statements of the subsidiaries are prepared for the same reporting year as for the holding company using the same accounting policies. All intercompany transactions and balances are eliminated on consolidation.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Changes in accounting policies and adoption of new/revised IFRS

The accounting policies that have been followed were the same as those followed in the previous year, except for the adoption by the Group of the new/revised IFRS as of 1 January 2005 and during the year 2005.

As of 1 January 2005, the following new/revised IFRS came into force:

- IAS 1 (revised 2003) Presentation of financial statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting policies, changes in accounting estimates and errors
- IAS 10 (revised 2003) Events after the balance sheet date
- IAS 16 (revised 2003) Property, plant and equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The effects of changes in foreign exchange rates
- IAS 24 (revised 2003) Related party disclosures
- IAS 27 (revised 2003) Consolidated and separate financial statements
- IAS 28 (revised 2003) Investments in associates
- IAS 31 (revised 2003) Interests in joint ventures
- IAS 32 (revised 2003 and amended 2005) Financial instruments: disclosure and presentation
- IAS 33 (revised 2003) Earnings per share
- IAS 36 (revised 2004) Impairment of assets
- IAS 38 (revised 2004) Intangible assets
- IAS 39 (revised 2003 and amended 2005) Financial instruments: recognition and measurement
- IAS 40 (revised 2003) Investment property
- IFRS 2 (issued 2004) Share-based payment
- IFRS 3 (issued 2004) Business combinations
- IFRS 4 (issued 2004) Insurance contracts
- IFRS 5 (issued 2004) Non-current assets held for sale and discontinued operations

In October 2004, the European commission adopted Regulation 2086/2004 with which it was endorsing IAS 39 (revised 2003), with the exception of provisions on the use of the fair value for measuring financial liabilities and certain of the provisions relating to portfolio hedge accounting. The International Accounting Standards Board published on 16 June 2005 amendments to IAS 39 (and to IAS 32), restricting the use of the fair value option and requiring additional disclosures. As a result, in November 2005 the European commission with Regulation 1864/2005 adopted the amended IAS 39 and IAS 32, but with the requirement for their retroactive application as from 1 January 2005. On the basis of the relevant transitional provisions, the Group adopted the amended IAS 39 and IAS 32 as from 1 January 2005.

The adoption of the above Standards did not have a material effect on the financial statements of the Group, except as set out below.

IAS 39 : Financial instruments: recognition and measurement

As of 1 January 2005, the Group adopted the revised IAS 32 'Financial instruments: disclosure and presentation' and IAS 39 'Financial instruments: recognition and measurement'. IAS 39 (revised and amended) allows the designation of any financial asset, upon initial recognition or when IAS 39 (revised and amended) is first applied, as a financial asset at fair value through profit or loss.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Changes in accounting policies and adoption of new/revised IFRS (continued)

Upon the initial adoption of IAS 39 (revised), the Group transferred certain investments in equity shares and debt securities from the available-for-sale category to the fair value through profit or loss category. In accordance with the transitional provisions of IAS 39 (revised), the transfer of investments was applied retrospectively.

The adjustments to the financial statements of the Group regarding the transfer of investments are shown in note 2.

IFRS 5 : Non-current assets held for sale and discontinued operations

On 1 January 2005, the Group adopted IFRS 5 'Non-current assets held for sale and discontinued operations'. The Standard requires that non-current assets or disposal groups be classified as held for sale if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less disposal costs. Netting of assets and liabilities is not permitted.

IFRS 5 provides that certain criteria be met for the classification of an asset or disposal group as held for sale. Certain assets owned by the Group meet the criteria of the Standard. These assets are included under 'Other assets' in the consolidated balance sheet (Note 20). Comparative amounts are not restated, in accordance with the provisions of IFRS 5.

IAS 36 Impairment of assets

On 1 January 2005, the Group adopted the revised IAS 36 'Impairment of assets' and IAS 38 'Intangible assets' and the new IFRS 3 'Business combinations', which were applied retrospectively. As of 1 January 2005, the book value of goodwill is not amortised but reviewed at least annually for impairment.

IFRS 4 : Insurance contracts

On 1 January 2005, the Group adopted IFRS 4 'Insurance contracts', which applies to all insurance contracts (including reinsurance contracts) issued by the Group and reinsurance contracts held by the Group. The application of IFRS 4 did not have a material effect on the financial statements of the Group.

Standards and Interpretations that are issued but have not yet come into effect

The Group has not adopted the following IFRS and Interpretations, which are issued but have not yet come into effect:

IFRS 6: Exploration for and evaluation of mineral resources

The Standard applies for annual periods beginning on or after 1 January 2006. The Standard is not relevant to the activities of the Group.

IFRS 7: Financial instruments: Disclosures

The Standard replaces IAS 30 and the disclosure requirements of IAS 32. The Standard is effective for annual periods beginning on or after 1 January 2007. The Group expects that the adoption of the Standard will not have a material effect on the financial statements other than the presentation of the additional disclosures required by IFRS 7 concerning financial instruments.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Standards and Interpretations that are issued but have not yet come into effect *(continued)*

Interpretation 4: Determining whether an arrangement contains a lease

The Interpretation is effective for annual periods beginning on or after 1 January 2006. The Interpretation specifies criteria for the determination of whether an agreement is or contains a lease and specifies the circumstances under which agreements that do not have the legal nature of a lease should be recognized according to IAS 17 "Leases". The adoption of the Interpretation is not expected to have material effect on the financial statements of the Group.

Interpretation 5: Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

The Interpretation is effective for annual periods beginning on or after 1 January 2006. The Interpretation clarifies the way of recognising participation in such funds. The Interpretation is not relevant to the operations of the Group.

Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, management makes the following judgments, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements:

Investments held to maturity

The Group follows the guidance of IAS 39 on classifying investments in financial assets with fixed or determinable payments and fixed maturity as held-to-maturity.

This classification requires significant judgment regarding the Group's intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances permitted by IAS 39 – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. In such a case, the change in the book value of these investments at 31 December 2005 would not be material.

Classification of investments at fair value through profit or loss

The Group follows the guidance in IAS 39 for the classification of financial assets at fair value through profit or loss.

The determination of the classification of investments in different portfolios in accordance with the Group's documented risk management strategy requires judgement. The Group has classified its portfolio of venture capital investments in this category, as it has invested in these assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. Other investments classified in this category represent investments, also managed on a total return basis, that the Group has the intention of selling.

Estimates

The key assumptions and other key sources of estimation uncertainty at the balance sheet date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are presented below:

Provisions for bad and doubtful debts

The Group reviews its loans portfolios for evidence that it will not be able to collect all amounts due from an individual loan or a portfolio of homogeneous loans. Evidence includes the customer's payment record, his overall financial position and the realisable value of any collateral. If such evidence exists, the recoverable amount is estimated and a provision is made for bad and doubtful debts and is charged in the income statement. The review of credit risk is continuous. The methodology and assumptions used for estimating the provision are reviewed regularly to reduce any differences between estimated and actual losses.

Fair value of treasury bills, debt securities, equities and derivative financial instruments

The fair value of treasury bills, debt securities, equities and derivative financial instruments that are not quoted in an active market is determined by using valuation models. These models are validated and periodically reviewed by qualified personnel.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Standards and Interpretations that are issued but have not yet come into effect *(continued)*

Fair value of treasury bills, debt securities, equities and derivative financial instruments (continued)

To the extent possible, models use observable data, however factors such as the determination of credit risk and volatilities require management to make estimates and assumptions. Changes in these estimates and assumptions about these factors could affect the reported fair value of such instruments.

Impairment of available for sale equity investments

Available for sale equity investments are measured at fair value with fair value changes taken to equity. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost (requires estimation). In such a case, the loss recognised in equity is transferred to the income statement.

This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence that significant changes with an adverse effect have taken place in the technological, market, economic or legal environment in which the investee operates.

Significant accounting judgments and estimates

Estimates

General insurance business

For general business insurance contracts estimates are made for the expected ultimate cost of claims reported and claims incurred but not yet reported at the balance sheet date. Claims estimates are based on past experience and market trends.

Life assurance business

For life assurance contracts, actuarial estimates are made in respect of the liabilities arising from death claims, based on standard international mortality tables that reflect historical mortality experience. Estimates are also made as to future investment income arising from assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes are reflected with adjustments to the liability.

For accident and health insurance contracts estimates are made for the expected ultimate cost of claims reported to the Group and claims incurred but not yet reported at the balance sheet date. Claims estimates are based on past experience and market trends.

Taxation

The Group operates and is therefore subject to taxation in various countries. Significant estimates are required in determining the provision for taxes at the balance sheet date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will impact the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

Interest in a joint venture

The Group has an interest in a joint venture. The Group recognizes its interest in the joint venture using proportional consolidation. The financial statements of the joint venture are prepared for the same reporting year using consistent accounting policies as the Company.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Foreign currency translation

The consolidated financial statements are presented in Cyprus pounds (C£), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Cyprus pounds at the rate of exchange ruling at the balance sheet date. All differences arising on translation are taken to the income statement, with the exception of differences on foreign currency liabilities that provide a hedge against a net investment in a foreign entity. These are taken directly to the exchange adjustments reserve until the disposal of the net investment, upon which they are transferred to the income statement.

The assets and liabilities of overseas subsidiaries and branches are translated to the presentation currency of the holding company (C£) at the rate of exchange ruling at the balance sheet date. The income statements of overseas subsidiaries and branches are translated using the average exchange rates for the period. The exchange differences arising on the translation are taken directly to the exchange adjustments reserve. In case of disposal of a foreign entity, accumulated exchange differences are transferred in the income statement as a component of the gain or loss on disposal.

Segmental reporting

The Group is organised by business segment, which is also the primary format for segmental reporting. Each business segment provides products or services, which are subject to risks and returns that are different to those of other business segments. The geographic segments cover products or services, which are subject to risks and returns that are different from those products and services provided in other economic environments.

Turnover

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

Interest, fees and commissions

Interest income is recognised in the income statement on an accruals basis.

Interest and other income from the following sources is not recognised in the income statement but is credited to a balance sheet suspense account: (a) advances that are more than six months in arrears and are not fully secured, (b) overdraft accounts that are in excess of their credit limit and are not fully secured at the date of calculation of the accrued interest, to the extent that the accrued interest or other income is not covered by the total of the amounts credited in the account during the previous six months, and (c) advances for which a provision has been made.

Interest and other income credited to a balance sheet suspense account, is transferred to the income statement only upon collection.

Fee and commission income is recognised on the basis of work done so as to match the cost of providing the service whereas those in respect of credit risk are recognised in the income statement, on a systematic basis over the period of the exposure.

Classification of insurance products

The Group issues only insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

Life assurance business

Income from long-term life assurance business in the income statement, including the provision of life, accident and health insurance, comprises: (a) gross insurance premiums net of reinsurance premiums, management fees, net claims, commissions to insurance intermediaries and the adjustments to insurance contract obligations, and (b) the change in the present value of future income from insurance contracts in force. The change in the present value of future in-force insurance business income is determined on a post tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

Staff costs and other operating expenses for life assurance business are included in the relevant expense captions of the income statement.

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

Investment management fees and other expenses charged to the long-term assurance funds and the cost of death cover are recognised in line with the relevant insurance premiums and are in accordance with the terms of the relevant insurance contracts.

Commissions to insurance intermediaries are recognised on an accruals basis, in accordance with the terms of the contracts with intermediaries.

Life assurance contract liabilities are determined on the basis of an actuarial valuation and for unit linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis. Accident and health insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not.

General insurance business

Income from general insurance business in the income statement consists of gross insurance premiums net of reinsurance premiums, net claims, commissions to insurance intermediaries and the adjustments to insurance contracts obligations. Staff costs and other operating expenses are included in the relevant expense captions of the income statement.

Premium income from insurance contracts (including reinsurance contracts) issued by the Group is recognised when due, in accordance with the terms of the relevant insurance contracts. Assigned reinsurance premiums are recognised in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts held by the Group.

Provision is made for the estimated cost of claims reported but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims reported but not settled is made on a case by case basis after taking into consideration all known facts, recent past experience and assumptions regarding the future outcome of outstanding cases. The provision for claims incurred but not reported at the balance sheet date, are estimated in accordance with the relevant legislation.

Recognition of income and expenses on sales of property

Income and expenses on sales of property for which construction has been completed are recognised in the income statement on the date of sale.

Property sold prior to completion is accounted for using the percentage of completion method, when the risks and rewards arising from the sales contract are transferred to the buyer and the outcome of the project can be reliably measured. Contract revenue is matched with the contract costs resulting in reporting net income which can be attributed to the proportion of the work completed, calculated according to the ratio of actual contract costs incurred to the total estimated cost of completion of each contract. Costs incurred for property under construction for which no corresponding income is recognised, are classified as "stock of property held for sale" and are included in the balance sheet under "other assets".

Bank of Cyprus Group

Summary of Significant Accounting Policies

Loans and advances to customers

Loans and advances, originated by providing cash directly to the borrowers, are measured initially at fair value including arrangement costs. Loans and advances are subsequently measured at amortised cost using the effective yield method.

Loans and advances to customers are stated net of provisions for bad and doubtful debts. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

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

A loan is considered as impaired when management determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms, unless such loans are secured or other factors exist where the Group expects that all amounts due will be received.

When a loan has been classified as impaired, the carrying amount of the loan is reduced to the estimated recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loan.

For certain homogeneous loan portfolios, such as consumer loans, provisions are calculated after a collective assessment of the whole portfolio. During the evaluation of the portfolio a number of factors are taken into consideration such as the level of watch list or potential problem debts, the time period for which amounts are overdue, the prevailing economic climate and prior period loss rates.

Impaired loans are monitored continuously and are reviewed for provision purposes every six months. Any subsequent changes to the estimated recoverable amounts and timing of the expected future cash flows, are compared to the prior estimates and any difference arising results in a corresponding charge/credit in the income statement. A provision for an impaired loan is reversed only when the credit quality of the customer has improved to such an extent that there is reasonable assurance that all principal and interest according to the original terms of the loan will be collected timely.

Leasing and hire purchase transactions

When assets are held subject to a finance lease or hire purchase agreements, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Income from finance leases and hire purchase agreements is recognised over the term of the lease using the sum of the digits method.

Investments

All investments are initially measured at fair value including acquisition costs associated with the investment except for investments classified at fair value through profit or loss.

Investments are classified as (a) held-to-maturity, (b) available-for-sale, and (c) at fair value through profit or loss. Management determines the appropriate classification at the time of purchase.

All regular way purchases and sales of investments are recognised at the 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 contracts until settlement.

Investments are derecognised when the contractual rights to the cash flows expire or when the Group transfers substantially all the risks and rewards of ownership.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Investments (continued)

Interest earned on treasury bills and debt securities is reported as interest income in the period in which the investments are held. Dividend income from equity shares is recognised when the right to receive it is established.

Investments at fair value through profit or loss

Investments classified as investments at fair value through profit or loss include investments held-for-trading and other investments.

Investments held-for-trading are those which: (a) are acquired or incurred principally for the purpose of sale or repurchase in the near future, or (b) are part of a portfolio of separately identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of short term profit taking.

All other investments are classified at fair value through profit or loss upon initial recognition, when they are collectively managed, their performance is assessed according to their fair value in accordance with verified risk or investment management strategy and the information regarding this group of investments is provided internally to the administrative officers of the Group.

Investments at fair value through profit or loss are measured at fair value, based on market prices for listed securities. The fair value of unlisted securities is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, conditions and prospects compared to those of similar companies for which quoted market prices are available. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are recognised in the income statement.

Investments available-for-sale

Investments intended either to be held until maturity or to be sold in response to changes in interest rates, or market risks, liquidity requirements or changes to exchange rates are classified as available-for-sale.

Available-for-sale investments are measured at fair value, based on market prices for listed securities. The fair value of unlisted securities is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, conditions and prospects compared to those of similar companies for which quoted market prices are available.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity. In case of sale or impairment, the gains or losses recognised in equity is transferred to the income statement.

Investments available-for-sale in equity shares are impaired if the decline in their fair value is significant and prolonged. The amount of the impairment loss for treasury bills and debt securities is the difference between cost/impaired value and fair value.

Impairment losses on investments in equity shares are not reversed in the income statement. Potential increases in the fair value following impairment are recognised in the revaluation reserves.

Investments held-to-maturity

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

Held-to-maturity investments are carried at amortised cost, which is calculated by taking into account acquisition cost, any unamortised discount or premium and any provision for impairment.

Investments are impaired when their recoverable amount is lower than their carrying amount. Estimates are used to determine the recoverable amount, which is based on projected cash flows.

Impairment losses on investments in treasury bills and debt securities previously recognised in the income statement are reversed in the income statement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Long-term life assurance business

The Group accounts for its interest in long-term life assurance business using the embedded value basis of accounting.

The embedded value comprises the net assets of the life assurance subsidiary, including any surplus retained within the long-term business funds which could be transferred to the shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting the future surpluses and other net cash flows attributable to the shareholders arising from business written at the balance sheet date, using appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the shareholders' overall risk premium attributable to this business.

The assets held within the long-term business funds are legally owned by the life assurance company, however, the shareholders will only benefit from ownership of these assets to the extent that surpluses are declared or from other cash flows attributable to the shareholders. In order to reflect the different nature of these assets, they are classified separately on the consolidated balance sheet as "Life assurance business net assets attributable to policyholders" while the corresponding liability to the policyholders is shown as "Life assurance business liabilities to policyholders". Investments held within the long-term insurance business funds are measured on the following basis: equity shares and debt securities held for unit linked funds are measured at fair value in accordance with policy terms at fair value, investment property is measured at fair value based on valuations carried out by independent valuers at the balance sheet date and mortgages and other loans are measured at amortised cost less any provision for impairment.

Property, equipment and computer software

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

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers. Depreciation is calculated on the revalued amount less the estimated residual value of buildings on a straight line basis over the estimated useful life of 35 to 67 years. On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to retained earnings.

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

Equipment and computer software are measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 5 to 10 years. Depreciation of computer software is calculated on a straight line basis over its estimated useful life of 3 to 5 years.

Investment property

Investment property is measured at fair value as at the balance sheet date. Gains or losses arising from changes in fair value are included in the income statement in the period in which they arise. The valuations are carried out by independent qualified valuers. Investment property also includes property acquired in the process of debt settlement.

The property revaluation reserve includes revaluation of property initially used by the Group operations which was subsequently transferred to investment property.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Goodwill and intangible assets

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired enterprise at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment. Goodwill is reviewed for impairment on an annual basis or earlier when events or changes in circumstances indicate impairment.

Licence fees and goodwill arising on insurance portfolio acquisition are measured at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over the estimated useful life of the asset, of 2 to 10 years.

At each balance sheet date, license fees and goodwill on insurance portfolio acquisition are reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. If the carrying amount exceeds the recoverable amount then the licence fees and goodwill arising on insurance portfolio acquisition are impaired to the recoverable amount.

Subordinated loan stock and debt securities in issue

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

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

Interest on subordinated loan stock and debt securities in issue is included in interest expense.

Share capital

Issue costs incurred in the process of share capital increase are deducted from equity.

Provisions for pending litigation or claims

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

Derivatives and hedge accounting

Derivative financial instruments include forward foreign exchange contracts, currency and interest rate swaps, equity linked swaps, options and other derivative financial instruments.

Derivatives are recognised in the balance sheet at fair value. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models, as appropriate.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivatives held-for-trading are recognised in the income statement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

Derivatives and hedge accounting *(continued)*

The Group also uses derivative financial instruments to hedge risks associated with interest rate and exchange rate fluctuations. The Group applies either fair value or cash flow hedge accounting for derivatives when the specified criteria for hedge accounting are met. Where hedge accounting criteria are not met, gains or losses arising from changes in the fair value of derivatives are recognised in the income statement.

In relation to fair value hedges which meet the criteria for hedge accounting, gains or losses from the revaluation of the hedging instrument at fair value is recognised in the income statement.

Gains or losses on the revaluation of the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and are also recognised in the income statement.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the revaluation of the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is recognised in the income statement. For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged transaction affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, is terminated or exercised, or the hedge no longer qualifies for hedge accounting. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

In some cases, a derivative may be part of a hybrid instrument that includes both a derivative and a host contract. This is known as an embedded derivative. An embedded derivative is separated from the host contract and accounted for as a stand alone derivative instrument if and only if the following conditions are met: (a) the host contract is not carried at fair value with changes in fair value reported in the income statement, (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and (c) the embedded derivative meets the definition of a derivative.

Offsetting financial instruments

Financial assets and financial liabilities may be offset and the net amount reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Retirement benefits

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

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

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

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

Taxation

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

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

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

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

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

Cash and cash equivalents

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

Comparative amounts

The comparative amounts were restated to conform with changes in the presentation of the results and balance sheet items of the Group and in addition as stated in Note 2 due to the adoption of the revised and amended IAS 32 “Financial Instruments: disclosure and presentation” and IAS 39 “Financial instruments: recognition and measurement”.

Bank of Cyprus Group

Notes to the Financial Statements

1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Limited (the “Company”) for the year ended 31 December 2005 were authorised for issue by a resolution of the Board of Directors on 27 February 2006.

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

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

2. Changes in accounting policies

As of 1 January 2005, the Group adopted the revised and amended IAS 32 ‘Financial instruments: disclosure and presentation’ and IAS 39 ‘Financial instruments: recognition and measurement’. The revised and amended IAS 39 allows the designation of financial assets upon initial recognition or when IAS 39 (revised and amended) is first applied, as a financial asset at fair value through profit or loss.

Upon the initial application of IAS 39 (revised and amended), the Group transferred certain investments in equity shares and debt securities from the available-for-sale category to the fair value through profit or loss category. In accordance with the transitional provisions of IAS 39 (revised and amended), the transfer of investments is applied retrospectively. The value of the available-for-sale investments which was transferred to the fair value through profit or loss category on 1 January 2004 and 31 December 2004 amounted to C£25.003 thousand and C£23.296 thousand respectively.

As a result of the transfer of investments, the consolidated financial statements of the Company were restated as follows:

	<i>2004</i>
	<i>C£000</i>
Profit after tax, as previously reported	37.508
<i>Effect on:</i>	
- net losses on sale and revaluation of financial instruments	(1.789)
- provision for impairment of available-for-sale investments	2.810
Profit after tax, as restated	38.529
Increase in basic and diluted earnings per share (cent)	0,2

The restatement of assets is set out in Notes 14 and 17. The restatement of reserves is set out in the Consolidated Statement of Changes in Equity. The transfer of investments did not have any effect on equity as at 31 December 2004.

Bank of Cyprus Group

Notes to the Financial Statements

3. Segmental analysis

The Group has three principal areas of business activity: banking and financial services, life and general insurance business and property and hotel business.

The Group's business is mainly conducted in three geographic segments: (a) Cyprus, (b) Greece, and (c) other countries, primarily the United Kingdom and Australia.

Generally, pricing between the different segments is based on market rates.

The analyses by geographic segments are based on the location of the office recording the transaction.

Even though the activities of some of the Group companies are interdependent, the analyses by business activity and geographic segment are presented without adjustments for the cost of the net investment, the allocation of the benefit of earnings on the Group's capital and for Group head office expenses, as such adjustments would inevitably be subjective.

The primary reporting format is by business activity.

Business activity

	Banking and financial services	Insurance business	Property and hotel business	Total
	C€000	C€000	C€000	C€000
2005				
Turnover	720.199	70.904	6.152	797.255
Profit before tax				
As per the income statement	73.544	14.080	2.934	90.558
Provisions for bad and doubtful debts	91.087	-	-	91.087
Profit before provisions	164.631	14.080	2.934	181.645
Assets	12.461.745	327.826	33.857	12.823.428
Inter-segment assets				(21.239)
Total assets				12.802.189
Liabilities	11.760.253	277.935	13.499	12.051.687
Inter-segment liabilities				(11.149)
Total liabilities				12.040.538
Capital expenditure	20.038	856	64	20.958
Depreciation and amortisation	18.649	769	181	19.599

Bank of Cyprus Group

Notes to the Financial Statements

3. Segmental Analysis (continued)

Business activity (continued)

	Banking and financial services	Insurance business	Property and hotel business	Total
	C€000	C€000	C€000	C€000
2004				
Turnover	621.282	65.632	4.497	691.411
Profit before tax				
As per the income statement	40.161	9.596	1.180	50.937
Provision for impairment of available-for-sale investments	3.031	86	-	3.117
Provisions for bad and doubtful debts	83.695	-	-	83.695
Profit before provisions	126.887	9.682	1.180	137.749
Assets	9.960.042	280.737	31.045	10.271.824
Inter-segment assets				(11.841)
Total assets				10.259.983
Liabilities	9.468.322	234.385	11.416	9.714.123
Inter-segment liabilities				(13.253)
Total liabilities				9.700.870
Capital expenditure	16.006	389	76	16.471
Depreciation and amortisation	18.619	655	204	19.478

Bank of Cyprus Group

Notes to the Financial Statements

3. Segmental analysis (continued)

Geographic segments

	Cyprus	Greece	Other countries	Total
2005	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Turnover	505.331	256.652	60.863	822.846
Inter-segment turnover, mainly interest	(16.429)	(6.644)	(2.518)	(25.591)
Turnover with third parties	488.902	250.008	58.345	797.255
Assets	8.012.288	4.741.720	1.064.634	13.818.642
Inter-segment assets				(1.016.453)
Total assets				12.802.189
Capital expenditure	5.626	13.672	1.660	20.958

	Cyprus	Greece	Other countries	Total
2004	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Turnover	437.956	217.723	56.441	712.120
Inter-segment turnover, mainly interest	(14.568)	(4.319)	(1.822)	(20.709)
Turnover with third parties	423.388	213.404	54.619	691.411
Assets	5.651.794	4.276.576	1.017.766	10.946.136
Inter-segment assets				(686.153)
Total assets				10.259.983
Capital expenditure	8.119	7.604	748	16.471

Bank of Cyprus Group

Notes to the Financial Statements

4. Interest income

	2005	2004
	C£000	C£000
Loans and advances to customers	455.153	410.417
Placements with banks and central banks	76.940	47.204
Treasury bills	4.210	10.126
Debt securities	69.002	44.546
	605.305	512.293

5. Interest expense

	2005	2004
	C£000	C£000
Customer deposits and other accounts	297.768	244.810
Amounts due to banks	4.625	3.027
Subordinated loan stock	16.772	14.645
Debt securities in issue	6.374	3.931
	325.539	266.413

6. Net gains/(losses) on sale and change in fair value of financial instruments

	2005	2004
	C£000	C£000
Profits/(losses) from trading portfolio		
- equity shares	683	(510)
- debt securities	4.254	(1.605)
- derivatives	(1.216)	(768)
Gains/(losses) from investments at fair value through profit or loss		
- equity shares	(1.243)	(1.170)
- debt securities	20	(619)
Profit from sale of available-for-sale investments	3.009	241
Gains/(losses) change in fair value of financial instruments designated as fair value hedges	515	(136)
	6.022	(4.567)

Bank of Cyprus Group

Notes to the Financial Statements

7. Income from insurance business

	2005	2004
	C£000	C£000
Life assurance business	14.465	10.653
General insurance business	8.910	7.453
	23.375	18.106

	2005		2004	
	Life Assurance	General Insurance	Life Assurance	General Insurance
Analysis of income	C£000	C£000	C£000	C£000
Gross premiums	42.545	28.359	41.816	23.816
Reinsurance premiums	(4.601)	(13.580)	(4.225)	(11.267)
Income and profits from investments	39.001	18	7.585	12
Income from reinsurance and other income	1.965	3.900	1.362	3.440
	78.910	18.697	46.538	16.001
Gross payments to policyholders	(27.060)	(9.335)	(26.662)	(6.911)
Reinsurers' share of payments to policyholders	1.920	3.890	1.288	2.140
Gross adjustments to insurance contracts liabilities	(37.187)	(8.477)	(8.589)	(2.007)
Reinsurers' share of adjustment to insurance contracts liabilities	895	6.688	1.445	1.069
Commissions paid to agents and other production cost	(5.457)	(2.553)	(4.756)	(2.839)
	12.021	8.910	9.264	7.453
Change in the present value of future income from the in-force business	2.444	-	1.389	-
Income as per the income statement	14.465	8.910	10.653	7.453

Income and expenses as presented below for life assurance business are included in the relevant captions of the consolidated income statement:

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7. Income from insurance business (continued)

	2005		2004	
	Life Assurance	General Insurance	Life Assurance	General Insurance
Interest income	108	697	103	693
Gains/(losses) from change in fair value of financial instruments and other income	372	181	(267)	739
Staff costs	(2.814)	(3.925)	(2.435)	(3.627)
Other operating expenses	(2.013)	(1.901)	(1.963)	(1.667)

8. Other income

	2005	2004
	C£000	C£000
Dividend income from equity shares	428	201
Profit on disposal of property held for sale	3.058	2.359
Rental income from investment property	397	35
Other income	1.999	2.125
	5.882	4.720

Other income includes C£24 thousand (2004:nil) profit on disposal of assets held for sale.

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9. Staff costs

	2005	2004
	C£000	C£000
Salaries and employer's contribution	122.535	113.976
Retirement benefit plan costs	28.796	24.312
	151.331	138.288

The number of persons employed by the Group as at 31 December 2005 was 6.065 (2004: 5.890).

Retirement benefit plan costs

	2005	2004
	C£000	C£000
<i>Programmes:</i>		
- defined benefit plans	24.497	21.953
- defined contribution plans	618	394
- early retirement plans	3.681	1.965
	28.796	24.312

The Group operates several retirement benefit plans covering substantially all its employees. The majority of the plans are funded and their assets are held in separately administered funds.

Cyprus

The main retirement scheme for the Group's permanent employees in Cyprus covers 52,2% of total Group staff and is a defined benefit plan. The plan provides for lump sum payment on retirement or death in service of up to 80 monthly salaries depending on the length of service. A small number of staff have 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 main plan is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2005	2004
Discount rate	5,0%	6,0%
Expected rate of return on plan assets	6,0%	6,0%
Future salary increases	6,5%	7,5%

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Notes to the Financial Statements

9. Staff costs (continued)

Greece

The personnel of the Group in Greece (39,9% of the Group personnel) are covered by two defined benefit schemes and one defined contribution scheme.

For all personnel there is a programme of compensation in case of dismissal and lump sum payment at normal retirement, under a defined benefit scheme at rates determined by the Greek labour law.

For a number of employees (19,7% of the Group personnel) there is a defined benefit scheme. This scheme is closed to new employees from 1 January 2003. The scheme provides for the payment of either lump sum at retirement of up to 50 monthly salaries depending on the length of service. The lump sum may be received by way of a pension for life.

The third scheme which is open to employees recruited after 1 January 2003, is a defined contribution scheme.

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

	2005	2004
Discount rate	3,7%	4,0%
Expected rate of return on plan assets	3,7%	4,0%
Future salary increases	5,0%	5,0%

Other countries

The terms of the retirement plans of employees in 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 defined benefit plans of the Group are as set out below:

	2005	2004
	C£000	C£000
Net present value of funded obligations	262.582	233.640
Fair value of plan assets	(193.628)	(129.508)
	68.954	104.132
Net present value of unfunded obligations	2.114	2.176
Net Present value of obligations less fair value of plan assets	71.068	106.308
Unrecognised actuarial losses	(69.903)	(103.846)
Unrecognised actuarial gains	2.242	-
Net liability of retirement benefit plans recorded on balance sheet (Note 25)	3.407	2.462

The cumulative unrecognised actuarial losses resulted mainly from changes in the discount rate and from the reduced actual return of the plan assets in prior years.

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Notes to the Financial Statements

9. Staff costs (continued)

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

	2005	2004
	C£000	C£000
Ordinary shares	96.760	45.877
Loan stock	12.822	12.822
	109.582	58.699

The amounts recognised in the income statement in relation to the defined benefit plans are as follows:

	2005	2004
	C£000	C£000
Current service cost	13.559	12.251
Interest expense	14.172	11.811
Expected return on plan assets	(8.197)	(6.581)
Actuarial loss	4.963	4.472
	24.497	21.953

The actual return on plan assets for year 2005 was C£51.260 thousand (2004: £8.909 thousand).

Medical plan costs

The Group operates a number of medical plans that cover almost all of its employees. All the plans are defined contribution schemes except for the plan that covers the personnel of the Group in Greece which is a defined benefit scheme. At the balance sheet date adequate provision was made for all the liabilities of the Group.

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10. Profit before tax

Profit before tax is stated after crediting/(charging) the following:

	2005	2004
	C£000	C£000
Gains/(losses) from change in fair value of investment property	87	(328)
Profit on disposal of property and equipment and write-offs of intangible assets	270	562
Operating lease rentals for land and buildings	(8.077)	(7.444)
Depreciation of property and equipment	(14.270)	(13.664)
Amortisation of goodwill arising on consolidation of subsidiary company	-	(117)
Amortisation of other intangible assets	(5.329)	(5.697)
Auditors' remuneration	(426)	(451)

11. Tax

	2005	2004
	C£000	C£000
Corporation tax:		
- Cyprus	2.856	1.491
- overseas	11.673	11.100
Cyprus defence contribution	43	39
Deferred tax	3.814	(1.764)
Adjustments for prior year taxes	(245)	1.542
	18.141	12.408

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Notes to the Financial Statements

11. Tax (continued)

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

	2005	2004
	C£000	C£000
Profit before tax	90.558	50.937
Tax at the normal tax rates in Cyprus	9.089	7.476
Tax effect of:		
- expenses not deductible for tax purposes	863	1.093
- income not subject to tax	(787)	(1.650)
- difference between overseas tax rates and Cyprus tax rates	9.221	4.952
	18.386	11.871
Effect of the decrease of Cyprus corporation tax rates from 15% to 10% after 2004	-	(1.005)
Adjustments for prior year taxes	(245)	1.542
	18.141	12.408

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. For life assurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution of 3% is payable on rental income.

At 31 December 2005 the accumulated tax losses amount to C£6.659 thousand (2004: losses of C£21.665 thousand). Tax losses were partly utilised against the taxable profit of year 2005. It is expected that the remaining tax losses will be utilised against future taxable profits.

An additional tax charge of about C£5,6 million will arise in the event of distribution of the total undistributed profits of overseas branches.

Deferred tax asset

The deferred tax asset is attributable to the following items:

	2005	2004
	C£000	C£000
Difference between wear and tear allowances and depreciation	187	(1.224)
Property revaluation	(113)	(3.415)
Investment revaluation	-	505
Other temporary differences	2.007	4.434
Unutilised tax losses carried forward	100	1.709
	2.181	2.009

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11. Tax (continued)

Deferred tax liability

The deferred tax liability is attributable to the following items:

	2005	2004
	C£000	C£000
Difference between wear and tear allowances and depreciation	1.518	192
Property revaluation	6.836	4.075
Investment revaluation	1.156	1.130
Other temporary differences	(1.362)	887
Unutilised tax losses carried forward	-	(23)
	8.148	6.261

12. Basic and diluted earnings per share

	2005	2004
Profit after tax (C£ thousand)	72.417	38.529
Weighted average number of shares in issue during the year (thousand)	502.229	498.345
Basic and diluted earnings per share (cent)	14,4	7,7

At 31 December 2005 and 2004 there were no potentially dilutive ordinary shares and as a result basic and diluted earnings per share are the same.

The weighted average number of shares for the year ended 31 December 2004 has been adjusted to reflect the bonus element of the issue of shares under the Dividend Reinvestment Plan resulting from the dividend payment for year 2004 and of the rights issue in December 2005.

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

	2005	2004
	£000	£000
Cash	61.857	49.888
Balances with central banks	549.824	389.426
	611.681	439.314
Placements with banks	2.578.300	1.511.577

Balances with central banks include obligatory deposits for liquidity purposes which amount to C£353.376 thousand (2004: C£343 268 thousand).

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Notes to the Financial Statements

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

Analysis of the above figures per maturity date and per currency is shown in Note 37. Interest on the interbank placements and takings is based on the interbank rate of the relevant term and currency.

14. Investments at fair value through profit or loss

	2005	2004
	C£000	C£000
Trading investments	75.127	72.190
Investments at fair value through profit or loss	14.204	23.296
	89.331	95.486
Trading investments		
Debt securities	72.366	67.980
Equity shares	2.186	1.906
Mutual Funds	575	2.304
	75.127	72.190
Debt securities		
Cyprus government	71.805	67.442
Local authorities	278	280
Cyprus public companies	283	258
	72.366	67.980
<i>Repayable</i>		
Between one and five years	72.366	67.868
After five years	-	112
	72.366	67.980
Listed on the Cyprus Stock Exchange	72.088	67.700
Unlisted – certificates of deposit, banks and local authorities bonds	278	280
	72.366	67.980
Equity Shares		
Listed on the Cyprus Stock Exchange	2.143	1.864
Unlisted	43	42
	2.186	1.906
Investments at fair value through profit or loss (upon the adoption of IAS 39 (revised))		
Debt securities – listed	856	9.377
Equity shares - unlisted	13.348	13.919
	14.204	23.296

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Notes to the Financial Statements

14. Investments at fair value through profit or loss (continued)

As mentioned in note 2, upon the initial application of IAS 39 (revised and amended), the Group transferred certain investments in equity shares and debt securities from the available-for-sale category to the fair value through profit or loss category. In accordance with the transitional provisions of IAS 39 (revised and amended), the transfer of investments is applied retrospectively. The value of the available-for-sale investments which was transferred to the fair value through profit or loss category on 1 January 2004 and 31 December 2004 amounted to C£25.003 thousand and C£23.296 thousand respectively.

15. Loans and advances to customers

	2005	2004
	C£000	C£000
Loans and other advances	6.638.611	5.808.403
Hire purchase and finance lease debtors (Note 16)	759.410	641.883
Gross loans and advances to customers	7.398.021	6.450.286
Provisions for bad and doubtful debts	(413.810)	(471.034)
	6.984.211	5.979.252
<i>By economic activity</i>		
Trade	1.197.265	1.068.278
Manufacturing	390.674	374.669
Tourism	692.284	581.679
Property and construction	999.132	818.393
Personal, home loans and professional	3.725.156	3.227.385
Other sectors	393.510	379.882
	7.398.021	6.450.286
<i>By geographical area</i>		
Cyprus	3.548.101	3.220.243
Greece	3.140.873	2.594.527
United Kingdom	562.367	522.527
Australia	146.680	112.989
	7.398.021	6.450.286

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Notes to the Financial Statements

15. Loans and advances to customers *(continued)*

Provisions for bad and doubtful debts and suspended income

	Provisions	Suspended income	Total
	C£000	C£000	C£000
2005			
At 1 January	337.565	133.469	471.034
Exchange adjustments	(798)	(130)	(928)
Applied in writing off advances	(138.161)	(41.507)	(179.668)
Suspended income for the year net of current year's collections	-	49.263	49.263
Collection of prior years' suspended income	-	(19.763)	(19.763)
Collection of loans previously written off	2.785	-	2.785
Charge for the year	91.087	-	91.087
At 31 December	292.478	121.332	413.810
2004			
At 1 January	287.484	121.755	409.239
Exchange adjustments	(730)	(135)	(865)
Applied in writing off advances	(32.884)	(18.819)	(51.703)
Suspended income for the year net of current year's collections	-	42.432	42.432
Collection of prior years' suspended income	-	(11.764)	(11.764)
Charge for the year	83.695	-	83.695
At 31 December	337.565	133.469	471.034

Loans and advances include loans and advances net of provisions and suspended income of C£293.782 thousand (2004: C£343.336 thousand) for which income is suspended.

The fair value of loans and advances is approximately equal to the amount shown on the balance sheet after the deduction of the provisions for bad and doubtful debts and suspended income.

16. Hire purchase and finance lease debtors

	2005	2004
	C£000	C£000
Gross investment in hire purchase and finance leases	915.274	786.016
Unearned finance income	(155.864)	(144.133)
Present value of hire purchase and finance lease payments	759.410	641.883
<i>Repayable</i>		
Within one year	167.866	110.536
Between one and five years	412.411	541.685
After five years	334.997	133.795
Gross investment in hire purchase and finance leases	915.274	786.016
<i>Repayable</i>		
Within one year	167.567	110.115
Between one and five years	334.670	436.527
After five years	257.173	95.241
Present value of hire purchase and finance lease payments	759.410	641.883

The provisions for bad and doubtful debts relating to hire purchase and finance lease debtors at 31 December 2005 was C£36.797 thousand (2004: C£32.453 thousand) and are included in the total provisions for bad and doubtful debts (Note 15).

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

Under finance lease contracts: (a) the lessee takes over the items under the lease for the rental period and makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) the rentals and other amounts payable are subject to interest and include leasing fees and Value Added Tax, (c) the lessee undertakes to maintain the items in good condition and to compensate the owner for any damage or loss incurred, and (d) upon the expiry of the contract, the lessee can either return the items to their owner or continue to pay a nominal annual fee in exchange for the right to continue to use the items.

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Notes to the Financial Statements

17. 17. Investments available-for-sale and held-to-maturity

	Available-for-sale		Held-to-maturity		Total	
	2005	2004	2005	2004	2005	2004
	€000	€000	€000	€000	€000	€000
Treasury bills	63.940	34.335	-	102.941	63.940	137.276
Debt securities	1.860.419	1.369.795	2.573	168.693	1.862.992	1.538.488
Equity shares	18.329	14.193	-	-	18.329	14.193
	1.942.688	1.418.323	2.573	271.634	1.945.261	1.689.957
Treasury bills						
Cyprus government	63.940	23.939	-	102.941	63.940	126.880
Other governments	-	10.396	-	-	-	10.396
	63.940	34.335	-	102.941	63.940	137.276
Debt securities						
Cyprus government	454.917	227.080	-	-	454.917	227.080
Other governments	400.758	401.148	-	-	400.758	401.148
Local authorities	984	879	-	-	984	879
Banks and other organisations	998.704	739.404	2.573	168.693	1.001.277	908.097
Cyprus public companies	5.056	1.284	-	-	5.056	1.284
	1.860.419	1.369.795	2.573	168.693	1.862.992	1.538.488
<i>Repayable</i>						
Within one year	211.261	78.968	-	168.436	211.261	247.404
Between one and five years	1.235.979	1.206.542	2.573	257	1.238.552	1.206.799
After five years	413.179	84.285	-	-	413.179	84.285
	1.860.419	1.369.795	2.573	168.693	1.862.992	1.538.488
Listed on the Cyprus Stock Exchange	448.388	224.124	-	-	448.388	224.124
Listed on European and U.S. stock exchanges	1.410.718	1.144.154	2.573	257	1.413.291	1.144.411
Unlisted – certificates of deposits, banks and local authorities bonds	1.313	1.517	-	168.436	1.313	169.953
	1.860.419	1.369.795	2.573	168.693	1.862.992	1.538.488
<i>Geographical dispersion by country of issuer</i>						
Cyprus	461.286	229.544	-	-	461.286	229.544
Greece	195.977	271.404	-	-	195.977	271.404
United Kingdom and Ireland	251.967	186.522	2.315	12.635	254.282	199.157
France	172.496	91.918	-	35.801	172.496	127.719
Germany	111.397	58.562	258	78.042	111.655	136.604
Other European countries	323.607	258.182	-	42.215	323.607	300.397
U.S.A. and Canada	211.379	154.448	-	-	211.379	154.448
Australia	94.738	83.725	-	-	94.738	83.725
Other countries	4.271	4.244	-	-	4.271	4.244
Multinational organisations	33.301	31.246	-	-	33.301	31.246
	1.860.419	1.369.795	2.573	168.693	1.862.992	1.538.488
Equity shares						
Listed on the Cyprus Stock Exchange	17.089	12.061	-	-	17.089	12.061
Listed on European stock exchanges	741	1.583	-	-	741	1.583
Unlisted	499	549	-	-	499	549
	18.329	14.193	-	-	18.329	14.193

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Notes to the Financial Statements

17. Investments available-for-sale and held-to-maturity (continued)

Treasury bills and debt securities

The movement for the year 2005 in investments in treasury bills and debt securities is summarised below:

	Treasury bills		Debt securities	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
	C£000	C£000	C£000	C£000
At 1 January 2005, as previously reported	34.335	102.941	1.379.172	168.693
Transfer to investments at fair value through profit or loss (Note 2)	-	-	(9.377)	-
At 1 January 2005, as restated	34.335	102.941	1.369.795	168.693
Exchange adjustments	250	-	37.373	16.590
Additions	62.044	-	978.955	2.379
Disposals	(10.392)	-	(472.188)	-
Redemptions	(25.000)	(103.890)	(81.002)	(186.906)
Gains from change in fair value	478	-	31.635	-
Amortisation of premiums/discounts	2.225	949	(4.149)	1.817
At 31 December 2005	63.940	-	1.860.419	2.573

Gains from change in fair value amounting to C£2.026 thousand, relate to debt securities that are hedged items in a fair value hedge and are included in the income statement.

At 31 December 2004 held-to-maturity treasury bills include obligatory placements with Central Bank of Cyprus for liquidity purposes of C£38.890 thousand.

The fair value of held-to-maturity investments is summarised below:

	2005	2004
	C£000	C£000
Treasury bills	-	103.022
Debt securities	2.582	168.632
	2.582	271.654

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Notes to the Financial Statements

17. Investments available-for-sale and held-to-maturity (continued)

Equity shares

The movement for the year 2005 in investments in equity shares is summarised below:

	C£000
At 1 January 2005, as previously reported	28.112
Transfer to investments at fair value through profit or loss (Note 2)	(13.919)
At 1 January 2005, as restated	14.193
Exchange adjustments	(4)
Additions	224
Disposals	(1.156)
Gains from change in fair value	5.072
At 31 December 2005	18.329

18. Property and equipment

	Property	Equipment	Total
2005	C£000	C£000	C£000
Net book value at 1 January	133.888	23.643	157.531
Exchange adjustments	(409)	(12)	(421)
Additions	11.865	6.126	17.991
Disposals and write offs	(903)	(264)	(1.167)
Charge for the year	(6.540)	(7.730)	(14.270)
Net book value at 31 December	137.901	21.763	159.664

At 1 January 2005			
Cost or valuation	159.029	80.988	240.017
Accumulated depreciation	(25.141)	(57.345)	(82.486)
Net book value	133.888	23.643	157.531

At 31 December 2005			
Cost or valuation	169.464	75.513	244.977
Accumulated depreciation	(31.563)	(53.750)	(85.313)
Net book value	137.901	21.763	159.664

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Notes to the Financial Statements

18. Property and equipment (continued)

	Property	Equipment	Total
2004	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Net book value at 1 January	136.907	25.861	162.768
Exchange adjustments	(440)	(74)	(514)
Additions	7.125	6.019	13.144
Transfer to investment property	(640)	-	(640)
Disposals and write offs	(3.092)	(471)	(3.563)
Charge for the year	(5.972)	(7.692)	(13.664)
Net book value at 31 December	133.888	23.643	157.531

At 1 January 2004			
Cost or valuation	156.241	77.288	233.529
Accumulated depreciation	(19.334)	(51.427)	(70.761)
Net book value	136.907	25.861	162.768

At 31 December 2004			
Cost or valuation	159.029	80.988	240.017
Accumulated depreciation	(25.141)	(57.345)	(82.486)
Net book value	133.888	23.643	157.531

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Notes to the Financial Statements

18. Property and equipment (continued)

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

	2005	2004
	C€000	C€000
Freehold property	122.450	117.365
Improvements on leased property	15.451	16.523
	137.901	133.888

Property includes land amounting to C€50.081 thousand (2004: C€50.800 thousand) for which no depreciation is charged.

The cumulative revaluation surplus on 31 December 2005 amounted to C€42.798 thousand (2004: C€42.782 thousand) and is included in the property revaluation reserve. The latest estimate of market value by independent qualified valuers took place in 2003.

The net book value of freehold property, on a cost less accumulated depreciation basis, would be C€80.467 thousand (2004: C€75.004 thousand).

There are no fixed charges in favour of third parties on the Group's tangible fixed assets as at 31 December 2005 and 2004.

19. Intangible assets

	Computer software	License fees	Insurance portfolio acquisition	Goodwill on acquisition of subsidiary	Total
2005	C€000	C€000	C€000	C€000	C€000
Net book value at 1 January	9.795	2.796	-	705	13.296
Exchange adjustments	(7)	-	-	-	(7)
Additions	2.427	-	540	-	2.967
Charge for the year	(4.789)	(360)	(180)	-	(5.329)
Net book value at 31 December	7.426	2.436	360	705	10.927

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Notes to the Financial Statements

19. Intangible assets (continued)

	Computer software	Licence fees	Insurance portfolio acquisition	Goodwill on acquisition of subsidiary	Total
	C€000	C€000	C€000	C€000	C€000
At 1 January 2005					
Cost as previously reported	43.105	3.607	-	1.173	47.885
Reversal of goodwill amortisation	-	-	-	(468)	(468)
	43.105	3.607	-	705	47.417
Accumulated amortisation as previously reported	(33.310)	(811)	-	(468)	(34.589)
Reversal of goodwill amortisation	-	-	-	468	468
Net book value	9.795	2.796	-	705	13.296

At 31 December 2005					
Cost	44.125	3.607	540	705	48.977
Accumulated amortisation	(36.699)	(1.171)	(180)	-	(38.050)
Net book value	7.426	2.436	360	705	10.927

	Computer software	License fees	Goodwill on acquisition of subsidiary	Total
	C€000	C€000	C€000	C€000
2004				
Net book value at 1 January	11.903	3.156	822	15.881
Exchange adjustments	(41)	-	-	(41)
Additions	3.327	-	-	3.327
Disposals	(57)	-	-	(57)
Charge for the year	(5.337)	(360)	(117)	(5.814)
Net book value at 31 December	9.795	2.796	705	13.296

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19. Intangible assets (continued)

	Computer software	Licence fees and portfolio acquisition	Goodwill on acquisition of subsidiary	Total
	C£000	C£000	C£000	C£000
At 1 January 2004				
Cost	39.996	3.607	1.173	44.776
Accumulated amortisation	(28.093)	(451)	(351)	(28.895)
Net book value	11.903	3.156	822	15.881
At 31 December 2004				
Cost	43.105	3.607	1.173	47.885
Accumulated amortisation	(33.310)	(811)	(468)	(34.589)
Net book value	9.795	2.796	705	13.296

The goodwill on consolidation of subsidiary company arose on the acquisition of the brokerage company Victory Securities SA, which was renamed Kyprou Securities SA. According to IFRS 3 from 1 January 2005 the goodwill is not amortised but reviewed for impairment at least once a year. During 2004, the Group recognised C£117 thousand as goodwill amortisation in the income statement.

20. Other assets

	2005	2004
	C£000	C£000
Debtors	12.373	14.125
Property held for sale	9.020	8.424
Investment property	20.418	3.328
Assets held for sale	1.217	-
Value of in-force life assurance policies (Note 22)	23.700	21.500
Taxes refundable	5.591	1.202
Deferred tax (Note 11)	2.181	2.009
Fair value of derivative financial instruments (Note 33)	8.229	9.307
Reinsurer's share of insurance liabilities	18.488	11.037
Items in course of collection and other assets	28.207	12.359
	129.424	83.291

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Notes to the Financial Statements

20. Other assets (continued)

Investment property

The movement of investment property is summarized below:

	2005	2004
	C£000	C£000
At 1 January	3.328	3.043
Exchange adjustments	(25)	(27)
Transfer from property and equipment	-	640
Additions	17.923	-
Disposals	(895)	-
Gains/(losses) from change in fair value	87	(328)
At 31 December	20.418	3.328

21. Prepayments and accrued income

	2005	2004
	C£000	C£000
Accrued interest, fees and commissions	55.970	90.822
Prepaid expenses	5.614	3.906
	61.584	94.728

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22. Life assurance business

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

	<i>2005</i>	<i>2004</i>
	<i>C£000</i>	<i>C£000</i>
Net assets attributable to shareholders	16.873	15.363
Value of in-force life assurance policies	23.700	21.500
Embedded value	40.573	36.863

In determining the value of in-force policies, assumptions are made relating to gross investment yields, future mortality, persistence and level of expenses. The main assumptions used in determining the value of the in-force policies for the years 2005 and 2004 are:

Discount rate (after tax)	10%
Return on investments	6%
Expenses inflation	5%

The movement of the embedded value is summarised below:

	<i>2005</i>	<i>2004</i>
	<i>C£000</i>	<i>C£000</i>
At 1 January	36.863	34.507
Profit for the year	7.035	4.162
Increase in the value of in-force policies	2.200	2.260
Dividend paid	(5.500)	(3.500)
Change in fair value of property and investments, net of deferred tax	(12)	(556)
Exchange differences and other adjustments	(13)	(10)
At 31 December	40.573	36.863

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Notes to the Financial Statements

22. Life assurance business (continued)

Life assurance business net assets attributable to policyholders comprise of investments in:

	<i>2005</i>	<i>2004</i>
	<i>C£000</i>	<i>C£000</i>
Equity shares	101.825	78.543
Debt securities	92.668	62.031
Property	540	460
Mortgages and other loans	3.953	5.011
Bank deposits	33.019	48.767
	232.005	194.812
Other assets less liabilities	(199)	739
Life assurance business net assets attributable to policyholders	231.806	195.551

23. Customer deposits and other accounts

	<i>2005</i>	<i>2004</i>
	<i>C£000</i>	<i>C£000</i>
<i>By category</i>		
Demand	1.354.135	1.036.663
Savings	745.873	613.540
Time	8.624.477	7.005.679
	10.724.485	8.655.882
<i>By geographical area</i>		
Cyprus	6.189.823	4.751.758
Greece	3.855.849	3.283.636
United Kingdom	562.870	525.900
Australia	115.943	94.588
	10.724.485	8.655.882

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24. Debt securities in issue

	Interest rate: Three-month Euribor plus	2005	2004
		C£000	C£000
Senior Debt in Euro (€300 million) 2005/2008	0,30%	170.038	-
Senior Debt in Euro (€250 million) 2003/2006	0,35%	143.302	143.684
Senior Debt in Euro (€5 million) 2003/2006	0,40%	2.867	2.900
Senior Debt in Euro (€3 million) 2003/2008	0,45%	1.721	1.740
Interest-free loan from the European Development Bank		288	288
		318.216	148.612

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (2004: €1.000 million). Under the EMTN Programme, the Company has issued €250 million of Senior Debt. The Senior Debt has a three year term, bears a floating rate of interest and was issued at the price of 99,883%. On 27 May 2005 the Company issued €300 million of Senior Debt which has a three year term, bears a floating rate of interest and was issued at the price of 99,853%. Under the EMTN Programme, another two floating rate Senior Bonds were issued at par, amounting to €8 million. The Senior Debt in Euro (€300 million), the Senior Debt in Euro (€250 million) and the Senior Debt in Euro (€5 million) are listed on the Luxembourg Stock Exchange.

During 2005 the three-month Euribor rate fluctuated between 2,102% - 2,495% (2004: 1,957% - 2,180%).

At 31 December 2005, the amount of the Senior Debt in Euro (€300 million) 2005/2008 outstanding was €297 million as €3 million of Debt was held by the Company for trading purposes.

The fair value of Group debt securities in issue at 31 December 2005 was C£318.584 thousand (2004: C£148.902 thousand).

25. Other liabilities

	2005	2004
	C£000	C£000
General insurance business liabilities	35.082	25.121
Tax payable	4.638	6.449
Deferred tax (Note 11)	8.148	6.261
Fair value of derivative financial instruments (Note 33)	12.608	27.065
Net liability of retirement benefit plans (Note 9)	3.407	2.462
Provision for pending litigation or claims	2.025	2.148
Items in course of settlement	26.508	11.755
Other	77.160	53.538
	169.576	134.799

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Notes to the Financial Statements

25. Other liabilities (continued)

Provision for pending litigation or claims

The movement for the year 2005 in the provision for pending litigation or claims is as follows:

	<i>C£000</i>
At 1 January 2005	2.148
Exchange adjustments	3
Reversal of provision	(126)
At 31 December 2005	2.025

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

26. Accruals and deferred income

	2005	2004
	<i>C£000</i>	<i>C£000</i>
Accrued interest, fees and commissions	49.980	60.643
Other accrued expenses	2.950	4.234
Deferred income	1.195	2.176
	54.125	67.053

27. Subordinated loan stock

	2005	2004
	C£000	C£000
Subordinated Bonds 2006/2011 in Euro (€275 million)	157.625	159.238
Subordinated Bonds 2008/2013 in Euro (€200 million)	114.422	115.582
Capital Securities Series A (C£65 million)	62.781	62.781
Capital Securities Series B (C£30 million)	29.753	29.992
	364.581	367.593

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

The Subordinated Bonds 2006/2011 bear a floating rate of interest, mature on 20 June 2011 and were issued in Euro (€275 million) on 20 June 2001. 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 three-month Euribor until 20 June 2006 and will increase to 2,40% thereafter. The bonds are listed on the Luxembourg Stock Exchange.

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (2004: €1.000 million). Under the EMTN Programme, the Company has issued on 3 October 2003 €200 million floating rate bonds in Euro maturing in October 2013. The Company has the option to call the bonds during or after October 2008. The interest rate was set at 1,00% above the three-month Euribor until October 2008 and will increase to 2,20% thereafter. The issue price of the bonds was set at 99,766%. The bonds are listed on the Luxembourg Stock Exchange. On 31 December 2005 the amount of bonds outstanding was €200 million (2004: €200 million).

During 2005 the three-month Euribor rate fluctuated between 2,102% - 2,495% (2004: 1,957% - 2,180%).

Capital Securities Series A amounting to C£65 million and Series B amounting to C£30 million were issued in Cyprus pounds on 20 February 2003 and 22 March 2004 respectively, and have been offered in Cyprus. The Capital Securities rank as Tier 1 capital and have no maturity date. However, they may be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter. The Capital Securities bear floating interest rate, which is revised every three months. The interest rate is equal to the base rate of the Company at the beginning of each three month period plus 1,00%. Interest is payable quarterly. The Capital Securities are listed on the Cyprus Stock Exchange. On 31 December 2005 the Capital Securities Series A and Series B outstanding amounted to C£62.781 thousand and C£29.753 thousand respectively, (2004: Series A C£62.781 thousand, Series B C£29.992 thousand) as C£2.219 thousand of Capital Securities Series A and C£247 thousand of Capital Securities Series B (2004: Series A C£2.219 thousand, Series B C£8 thousand) were held by the Company for trading purposes.

The Company's base rate during 2005 fluctuated between 4,25% - 5,50% (2004: 4,50% - 5,50%).

The fair value of the subordinated loan stock at 31 December 2005 was C£366.759 thousand (2004: C£368.626 thousand).

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28. Share Capital

	2005	2005	2004	2004
	Shares		Shares	
	(thousand)	C£000	(thousand)	C£000
<i>Authorised</i>				
Shares of 50 cent each	600.000	300.000	600.000	300.000
<i>Issued and fully paid</i>				
At 1 January	464.771	232.385	464.771	232.385
Issue of shares	77.902	38.951	-	-
Dividend reinvestment	2.643	1.322	-	-
At 31 December	545.316	272.658	464.771	232.385

In December 2005 the Company increased its share capital by 77.902 thousand shares paid in cash, through a rights issue at the price of C£1,40 per share. The total capital raised amounted to C£109.063 thousand, of which C£38.951 thousand represents share capital and the remaining capital of C£70.112 thousand represents share premium.

Out of the total rights issued 406.984 thousand rights were exercised by the shareholders resulting in 67.831 thousand shares. An additional 10.071 thousand shares were issued through the exercise of rights which were not exercised by their owners, but placed with investors at the price of £2,58 per share.

The Company has established a Dividend Reinvestment Plan under which all shareholders have the opportunity to reinvest all or part of their dividend in Bank of Cyprus Public Company Ltd shares at a 10% discount on the market value. The share price under the Dividend Reinvestment Plan of 2004 was fixed at C£1,60 per share. As a result of the dividend reinvestment for the year 2004, the share capital of the Company and the share premium increased by C£1.322 thousand (2.642.800 shares) and C£2.907 thousand respectively.

The Company has granted Share Options to all Group personnel who were in service on 31 December 2000. The total number of Share Options granted was 3.216.700 and they give the holder the right to buy one share of the Company at the price of C£3,26 per share (as adjusted after the share issue). All Share Options can be exercised by their owners from 31 January 2004 to 31 December 2007. During 2005 and 2004 no Share Options were exercised and 3.216.700 options were outstanding as at 31 December 2005.

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29. Dividends

The Board of Directors proposes the payment of a dividend for the year 2005 of 7 cent (2004: 4 cent) per share, amounting to C£38.172 thousand (2004: C£18.591 thousand). The proposal will be submitted for approval at the Annual General Meeting of the shareholders which will take place on 30 May 2006. The Board of Directors also proposes that the ex-dividend date will be 2 June 2006. As a result, registered shareholders on 1 June 2006 will be eligible to receive the final dividend for 2005. The proposed final dividend is not recognised as a liability in the financial statements until its approval by the Annual General Meeting and its subsequent payment to the shareholders.

The dividend for year 2004 was approved by the Annual General Meeting on 18 May 2005 and was paid on 18 June 2005.

30. Revaluation reserves, retained earnings and other reserves

Revaluation Reserves and other reserves

	2005	<i>2004</i> <i>restated</i>
	C£000	<i>C£000</i>
Property revaluation reserve	36.656	36.276
Available-for-sale investments revaluation reserve		
- treasury bills and debt securities	26.565	(1.185)
- equity shares	6.815	1.783
Hedge accounting reserve	-	(3.639)
Life assurance in-force business reserve	23.700	21.500
Total revaluation reserves	93.736	54.735
Capital reserve	2.183	2.183
	95.919	56.918

The capital reserve resulted from the capitalisation of subsidiary companies profits.

The revaluation reserves movement is shown below.

Property revaluation reserve

	2005	<i>2004</i>
	C£000	<i>C£000</i>
At 1 January	36.276	36.843
Transfer of realised profits to retained earnings	(148)	(1.107)
Deferred tax	528	540
At 31 December	36.656	36.276

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30. Revaluation reserve and other reserves (continued)

Revaluation reserve of available-for-sale investments

Treasury bills and debt securities

	2005	2004
	C£000	C£000
At 1 January	(1.185)	3.864
Gains/(losses) from change in fair value	30.087	(5.752)
Transfer to the income statement on sale/redemption	(4.020)	(171)
Deferred tax	1.683	874
At 31 December	26.565	(1.185)

Equity Shares

	2005	2004
	C£000	C£000
At 1 January	1.783	1.583
Gains/(losses) from change in fair value	5.072	(2.868)
Transfer to the income statement on impairment	-	3.117
Transfer to the income statement on sale	(40)	(49)
At 31 December	6.815	1.783

Hedge accounting reserve

	2005	2004
	C£000	C£000
At 1 January	(3.639)	(5.697)
Gains from change in fair value	-	2.287
Transfer to the income statement	4.043	-
Deferred tax	(404)	(229)
At 31 December	-	(3.639)

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30. Revaluation reserve and other reserves (continued)

Life assurance in-force business reserve

	2005	2004
	C£000	C£000
At 1 January	21.500	19.240
Transfer from retained earnings (after tax)	2.200	2.260
At 31 December	23.700	21.500

Retained earnings

Retained earnings is the only distributable reserve.

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

For the tax year 2003 the special defence contribution on deemed distribution amounted to C£884 thousand and is included in other liabilities (Note 25).

31. Fiduciary transactions

The Group offers fund management services that result in the holding or placing of financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the balance sheet of the Group unless they are placed with the Group. The total assets under management on 31 December 2005 amounted to C£478 million (2004: C£654 million).

32. Contingent liabilities and commitments

Financial instruments

As financial institutions, the banking subsidiaries of the Group provide services such as documentary credits and guarantees. These facilities are usually offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the balance sheet.

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32. Contingent liabilities and commitments (continued)

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

	2005	2004
	C£000	C£000
<i>Contingent liabilities</i>		
Acceptances and endorsements	33.864	32.045
Guarantees and performance bonds	736.945	678.555
	770.809	710.600
<i>Commitments</i>		
Documentary credits	49.145	39.133
Undrawn formal standby facilities, credit lines and other commitments to lend	1.340.572	1.145.839
	1.389.717	1.184.972

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 usually immediate.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by the 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 the relevant documents, provided that the terms of the documentary credit are satisfied. The repayment by the customer is usually immediate.

Commitments to lend are agreements to grant a loan to a customer in the future subject to certain conditions. Such commitments are made for a fixed period of time 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 as at 31 December 2005 amount to C£6.507 thousand (2004: C£5.479 thousand).

Litigation

The Group's provision for pending litigation or claims is set out in Note 25. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which in our opinion would have a material effect on the Group's financial position and operations.

There is a pending legal dispute between the Company and Mr A. Georgiou, regarding the alleged exercise of an option for the sale of shares the Group holds in Universal Life Insurance Co Ltd.

32. Contingent liabilities and commitments *(continued)*

Litigation *(continued)*

An application for the payment by the Company of an amount up to \$77.112 thousand (C£37.366 thousand) plus interest is pending before the courts of New York, relating to balances that certain customers allegedly maintain with Bank of Cyprus Public Company Ltd. This application, which relates to executing a judgment of the courts against third parties, does not create any legal obligation for the Company if no accounts exist in the names of third parties/customers. The Company, pursuant to consultation and advice from the Group's legal counsel expects that the final outcome of the above proceedings will not have a material effect on the Group's financial position.

On 27 July 2005 the Securities and Exchange Commission of Cyprus announced that it has carried out an investigation into a possible breach by the Company of the provisions of articles 67 and 68 of the Cyprus Stock Exchange Law, with respect to the issue of shares in Greece in October 2000, and that a report on its findings will be prepared and sent to the Attorney General of the Republic of Cyprus.

33. Derivative financial instruments and hedge accounting

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 relating to products available to customers.

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 involves the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate on the maturity date of the swap.

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.

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

The credit exposure of derivative financial instruments represents the cost to replace contracts with a positive value as at the balance sheet date. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as those used for lending decisions.

The notional amounts of certain types of derivative 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, consequently, do not indicate the Group's exposure to credit or market risks.

The fair value of the derivative financial instruments becomes positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity price indices in accordance with their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly from time to time.

Changes in the fair value of derivatives held-for-trading are recognised in the income statement.

33. Derivative financial instruments and hedge accounting *(continued)*

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

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

For cash flow hedge accounting, the effective portion of the gain or loss on revaluation of derivatives is recognised in equity (consolidated statement of changes in equity) and the ineffective portion is recognised in the income statement.

Fair value hedges

The Group uses interest rate swaps with a nominal amount of C£280.614 thousand (2004: C£183.521 thousand), to hedge the interest rate risk arising as a result of the possible decrease in the fair value of fixed rate bonds classified as available-for-sale or of fixed interest rate advances. The fair value of these derivatives at 31 December 2005 was C£4.153 thousand (loss) (2004: C£8.391 thousand (loss)) and the change in the fair value of the relevant hedged items was C£4.541 thousand (gain) (2004: C£8.982 thousand (gain)).

Cash flow hedges

During 2005, the Group terminated the cash flow hedge used to hedge the future cash flows from the floating rate Subordinated Bonds 2006/2011 in Euro. As a result the cumulative losses recognised in reserves have been transferred to the income statement (note 30). As at 31 December 2004 the nominal value of interest rate swaps was C£159.500 thousand and the net negative fair value of these derivatives was C£4.034 thousand.

Hedges of net investment in foreign entities

The Group hedges the currency risk arising on the retranslation into Cyprus pounds of the net assets of the overseas subsidiaries and branches. Liabilities amounting to C£139.509 thousand (2004: C£203.382 thousand) have been designated as hedges and have given rise to a loss of C£1.974 thousand (2004: gain of C£2.789 thousand) which was taken to the exchange adjustments reserve, against the profit/loss that arose on the retranslation of the net assets into Cyprus pounds.

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Notes to the Financial Statements

33. Derivative financial instruments and hedge accounting (continued)

The nominal amounts and fair values of derivative financial instruments are summarised below:

	2005			2004		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	C£000	C£000	C£000	C£000	C£000	C£000
<i>Derivatives held for trading</i>						
Forward exchange rate contracts	154.393	1.823	2.465	203.551	3.753	5.249
Currency swaps	320.825	2.462	2.095	267.426	3.276	5.205
Interest rate swaps	446.352	1.441	1.434	662.182	1.494	3.402
Currency options	3.876	42	-	-	-	-
Equity options	12.408	585	585	12.181	630	630
	937.854	6.353	6.579	1.145.340	9.153	14.486
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges: interest rate swaps	280.614	1.876	6.029	183.521	154	8.545
Cash flow hedges: interest rate swaps	-	-	-	159.500	-	4.034
	280.614	1.876	6.029	343.021	154	12.579
Total	1.218.468	8.229	12.608	1.488.361	9.307	27.065

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34. Net cash flows from operating activities

	2005	2004
	C€000	C€000
Profit before tax	90.558	50.937
<i>Adjustments for</i>		
Provisions for bad and doubtful debts	91.087	83.695
Depreciation of property and equipment	14.270	13.664
Amortisation of intangible assets	5.329	5.814
Amortisation of discounts/premiums	(622)	(3.598)
Decrease in prepayments and accrued income	33.144	3.518
Decrease in accruals and deferred income	(12.928)	(8.819)
Profit on disposal of property and equipment and write-offs of intangible assets	(270)	(562)
Interest on treasury bills	(4.210)	(10.126)
Interest on debt securities	(69.002)	(44.546)
Dividend income from equity shares	(428)	(201)
Profit on sale of investments in equity shares	(125)	(66)
Profit on sale of investments in debt securities	(2.884)	(175)
Fair value gain of available-for-sale debt securities qualifying for fair value hedge accounting	(2.026)	(3.218)
Provision for impairment of available-for-sale investments	-	3.117
Interest on subordinated loan stock	16.772	14.645
	158.665	104.079
<i>Increase in</i>		
Amounts due to banks	46.369	-
Obligatory placements with central banks	(10.108)	-
Customer deposits and other accounts	2.062.715	1.270.173
General insurance business liabilities	9.961	2.404
Assets of life assurance business	(2.200)	(2.260)
Loans and advances to customers	(1.113.041)	(782.190)
Other assets	(22.369)	(1.254)
Placements with banks	(50.012)	-
Other liabilities	27.899	13.878
Debt securities in issue	171.449	-
<i>Decrease in</i>		
Placements with banks	-	51.693
Obligatory placements with central banks	-	17.849
Amounts due to banks	-	(131.854)
Investments at fair value through profit or loss	6.155	72.049
Subordinated loan stock held for trading	(201)	(449)
Debt securities in issue	-	(1.270)
	1.285.282	612.848
Tax paid	(20.528)	(16.720)
Net cash flows from operating activities	1.264.754	596.128

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Notes to the Financial Statements

35. Cash and cash equivalents

Cash and cash equivalents include:

	2005	2004
	C£000	C£000
Cash and non obligatory balances with central banks	258.305	96.046
Placements with banks repayable within three months	2.521.798	1.505.087
	2.780.103	1.601.133

36. Operating leases

The total future minimum lease payments under non-cancellable operating leases at 31 December, for each of the following periods are:

	2005	2004
	C£000	C£000
Within one year	1.381	1.363
Between one and five years	4.857	3.167
After five years	6.822	1.099
	13.060	5.629

37. 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, exchange rate risk, interest rate risk and liquidity risk.

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

Credit risk

Credit risk is the risk that customers will be unable to repay their loan and advances and will fail to perform under their contractual commitments.

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

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

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

Bank of Cyprus Group

Notes to the Financial Statements

37. Risk management (continued)

Credit risk (continued)

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy (Note 15).

Group policy regarding the definition of loans and advances for which income is suspended and the determination of provisions for bad and doubtful debts is set out in the Summary of Significant Accounting Policies.

Market risk

Market risk is the risk of loss arising from adverse movements in exchange rates, interest rates, equity shares and other securities prices. 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 Market Risk Management Unit to ensure compliance with market risk limits

The Group Asset/Liability Management Committee defines specific strategies and sets strict open position and other limits for managing these risks. The position of the Group regarding interest rate risk and currency risk is analysed below.

Interest rate risk

Analysis of assets and liabilities as at 31 December 2005, according to their contractual repricing or maturity date:

	Up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non-interest bearing	Total
	€000	€000	€000	€000	€000	€000	€000
2005							
Assets							
Cash and balances with central banks	549.699	-	124	-	-	61.858	611.681
Placements with banks	2.463.960	62.212	50.530	-	-	1.598	2.578.300
Investments at fair value through profit or loss	406	-	86	72.641	89	16.109	89.331
Loans and advances to customers	4.998.917	1.211.883	470.558	262.965	37.733	2.155	6.984.211
Available-for-sale and held to maturity investments	249.417	542.510	178.485	636.346	320.174	18.329	1.945.261
Other assets	123	2.600	5.145	266	-	353.465	361.599
Total assets	8.262.522	1.819.205	704.928	972.218	357.996	453.514	12.570.383
Liabilities							
Amounts due to banks	120.051	42.842	14.856	-	-	-	177.749
Customer deposits and other accounts	7.996.817	742.676	1.206.404	144.058	-	634.530	10.724.485
Debt securities in issue	-	317.928	-	-	-	288	318.216
Other liabilities	175	3.809	1.321	-	10	218.386	223.701
	8.117.043	1.107.255	1.222.581	144.058	10	853.204	11.444.151
Subordinated loan stock	114.635	249.946	-	-	-	-	364.581
Total liabilities	8.231.678	1.357.201	1.222.581	144.058	10	853.204	11.808.732
Total position	30.844	462.004	(517.653)	828.160	357.986	(399.690)	761.651
Nominal value of interest rate derivative instruments	19.305	116.156	164.104	(127.430)	(172.135)	-	-
Net position	50.149	578.160	(353.549)	700.730	185.851	(399.690)	761.651

37. Risk management (continued)

Interest rate risk (continued)

Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities.

The interest rate risk in the investment portfolio is the risk of a reduction in net interest income of the Group as a result of adverse movements in interest rates. This risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied by 1% (assumed change in interest rates) for the period from the repricing date until twelve months from the date of the analysis, to compute the annual impact on earnings of the change in interest rates for the next twelve months for each currency. In order to calculate the total annual impact for all currencies, correlation coefficients between the interest rates of the various currencies are used.

In order to avoid volatility in net interest income, monetary balances of non-interest bearing accounts and deposits which are inelastic to interest rate changes are mainly invested in fixed rate assets (over one year).

A parallel 1% increase in interest rates applied to the Group's balance sheet as at 31 December 2005, would result in an increase in annual profits before tax of C£11 million. A parallel 1% decrease in interest rates would result in a decrease in annual profits before tax of C£14 million. The sensitivity analysis performed in order to calculate the above figures differs from the tables presented, in respect of the width of the time bands and the assumptions used in analysing assets and liabilities. Specifically, the sensitivity analysis takes into account behavioural characteristics such as the elasticity of interest rates on deposits and loans to changes in market rates.

The net interest margin of the Group for 2005 was 2,60% (2004: 2,66%) and is calculated based on net interest income and the average balance of interest bearing assets.

In order to monitor interest rate risk, limits have been set for each business unit for the maximum impact that an interest rate change of 1% can have on net interest income over the next twelve months. Each banking unit monitors these limits daily and the Group Treasury/Market Risk Management Unit monitors the consolidated Group position on a monthly basis.

Bank of Cyprus Group

Notes to the Financial Statements

37. Risk management (continued)

Interest rate risk (continued)

Analysis of assets and liabilities as at 31 December 2004, according to their contractual repricing or maturity date:

	Up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non-interest bearing	Total
	€000	€000	€000	€000	€000	€000	€000
2004							
Assets							
Cash and balances with central banks	389.390	-	-	-	-	49.924	439.314
Placements with banks	1.441.136	64.091	1.220	-	-	5.130	1.511.577
Investments at fair value through profit or loss	392	-	-	71.722	5.243	18.129	95.486
Loans and advances to customers	4.511.715	862.344	346.384	205.543	28.873	24.393	5.979.252
Available-for-sale and held-to-maturity investments	303.529	449.519	212.042	646.768	63.906	14.193	1.689.957
Other assets	-	-	-	-	-	348.846	348.846
Total assets	6.646.162	1.375.954	559.646	924.033	98.022	460.615	10.064.432
Liabilities							
Amounts due to banks	51.970	39.969	39.441	-	-	-	131.380
Customer deposits and other accounts	6.232.506	673.963	948.462	207.414	6.000	587.537	8.655.882
Debt securities in issue	-	148.324	-	-	-	288	148.612
Other liabilities	-	-	-	-	-	201.852	201.852
	6.284.476	862.256	987.903	207.414	6.000	789.677	9.137.726
Subordinated loan stock	115.844	251.749	-	-	-	-	367.593
Total liabilities	6.400.320	1.114.005	987.903	207.414	6.000	789.677	9.505.319
Total position	245.842	261.949	(428.257)	716.619	92.022	(329.062)	559.113
Nominal value of interest rate derivative instruments	(32.269)	214.330	207.705	(319.648)	(70.314)	196	-
Net position	213.573	476.279	(220.552)	396.971	21.708	(328.866)	559.113

Bank of Cyprus Group

Notes to the Financial Statements

37. Risk management (continued)

Currency risk

Analysis of assets and liabilities as at 31 December 2005 by currency:

	Cyprus pounds	Euro	U.S. Dollars	British pounds	Other currencies	Total
	€000	€000	€000	€000	€000	€000
2005						
Assets						
Cash and balances with central banks	287.250	149.847	137.705	32.079	4.800	611.681
Placements with banks	111.665	269.003	1.965.326	153.500	78.806	2.578.300
Investments at fair value through profit or loss	84.055	4.404	872	-	-	89.331
Loans and advances to customers	2.654.884	3.454.998	98.647	523.759	251.923	6.984.211
Available-for-sale and held-to-maturity investments	531.169	628.588	584.627	200.665	212	1.945.261
Property, equipment and intangible assets	109.917	53.150	-	7.101	423	170.591
Other assets	95.289	25.988	5.155	2.898	94	129.424
Prepayments and accrued income	6.711	32.709	12.623	7.239	2.302	61.584
Total assets	3.880.940	4.618.687	2.804.955	927.241	338.560	12.570.383
Liabilities						
Amounts due to banks	59.381	55.844	41.072	9.128	12.324	177.749
Customer deposits and other accounts	2.795.271	3.810.664	2.882.075	941.403	295.072	10.724.485
Debt securities in issue	288	317.928	-	-	-	318.216
Other liabilities	82.327	78.710	3.629	4.619	291	169.576
Accruals and deferred income	25.509	17.038	3.287	5.762	2.529	54.125
	2.962.776	4.280.184	2.930.063	960.912	310.216	11.444.151
Subordinated loan stock	92.534	272.047	-	-	-	364.581
Equity	765.063	165	(3.628)	51	-	761.651
Total liabilities and equity	3.820.373	4.552.396	2.926.435	960.963	310.216	12.570.383
Total position	60.567	66.291	(121.480)	(33.722)	28.344	-
Nominal value of currency derivatives	(88.908)	(44.518)	123.543	38.483	(28.600)	-
Net currency position	(28.341)	21.773	2.063	4.761	(256)	-

Bank of Cyprus Group

Notes to the Financial Statements

37. Risk management (continued)

Currency risk (continued)

Currency risk results from adverse movements in the rates of exchange between currencies arising as a result of the existence of a net currency position in one or more currencies. Losses may arise from the trading book positions and from asset/liability management.

There are limits for the total foreign currency position by currency or group of currencies as well as for the total open position. These limits apply for each banking unit separately and are bigger for intraday positions. Smaller limits apply for overnight positions. Trading book positions are also subject to stop-loss daily and monthly limits and value at risk limits which calculate with 99% level of confidence the possible portfolio losses for one day. The open position and the stop-loss limits are monitored on a daily basis by the Group Treasury/Market Risk Management Unit.

Currency risk exposure also arises on the net position of the branches and subsidiaries of the Group that have a reporting currency other than the Cyprus pound. The Group hedges the greater part of this risk by maintaining liabilities of the same amount and in the same currency as the net position of the subsidiaries or branches.

Analysis of assets and liabilities as at 31 December 2004 by currency:

	Cyprus pounds	Euro	U.S. Dollars	British pounds	Other currencies	Total
	C£000	C£000	C£000	C£000	C£000	C£000
2004						
Assets						
Cash and balances with central banks	268.821	118.289	45.542	2.298	4.364	439.314
Placements with banks	123.797	316.760	809.669	192.255	69.096	1.511.577
Investments at fair value through profit or loss	88.623	4.864	1.999	-	-	95.486
Loans and advances to customers	2.403.609	2.818.809	86.457	477.640	192.737	5.979.252
Available-for-sale and held-to-maturity investments	364.382	503.363	595.282	226.930	-	1.689.957
Property, equipment and intangible assets	115.434	48.076	-	6.851	466	170.827
Other assets	57.187	20.462	2.573	2.345	724	83.291
Prepayments and accrued income	34.069	42.573	6.164	9.684	2.238	94.728
Total assets	3.455.922	3.873.196	1.547.686	918.003	269.625	10.064.432
Liabilities						
Amounts due to banks	35.275	87.937	7.737	157	274	131.380
Customer deposits and other accounts	2.653.825	3.262.969	1.635.023	893.812	210.253	8.655.882
Debt securities in issue	288	148.324	-	-	-	148.612
Other liabilities	72.154	57.030	840	4.672	103	134.799
Accruals and deferred income	20.464	32.607	1.772	10.165	2.045	67.053
	2.782.006	3.588.867	1.645.372	908.806	212.675	9.137.726
Subordinated loan stock	92.773	274.820	-	-	-	367.593
Equity	559.113	-	-	-	-	559.113
Total liabilities and equity	3.433.892	3.863.687	1.645.372	908.806	212.675	10.064.432
Total position	22.030	9.509	(97.686)	9.197	56.950	-
Nominal value of currency derivatives	(47.901)	8.848	97.897	(2.968)	(55.876)	-
Net currency position	(25.871)	18.357	211	6.229	1.074	-

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Notes to the Financial Statements

37. Risk management (continued)

Liquidity Risk

Analysis of assets and liabilities as at 31 December 2005 according to their maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
2005						
Assets						
Cash and balances with central banks	376.640	-	124	-	234.917	611.681
Placements with banks	2.459.377	62.421	39.958	5.074	11.470	2.578.300
Investments at fair value through profit or loss	8.509	-	86	73.047	7.689	89.331
Loans and advances to customers	1.998.225	249.395	732.733	1.991.390	2.012.468	6.984.211
Available-for-sale and held-to-maturity investments	11.020	59.598	208.770	1.234.375	431.498	1.945.261
Property, equipment and intangible assets	-	-	-	-	170.591	170.591
Other assets	16.372	23.423	15.404	12.544	61.681	129.424
Prepayments and accrued income	11.640	11.868	14.555	21.719	1.802	61.584
Total assets	4.881.783	406.705	1.011.630	3.338.149	2.932.116	12.570.383
Liabilities						
Amounts due to banks	120.051	42.842	14.856	-	-	177.749
Customer deposits and other accounts	6.488.602	2.881.828	1.186.472	154.805	12.778	10.724.485
Debt securities in issue	-	-	146.169	171.759	288	318.216
Other liabilities	115.040	29.338	18.942	1.917	4.339	169.576
Accruals and deferred income	14.085	17.626	16.834	3.716	1.864	54.125
	6.737.778	2.971.634	1.383.273	332.197	19.269	11.444.151
Subordinated loan stock	-	-	-	-	364.581	364.581
Total liabilities	6.737.778	2.971.634	1.383.273	332.197	383.850	11.808.732
Net position	(1.855.995)	(2.564.929)	(371.643)	3.005.952	2.548.266	761.651

37. Risk management *(continued)*

Liquidity Risk *(continued)*

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

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facility commitments and the level of outstanding contingent obligations are taken into consideration in monitoring the Group's liquidity position. Group assets are mainly funded by core deposits. The distribution of sources and the maturity of deposits are actively managed in order to avoid a concentration of funding needs at any point in time or from a small number of depositors. The Group manages this risk by maintaining at all times a diversified stock of highly liquid assets in the principal currencies in which it transacts.

The responsibility for liquidity risk management rests with the treasury units at each location in co-operation with the Group Treasury Unit.

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

The liquidity risk tables have been prepared in accordance with International Financial Reporting Standards which provide that assets and liabilities are analysed in time bands according to the remaining period to contractual maturity from the balance sheet date. Regulatory authorities set liquidity ratios for the open liquidity position up to one month in accordance with their own guidelines.

Bank of Cyprus Group

Notes to the Financial Statements

37. Risk management (continued)

Liquidity Risk (continued)

Analysis of assets and liabilities as at 31 December 2004 according to their maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	C€000	C€000	C€000	C€000	C€000	C€000
2004						
Assets						
Cash and balances with central banks	188.795	-	-	-	250.519	439.314
Placements with banks	1.440.805	64.282	6.490	-	-	1.511.577
Investments at fair value through profit or loss	4.210	-	-	80.123	11.153	95.486
Loans and advances to customers	1.873.804	253.781	752.879	1.892.449	1.206.339	5.979.252
Available-for-sale and held-to-maturity investments	87.489	59.935	231.137	1.213.802	97.594	1.689.957
Property, equipment and intangible assets	-	-	-	-	170.827	170.827
Other assets	3.901	14.077	26.160	9.840	29.313	83.291
Prepayments and accrued income	32.370	17.514	31.559	9.424	3.861	94.728
Total assets	3.631.374	409.589	1.048.225	3.205.638	1.769.606	10.064.432
Liabilities						
Amounts due to banks	51.970	39.969	39.441	-	-	131.380
Customer deposits and other accounts	4.877.242	2.536.860	950.457	280.320	11.003	8.655.882
Debt securities in issue	-	-	-	148.324	288	148.612
Other liabilities	90.159	11.086	20.552	9.060	3.942	134.799
Accruals and deferred income	26.475	12.913	16.284	9.511	1.870	67.053
	5.045.846	2.600.828	1.026.734	447.215	17.103	9.137.726
Subordinated loan stock	-	-	-	-	367.593	367.593
Total liabilities	5.045.846	2.600.828	1.026.734	447.215	384.696	9.505.319
Net position	(1.414.472)	(2.191.239)	21.491	2.758.423	1.384.910	559.113

Bank of Cyprus Group

Notes to the Financial Statements

Regulatory framework

The operations of the Company are supervised by the Central Bank of Cyprus. Similar to other banks in Cyprus, Bank of Cyprus Public Company Ltd has to comply with the requirements of the European Union and of the Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. Stricter legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Group.

The operation of the insurance companies are supervised by the Registrar of Insurance Companies. Stricter legal and regulatory changes may be introduced in the future by the European Union or by the Registrar which may have adverse effect on both the financial results and position of the Group's insurance companies.

Intensity of competition

The Bank of Cyprus Group faces intense competition in all the areas in which it operates. In Cyprus, competition originates primarily from commercial banks, cooperative credit and savings institutions, international banking units and insurance companies which offer similar products and services. The accession of Cyprus to the European Union and the expected introduction of the Euro in year 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market thus increasing competition.

In Greece, the Group competes with Greek banks, which control the largest share of the total assets of the banking system, with cooperative banks and branches of credit institutions headquartered in European Union member countries.

Possible intensification of competition as a result of more competitive interest rates being offered on deposits or advances than those offered by the Group, may create pressure on Group profitability.

Litigation risk

The Group as a financial institution may from time to time become involved in legal or arbitration proceedings which may affect the Group's operations and results.

The litigation risk arises from pending or possible legal proceedings against the Group (Note 32) or in the event that legal issues are not properly dealt with by the Group and this gives rise to the cancellation of contracts with customers and consequently legal actions against the Group.

Political and economic risk

External factors which are not under the control of the Group, like political and economic developments in Cyprus and overseas, may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union and European Central Bank policies, fluctuations in consumer confidence and level of consumer spending, political instability or military conflict which affect Europe and/or other areas overseas and social developments in countries in which the Group operates.

38. Directors' interest in the share capital of the Company

The beneficial interest in shares of the Company of the directors, their spouses, minor children and of companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2005 and 27 February 2006, is set out below:

31 December 2005 and 27 February 2006	
	%
V. G. Rologis	0,002
A. Artemis	0,363
Chr. S. Pantzaris	0,100
D. P. Ioannou	0,333
K. Z. Severis	0,407
Th. Aristodemou	0,019
D. Z. Pierides	0,001
E. Xenophontos	0,006
Chr. G. Christofides	0,054
A. Pittas	0,037
P. G. Polyviou	0,047
G. A. David	-
A. Diogenous	0,164
G. M. Georgiades	0,041
A. J. Jacovides	0,022
Chr. Mouskis	0,028
E. P. Ioannou	0,009
M. Mavrommatis	0,027
	1,660

39. Shareholders holding 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.

40. Related party transactions

	2005	2004	2005	2004
	Number of directors		C£000	C£000
Loans and other advances:				
Members of the Board of Directors and connected persons:				
- more than 1% of the Company's net assets per director	4	6	70.689	80.576
- less than 1% of the Company's net assets per director	14	12	18.842	8.278
	18	18	89.531	88.854
Loans and advances to key management personnel and connected persons			1.310	1.314
Total loans and other advances			90.841	90.168
Tangible securities			105.451	94.247
Interest income			5.019	4.736
Deposits of connected persons			10.228	12.376
Interest expense			288	522

In addition, there were contingent liabilities to members of the Board of Directors in the form of documentary credits, guarantees and commitments to lend amounting to C£41.018 thousand (2004: C£35.952 thousand). Of these C£37.691 thousand (2004: C£35.372 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Company per director. There were also contingent liabilities to Group key management personnel amounting to C£303 thousand (2004: C£342 thousand).

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

All transactions with directors and with their connected persons are made on normal business terms. As far as key management personnel is concerned a number of credit facilities have been extended with favourable terms as the rest of the personnel of the Group are entitled to.

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Notes to the Financial Statements

40. Related party transactions (continued)

Fees and emoluments of directors and Group key management personnel

	2005	2004
	C£000	C£000
<i>Directors' emoluments:</i>		
Fees:		
Non executives	352	202
Executives - 2004	-	60
- 2003	-	23
Total fees	352	285
Emoluments in executive capacity	-	379
Total fees and emoluments of directors	352	664
<i>Key management personnel emoluments:</i>		
Salaries and other short term benefits	1.479	925
Employer contributions for social insurance etc.	32	27
Retirement benefit plan costs	140	101
Total emoluments of key management personnel	1.651	1.053
Total	2.003	1.717

During 2005 there were no executive directors. During 2004, the emoluments of three executive directors including retirement benefit contributions were in the range of C£100 thousand to C£150 thousand each.

A provision of C£1.100 thousand has been made in year 2004 and prior years in respect of amounts payable to three directors, in accordance with their terms of employment, following their retirement from executive duties on 31 December 2004. In addition, on 31 December 2004, one director was owed an amount of C£471 thousand by the Staff Provident/Retirement Fund as a result of his participation in the fund.

Key management personnel for the year 2005 include the three members of the Group Executive Management and the five Group General Managers in service on 31 December 2005 (the number of Group General Managers increased to six on 16 January 2006). Key management personnel for the year 2004 include the seven Group General Managers in service on 31 December 2004.

Other transactions with related parties

Mr Andreas Artemis, Vice Chairman of the Board of Directors of the Company, holds an indirect interest and is the Chairman of the Board of Directors of the Commercial Union Assurance (Cyprus) Ltd group. The group operates in general insurance business in Cyprus and Greece and with which the subsidiary of the Company, General Insurance of Cyprus Ltd, has cooperation in the area of reinsurance. The total net reinsurance premiums which were assigned to the Commercial Union Assurance (Cyprus) Ltd group in 2005 amounted to C£268 thousand (2004: C£382 thousand).

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Notes to the Financial Statements

40. Related party transactions (continued)

Other transactions with related parties (continued)

Mr Polis G. Polyviou, who is a member of the Board of Directors of the Company is a partner to the Law Office Chrysafinis & Polyviou, who are the external legal advisers of the Group handling court cases and legal proceedings on behalf of the Group in Cyprus and abroad. The total fees that were paid to the law office Chrysafinis & Polyviou by the Group in 2005 amounted to C£402 thousand (2004: C£365 thousand). The same law office is also assigned court cases against debtors/creditors of the Group. The total cost of these cases is charged to the debtors/creditors.

Mr Costas Z. Severis, who is a member of the Board of Directors of the Company, is the main shareholder of the company D. Severis and Sons Ltd, which is the general agent of the subsidiary of the Company, General Insurance of Cyprus Ltd. The commissions paid to the company of D. Severis and Sons Ltd in 2005 amounted to C£98 thousand (2004: C£110 thousand).

Mrs Anna Diogenous, who is a member of the Board of Directors of the Company, holds an indirect interest in the company Pylones SA Hellas, which supplies the branch of the Company in Greece with equipment and services following tender procedures. The total purchases of the Company amounted to C£582 thousand (2004: C£497 thousand).

As published in the Annual Report of year 2004 on 14 January 2005, the Group's subsidiary, General Insurance of Cyprus Ltd, acquired the insurance portfolio of the company Georgios Giabra Pierides Ltd for a consideration of C£540 thousand. Georgios Giabra Pierides Ltd has been general agents of General Insurance of Cyprus Ltd. The Chairman of the Board of Directors of Bank of Cyprus Public Company Ltd, at the time Mr S.A. Triantafyllides, and Mr P.G. Polyviou a member of the Board of Directors of Bank of Cyprus Public Company Ltd and also of General Insurance of Cyprus Ltd, had a substantial interest in the company Georgios Giabra Pierides Ltd.

41. Group companies

The companies included in the consolidated financial statements of the Group and their activities (by country of registered office) are :

Cyprus	
Bank of Cyprus Public Company Ltd	Commercial bank
Mortgage Bank of Cyprus Ltd	Real estate and industrial development bank
Bank of Cyprus Finance Corporation Ltd (Note 42)	Hire purchase and leasing business
Bank of Cyprus (Factors) Ltd (Note 42)	Factoring services
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Investment banking services
General Insurance of Cyprus Ltd	General insurance business
EuroLife Ltd	Life assurance business
Kermia Ltd	Property trading and development
Kermia Properties & Investments Ltd	Property development
Kermia Hotels Ltd	Hotel business
BOC Ventures Ltd	Management of venture capital investments
Tefkros Investments Ltd	Investments fund

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41. Group companies (continued)

Bank of Cyprus Mutual Funds Ltd	Distribution of mutual funds
JCC Payment Systems Ltd	Processing of credit card transactions
Greece	
Bank of Cyprus Public Company Ltd (branch)	Commercial bank
Kyprou Leasing SA	Leasing business
Kyprou Commercial SA	Financing of motor vehicles and other consumer products
Kyprou Securities SA	Investment banking services
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	Management of mutual funds
Kyprou Properties SA	Property management
Kyprou Insurance Services Ltd	General insurance brokers
Kyprou Zois (branch of EuroLife Ltd)	Life assurance business
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	General insurance business
United Kingdom	
Old Company (BCL) Ltd, previously Bank of Cyprus (London) Ltd	Commercial bank (inactive)
Bank of Cyprus United Kingdom (branch of Bank of Cyprus Public Company Ltd)	Commercial bank
Channel Islands	
Bank of Cyprus (Channel Islands) Ltd	Commercial bank
Tefkros Investments (CI) Ltd	Investments fund
Australia	
Bank of Cyprus Australia Pty Ltd	Commercial bank
Ireland	
BOC International Fund Management Ltd	Management of mutual funds

With effect from 1 November 2004, the business of the Group's subsidiary company, Bank of Cyprus (London) Ltd was transferred to the branch of Bank of Cyprus in the United Kingdom. This branch of the Company in the United Kingdom operates under the business name Bank of Cyprus United Kingdom. Bank of Cyprus (London) Ltd has been renamed to Old Company (BCL) Ltd and since 1 November 2004 does not carry out any activities.

All the above companies are wholly owned subsidiaries, except for JCC Payment Systems Ltd in which the Company holds 45% of the issued share capital which amounts to C£1 million. This company is accounted for as an interest in a jointly controlled entity. There were no changes either in the basis of consolidation or in the companies being consolidated at 31 December 2005, compared to 31 December 2004.

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41. Group companies (continued)

The Group decided the termination of the activities of the subsidiary company BOC International Fund Management Ltd within its restructuring process aiming to achieve synergies and has started the dissolution process.

The Group's share in the key financial figures of the jointly controlled entity are:

	2005	2004
	C£000	C£000
Gross income	5.729	5.255
Profit before tax	2.378	2.384
Net assets	8.810	7.393
Total assets	10.605	8.683

42. Events after the balance sheet date

Transfer of business of Bank of Cyprus Finance Corporation Ltd and Bank of Cyprus (Factors) Ltd, to Bank of Cyprus Public Company Ltd

On 1 January 2006, both the operations and assets of the Group subsidiary companies, Bank of Cyprus Finance Corporation Ltd and Bank of Cyprus (Factors) Ltd, were transferred to Bank of Cyprus Public Company Ltd, with parallel dissolution and without receivership of the two subsidiaries.

The transfer of the operations is being carried out within the context of the overall Group restructuring process. It aims at achieving synergies between units of the Group and consequently aims at further costs reduction assuring at the same time, continued high quality service to customers.