



FINANCIAL **STATEMENTS** 2004

CONTENTS

	Page
CONSOLIDATED FINANCIAL STATEMENTS	
Report of the Board of Directors	48
Auditors' Report	49
Consolidated Income Statement	50
Consolidated Balance Sheet	51
Consolidated Statement of Changes in Equity	52
Consolidated Cash Flow Statement	53
Notes to the Consolidated Financial Statements	54
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	
1. General information	54
2. Summary of significant accounting policies	54
3. Net interest income	66
4. Net fee and commission income	66
5. Loss on disposal and revaluation of securities	66
6. Other income	67
7. Staff costs	67
8. Depreciation and amortisation	69
9. Other administrative expenses	69
10. Profit before provision for impairment of advances	70
11. Provision for impairment of advances	70
12. Tax	70
13. Earnings per share	72
14. Cash and balances with Central Banks	72
15. Due from other banks	73
16. Trading investments	73
17. Advances to customers	74
18. Instalment finance and leasing	75
19. Provision for impairment of advances	76
20. Corporate bonds and debentures	76



21. Government bonds and treasury bills	77
22. Value of life assurance business attributable to shareholders	78
23. Available-for-sale investments	79
24. Held-to-maturity investments	80
25. Other assets	80
26. Investments in associates	81
27. Intangible assets	82
28. Property and equipment	83
29. Due to other banks	84
30. Customer deposits	84
31. Senior debt	85
32. Other liabilities	85
33. Deferred tax liabilities	86
34. Loan capital	87
35. Share capital	90
36. Share premium	90
37. Reserves	91
38. Fair value of derivative financial instruments	92
39. Cash generated from operations	93
40. Cash and cash equivalents	93
41. Segmental analysis	94
42. Contingencies and commitments	97
43. Fair value of financial assets and liabilities	98
44. Financial risk management	98
45. Directors' interest	109
46. Shareholders with more than 5% of share capital	109
47. Related party transactions	110
48. Dividends	110
49. Investments in subsidiary companies	111
50. Approval of financial statements	111

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December, 2004.

Principal activities and review of operations

The principal activities of the Group, which are unchanged from last year, are the provision of banking, financial and insurance services. The Chairman's statement and the accompanying reports describe the Group's activities during 2004.

Results for the year

The results for 2004 are shown in the consolidated income statement on page 50. The Group profit before provision for impairment of advances reached C£ 83,4 m compared to C£ 65,9 m in 2003. After provision for impairment of advances of C£ 46,9 m, impairment of available-for-sale investments of C£ 4,9 m and share of results of associates of C£ 1,5 m, profit before tax reached C£ 33,1 m against C£ 15,1 m in 2003. After tax (C£ 11,6 m) and minority interest (C£ 0,4 m), net profit attributable to the shareholders of the Bank reached C£ 21,1 m against C£ 9,5 m in 2003.

Dividends

The Board of Directors recommends a dividend of 3 cents per share in respect of the year ended 31 December, 2004 amounting to C£ 9,1 m and the remaining net profit for the year is transferred to reserves.

Change of name

On 26 May, 2004 Cyprus Popular Bank Limited was renamed to Cyprus Popular Bank Public Company Limited.

Share Capital

There were no changes in the share capital of the Bank.

Board of Directors

The members of the Board of Directors of the Bank are shown on page 2.

Messrs Marios Lanitis and Andreas Philippou retire by rotation and, being eligible, offer themselves for re-election.

In November 2004 Mr Jacovos Demetriou and in December 2004 Mr Andys Loutsios retired from the Board of Directors. Mr John A.P. Hill passed away in December 2004.

Auditors

The auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board



Kikis N. Lazarides -
Executive Chairman
Nicosia, 6 April, 2005

AUDITORS' REPORT TO THE MEMBERS OF THE CYPRUS POPULAR BANK PUBLIC COMPANY LIMITED (FORMER CYPRUS POPULAR BANK LIMITED)

Report on the consolidated financial statements

1. We have audited the consolidated financial statements of The Cyprus Popular Bank Public Company Limited (former Cyprus Popular Bank Limited) (the Company) and its subsidiaries (the Group) on pages 50 to 111, which comprise the consolidated balance sheet as at 31 December 2004 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and the related notes. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Cyprus Companies Law, Cap.113.

Report on other legal requirements

4. Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:
 - We have obtained all the information and explanations we considered necessary for the purposes of our audit.
 - In our opinion, proper books of account have been kept by the Company.
 - The Company's financial statements are in agreement with the books of account.
 - In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113 in the manner so required.
 - In our opinion, the information given in the report of the Board of Directors on page 48 is consistent with the financial statements.



PricewaterhouseCoopers Limited
Chartered Accountants
Nicosia, 6 April, 2005

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 € '000	2003 € '000
Interest income	3	297.450	262.371
Interest expense	3	<u>(148.236)</u>	<u>(132.231)</u>
Net interest income		149.214	130.140
Fee and commission income	4	50.857	47.344
Fee and commission expense	4	<u>(2.131)</u>	<u>(2.417)</u>
Net fee and commission income		48.726	44.927
Foreign exchange income		12.146	11.034
Loss on disposal and revaluation of securities	5	<u>(2.692)</u>	<u>(2.071)</u>
Other income	6	<u>14.263</u>	<u>12.162</u>
Operating income		221.657	196.192
Staff costs	7	<u>(85.955)</u>	(81.038)
Depreciation and amortisation	8	<u>(16.705)</u>	(15.338)
Other administrative expenses	9	<u>(35.528)</u>	<u>(33.865)</u>
Profit before provision for impairment of advances	10	83.469	65.951
Provision for impairment of advances	11	<u>(46.949)</u>	<u>(49.588)</u>
Profit before impairment of available-for-sale investments		36.520	16.363
Impairment of available-for-sale investments	37	<u>(4.942)</u>	(2.500)
Share of results of associates before tax	26	<u>1.514</u>	1.233
Profit before tax		33.092	15.096
Tax	12	<u>(11.641)</u>	<u>(5.764)</u>
Profit after tax		21.451	9.332
Minority interest		<u>(351)</u>	179
Net profit attributable to the shareholders of the Bank	37	<u>21.100</u>	<u>9.511</u>
Earnings per share			
Earnings per share – cents	13	6,9	3,1

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2004

	Note	2004 € '000	2003 € '000
Assets			
Cash and balances with Central Banks	14	471.569	328.713
Due from other banks	15	840.989	724.126
Trading investments	16	38.241	22.466
Advances to customers	17	3.459.375	3.123.582
Corporate bonds and debentures	20	10.467	4.462
Government bonds and treasury bills	21	266.058	261.100
Available-for-sale investments	23	19.481	23.194
Held-to-maturity investments	24	360.447	323.241
Other assets	25	94.137	115.876
Tax refundable		9.747	17.874
Investments in associates	26	4.935	9.434
Intangible assets	27	32.057	35.776
Property and equipment	28	85.143	85.630
Total assets		5.692.646	5.075.474
Liabilities			
Due to other banks	29	69.722	114.223
Customer deposits	30	4.665.037	4.148.060
Senior debt	31	173.836	69.597
Other liabilities	32	130.881	129.437
Tax payable		9.483	11.958
Deferred tax liabilities	33	6.878	5.448
Retirement benefit obligations	7	82.858	71.878
		5.138.695	4.550.601
Loan capital	34	214.124	215.068
Minority interest		34.904	29.393
Share capital and reserves			
Share capital	35	152.450	152.450
Share premium	36	2.949	2.949
Reserves	37	149.524	125.013
		304.923	280.412
Total shareholders' equity and liabilities		5.692.646	5.075.474

K. N. Lazarides, Executive Chairman

A. Louroutziatis, Ch. Papaellinas, Members of the Board of Directors

A. Philippidou, Manager Group Financial Control

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	Share capital C£ '000	Share premium C£ '000	Revaluation & currency translation reserves C£ '000	Retained earnings C£ '000	Total C£ '000
Balance at 1 January 2003		151,819	2,385	11,626	105,412	271,242
Revaluation of available-for-sale investments	37	-	-	(5,531)	-	(5,531)
Revaluation of property	37	-	-	1,391	-	1,391
Deferred tax	37	-	-	39	-	39
Transfer from revaluation reserve to income statement	37	-	-	(215)	-	(215)
Impairment of available-for-sale investments	37	-	-	2,500	-	2,500
Exchange differences arising in the year	37	-	-	280	-	280
<i>Net loss recognised directly in equity</i>		-	-	(1,536)	-	(1,536)
Net profit attributable to the shareholders of the Bank		-	-	-	9,511	9,511
Conversion of debentures	35,36	423	591	-	-	1,014
Change in the equity element of convertible debentures		208	-	-	-	208
Adjustment in the value of shares issued for the acquisition of Action Insurance Brokers Ltd		-	(27)	-	-	(27)
Transfer of depreciation arising on revaluation	37	-	-	(92)	92	-
Balance at 31 December 2003/1 January 2004		152,450	2,949	9,998	115,015	280,412
Revaluation of available-for-sale investments	37	-	-	(3,713)	-	(3,713)
Revaluation of property	37	-	-	3,389	-	3,389
Deferred tax	37	-	-	(895)	-	(895)
Transfer from revaluation reserve to income statement	37	-	-	(371)	-	(371)
Impairment of available-for-sale investments	37	-	-	4,942	-	4,942
Exchange differences arising in the year	37	-	-	59	-	59
<i>Net gain recognised directly in equity</i>		-	-	3,411	-	3,411
Net profit attributable to the shareholders of the Bank		-	-	-	21,100	21,100
Transfer of depreciation arising on revaluation	37	-	-	(160)	160	-
Balance at 31 December 2004		152,450	2,949	13,249	136,275	304,923

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 C£ '000	2003 C£ '000
Cash generated from operations	39	118.673	48.613
Tax paid		<u>(5.466)</u>	<u>(8.845)</u>
Net cash from operating activities		<u>113.207</u>	<u>39.768</u>
Cash flows from investing activities			
Purchase of property and equipment	28	(6.782)	(8.095)
Purchase of computer software	27	(4.013)	(1.625)
Proceeds from disposal of property and equipment	28	1.656	634
Income received from held-to-maturity investments		7.809	5.937
Dividend received from available-for-sale investments	6	135	80
Dividend received from investments in associates	26	798	-
Net cash used in investing activities		<u>(397)</u>	<u>(3.069)</u>
Cash flows from financing activities			
Proceeds from issue of loan capital	34	-	65.000
Interest paid on loan capital	3	(9.936)	(8.194)
Proceeds from issue of senior debt	31	173.836	-
Repayment of loan from syndication of banks	31	(69.597)	-
Net cash from financing activities		<u>94.303</u>	<u>56.806</u>
Effects of exchange rate changes on cash and cash equivalents		<u>-</u>	<u>(3.999)</u>
Net increase in cash and cash equivalents		207.113	89.506
Cash and cash equivalents at beginning of year		<u>1.170.946</u>	<u>1.081.440</u>
Cash and cash equivalents at end of year	40	<u>1.378.059</u>	<u>1.170.946</u>

The notes on pages 54 to 111 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Country of incorporation

The Cyprus Popular Bank Public Company Ltd ("the Bank") was established in Cyprus in 1901 under the name "Popular Savings Bank of Limassol". In 1924 it was registered as the first public company in Cyprus under the name "The Popular Bank of Limassol Ltd". In 1967 the Bank changed its name to "Cyprus Popular Bank Ltd" and on 26 May, 2004 it was renamed to "Cyprus Popular Bank Public Company Ltd". The Bank's shares are listed on the Cyprus Stock Exchange.

Principal activities

The principal activities of the Group, which are unchanged from last year, are the provision of banking, financial and insurance services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements unless otherwise stated.

Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the provisions of the Companies Law, Cap 113 and the Cyprus Stock Exchange Law and Regulations. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings, available-for-sale investments, financial assets and financial liabilities held for trading and all derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Group accounts

(a) Subsidiaries

Subsidiaries are those companies in which the Group, directly or indirectly, has power to govern the financial and operating policies. The consolidated financial statements consolidate the financial statements of the Bank and its subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group accounts (continued)

(a) Subsidiaries (continued)

Intercompany transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities acquired.

(b) Associates

Associates are entities over which the Group has between 20% and 50% of the voting rights and over which the Group has significant influence, but which it does not control.

Investments in associates are initially recognised at cost and are then accounted for in the Group's financial statements by the equity method of accounting. Under this method the Group's share of post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Foreign currency translation

(a) Measurement currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Cyprus pounds which is the measurement currency of the parent.

(b) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The exchange rates for the main currencies as at 31 December, 2004 were as follows:

US Dollar:	2,35294
Australian Dollar:	3,01750
Pound Sterling:	1,21876
Euro:	1,72413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Group companies

Income statements, cash flow statements and balance sheets of the Group's overseas subsidiaries are translated into Cyprus pounds at the exchange rates ruling on 31 December, which do not significantly differ from average exchange rates. The exchange differences, which arise on the translation of the opening net assets of overseas subsidiaries, due to change in exchange rates, are transferred directly to reserves. In addition, the exchange difference arising from the translation of the part of the senior debt in euro that has been used for financing the investment in foreign subsidiaries and for hedging against exchange risk in relation to these investments is transferred directly to reserves.

Goodwill and fair value adjustments arising on the acquisition of overseas subsidiaries are translated in Cyprus pounds at the rate of exchange ruling at the date of acquisition.

Interest income and expense

Interest income and expense is recognised in the income statement for all interest bearing instruments on an accrual basis. Interest income includes interest earned on advances, fixed income investments and trading securities and accrued discount and premium on government bonds and treasury bills and other discounted instruments.

The Group adopts the policy of suspending income on non-performing loans. In those cases, the recognition of income is suspended until it is received and therefore, it is not included in the income statement but it is transferred to an income suspense account.

In cases where this is imposed by the local authorities, the Group adopts the policy of non-accrual of income on non-performing loans.

Income from instalment finance and leasing is recognised in the income statement in a systematic manner based on instalments receivable during the year so as to provide a constant periodic rate of return using the net investment method. The difference between the gross amounts receivable from instalment finance and leasing and the present value of the receivable represents unearned income. The present value of the receivable is recognised in the balance sheet under "Advances to customers".

Income and expense from fees, commissions and provision of services

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Dividend income

Dividend income is recognised in the income statement when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**General insurance business**

Premiums from general insurance business are recognised in the income statement over the period covered by the related policies.

Reinsurance costs are recognised in the income statement in the same period as the premiums to which they relate.

The proportion of premiums written in a year, less reinsurance, which relates to periods of risk extending beyond the end of the year, is carried forward as unearned premium.

Full provision is made for the estimated cost of all claims notified but not settled as at the balance sheet date using the best information available.

Net income from general insurance business is presented in the income statement under "Other income". Net income is calculated after the deduction from premiums of direct expenses such as reinsurance, claims and sales commission.

Life assurance business

Life premiums are recognised in the income statement when receivable and as long as the grace period has not expired.

Surpluses from participating and non-participating business remaining after the appropriation to participating policyholders of declared bonuses, is allocated as profit to shareholders.

The long-term business reserves are calculated based on annual actuarial valuations. Claims and related reinsurance premiums are accounted for in respect of all incidents up to the year-end. The estimated cost of all known claims not settled as at the balance sheet date is fully provided for. Claims after the year end for which it is not certain whether an obligation will arise, are also fully provided for. Differences between the provisions for outstanding claims at the balance sheet date and any subsequent revisions and settlements are included in the income statement in subsequent years.

Net income from life assurance business is included in the income statement under "Other income". Net income is calculated after the deduction from premiums of direct expenses such as reinsurance, claims, sales commissions and increases/decreases in the long-term business reserve.

Value of life policies in force

The value placed on the Group's life assurance business attributable to shareholders represents the attributable net assets plus a prudent estimate, performed by independent qualified actuaries, of the net present value of the future profits from policies in force.

Changes in the value of policies in force are included in the income statement under "Other income".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from revaluation of land and buildings, accelerated tax depreciation on property and equipment, embedded value of life assurance business and tax losses carried forward.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Dividends distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Bank's shareholders.

Retirement benefits

The Group operates defined retirement benefit plans in Cyprus and in the United Kingdom. A defined benefit plan is a plan that defines a lump sum or pension benefit to be provided as a function of one or more factors such as years of service and employee salary.

Annual contributions are made for these plans in order to build up sufficient reserves or funds during the employees' life, which will fund the related benefits to be given to the employees upon retirement. The cost of these benefits is charged to the income statement.

Retirement benefit costs relating to the defined benefit plans and which are included in staff costs are assessed using the projected unit credit method. Under this method, the cost of providing defined benefit pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of professionally qualified actuaries who value the plan at least once every three years.

The obligation for the defined retirement benefit plans is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits (continued)

Actuarial gains or losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of the plan assets, are amortised over the expected average remaining working lives of the participating employees.

Certain Group companies operate defined contribution plans. A defined contribution plan is a plan under which the company and the employees pay fixed contributions into a separate fund.

The benefits provided to the employees participating in defined contribution plans are based on the return of the fund. Each fund is governed by specified regulations as agreed between the two parties and in compliance with relevant statutory obligations. The contributions of the Group to the defined contribution plans are charged to the income statement in the year in which they arise.

The Group has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group also pays contributions to the Government Social Insurance Fund in accordance with legal requirements.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity and include cash and balances with Central Banks including, the minimum reserve requirement that the Bank is obliged to place with Central Banks for liquidity purposes, government bonds and treasury bills and amounts due from other banks.

Advances to customers

Loans originated by the Group by providing money directly to the borrower are categorised as advances to customers and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All advances are recognised when cash is advanced to borrowers.

Provision for impairment of advances

A provision for impairment of advances is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount including amounts recoverable from guarantees and collateral.

If the amount of the impairment subsequently decreases due to events occurring after the write-down, the release of the provision is credited as a reduction of the provision for impairment of advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Group classifies its investments in debt and equity securities in the following categories: trading, held-to-maturity, available-for-sale and originated loans. The classification is dependent on the purpose for which the investments were acquired. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on each balance sheet date.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments.

Investments with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold to maturity are classified as held-to-maturity.

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

Investments in corporate bonds and debentures acquired directly from the issuer are treated as originated loans. They are measured at amortised cost and they are presented separately on the face of the balance sheet.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments and originated loans are subsequently carried at amortised cost.

Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the year in which they arise within "Profit/loss on disposal and revaluation of securities". Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in investment revaluation reserves in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments are transferred to the income statement.

Interest earned whilst holding investments is reported as interest income. Dividends received are included in dividend income within "Other income" in the income statement.

The fair value of investments quoted in an active market is based on quoted bid prices. If the market for a financial asset is not active, fair value is established by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flows analysis, refined to reflect the issuer's specific circumstances. Fair values for unlisted equity investments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Derivative financial instruments

Derivative financial instruments including forward exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and other pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group uses derivatives to provide effective economic hedging under the direction of the Group Risk Management Unit. In cases where derivatives are used for the hedge of a net investment in a foreign entity and the criteria of International Accounting Standard 39 for hedge accounting are satisfied, any fair value changes are included in reserves. In all other cases the fair value adjustments on derivative financial instruments are included in the income statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Management reviews the amortisation period at each balance sheet date. If the expected useful life is different from previous estimates, the amortisation period is changed accordingly.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount and this is transferred to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Property and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revaluations are carried out with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment.

Increases in the carrying amount arising on revaluation of property and equipment are credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against those reserves. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from revaluation reserves to retained earnings.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual values, over their estimated useful life. The estimated useful lives are as follows:

	Years
Freehold buildings	33
Furniture and equipment	3 to 10

Property leased for up to 33 years is depreciated on a straight line basis over the term of the lease. Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property and equipment is charged to the income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserves are transferred to the income statement.

Properties in the course of construction for administrative purposes or for purposes not yet determined, are carried at cost less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Depreciation for these assets commences when the assets are ready for their intended use.

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmes are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years. Amortisation commences when the computer software is available for use and is included within "Depreciation and amortisation" in the income statement.

Impairment of assets

Property and equipment and other long lived assets, including goodwill and other intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Loan capital

Loan capital is recognised initially at cost, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Loan capital is subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings.

When convertible bonds are issued, the fair value of the conversion option is determined. This amount is recorded separately in shareholders' equity. The Group does not recognise any change in the value of this option in subsequent periods. The remaining obligation to make future payments of principal and interest to bond holders is recalculated using a market interest rate for an equivalent non-convertible bond and is presented on an amortised cost basis in loan capital until extinguished on conversion or maturity of the bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Ordinary shares are classified as equity.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Credit-related instruments

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

The Group is involved in trading transactions whereby it issues guarantees and documentary credits (known as credit-related instruments) on behalf of its customers.

These instruments are treated as credit commitments and thus not shown on the balance sheet unless and until the Group is called upon to make a payment under the instrument. Assets arising from payments to a third party where the Group is awaiting reimbursement from the customer are shown on the balance sheet, together with any necessary provisions.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

The primary segment of the Group is by business class. There are three major classes of business:

- (a) Banking services, which include the activities of Cyprus Popular Bank Public Company Ltd, Laiki Bank (Hellas) S.A. and Laiki Bank (Australia) Ltd.
- (b) Insurance services, which include the activities of the life assurance and general insurance subsidiaries of the Group.
- (c) Financial and other services, which include the activities of all other subsidiaries of the Group.

The secondary geographical segments of the Group are analysed as follows:

- (a) Operations in Cyprus, which incorporate the activities of all Group companies in Cyprus.
- (b) Operations in Greece
- (c) Operations in the United Kingdom.
- (d) Operations in Australia.

The costs of each Group company are apportioned based on the relevant geographical segment above.

The pricing of the transactions between the Group companies is on an arms-length basis.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. NET INTEREST INCOME

	2004 € '000	2003 € '000
Interest income		
Advances to customers	229.687	206.995
Due from other banks	49.240	36.440
Government and other bonds	<u>18.523</u>	<u>18.936</u>
	<u>297.450</u>	<u>262.371</u>
Interest expense		
Customer deposits	115.662	108.330
Due to other banks	22.638	15.707
Loan capital	<u>9.936</u>	<u>8.194</u>
	<u>148.236</u>	<u>132.231</u>

4. NET FEE AND COMMISSION INCOME

	2004 € '000	2003 € '000
Fee and commission income		
Banking related fees and commissions	47.384	43.424
Portfolio and other management fees	3.081	3.398
Other fees and commissions	<u>392</u>	<u>522</u>
	<u>50.857</u>	<u>47.344</u>
Fee and commission expense		
Fees paid	1.232	1.313
Commissions paid	<u>899</u>	<u>1.104</u>
	<u>2.131</u>	<u>2.417</u>

5. LOSS ON DISPOSAL AND REVALUATION OF SECURITIES

	2004 € '000	2003 € '000
Profit/(loss) on disposal of trading investments	687	(549)
Unrealised loss on revaluation of trading investments	<u>(3.379)</u>	<u>(1.522)</u>
	<u>(2.692)</u>	<u>(2.071)</u>

6. OTHER INCOME

	2004 C£ '000	2003 C£ '000
Net income from life assurance business	8.506	6.813
Net income from general insurance business	4.884	4.249
Dividends from available-for-sale investments	135	80
Dividends from trading investments	199	182
Other income	<u>539</u>	<u>838</u>
	<u>14.263</u>	<u>12.162</u>

7. STAFF COSTS

	2004 C£ '000	2003 C£ '000
Salaries and employer's contributions	70.128	65.596
Retirement benefit costs:		
Defined benefit plan - Cyprus	13.673	13.457
Defined benefit plan - UK	421	446
Defined contribution plan	188	185
Other staff costs	<u>1.545</u>	<u>1.354</u>
	<u>85.955</u>	<u>81.038</u>

The number of employees of the Group at the end of the year analysed by class of business was as follows:

	2004	2003
Banking services	2.932	2.873
Insurance services	315	319
Financial and other services	<u>247</u>	<u>246</u>
	<u>3.494</u>	<u>3.438</u>

Defined Benefit Plans

The majority of the employees of the Group in Cyprus and in the UK are covered by the Group's retirement benefit plans, which are defined benefit plans. Actuarial valuations of the assets and liabilities of the plans are carried out at least once every three years by professionally qualified actuaries to determine the financial position of the plans and to enable the Group to determine the level of contributions to be made to the plans. The latest valuations of the plans were made on 31 December, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. STAFF COSTS (continued)

Defined Benefit Plans (continued)

The amounts recognised in the consolidated balance sheet with respect to the defined benefit plans are shown below:

	2004 € '000	2003 € '000
Present value of obligations	112.694	94.134
Fair value of plan assets	<u>(6.921)</u>	<u>(3.412)</u>
	105.773	90.722
Unrecognised actuarial loss	<u>(22.915)</u>	<u>(18.844)</u>
Retirement benefit obligations	<u>82.858</u>	<u>71.878</u>

The plans assets include ordinary shares and bonds issued by the Bank with a fair value of € 2.910.000 (2003: € 3.071.000).

The amounts recognised in the consolidated income statement with respect to the defined benefit plans are as follows:

	2004 € '000	2003 € '000
Current service cost	8.241	8.493
Interest cost on plan liabilities	5.648	5.111
Expected return on plan assets	(205)	(243)
Actuarial loss recognised in the year	<u>410</u>	<u>542</u>
	<u>14.094</u>	<u>13.903</u>

The actual return on the Cyprus plan assets was a loss of € 214.000 (2003: loss of € 638.000).

Movement in the retirement benefit obligations recognised in the consolidated balance sheet:

	2004 € '000	2003 € '000
Balance at 1 January	71.878	59.602
Total expense as shown above - Cyprus	13.673	13.457
Payments to departing members	<u>(2.693)</u>	<u>(1.181)</u>
Balance at 31 December	<u>82.858</u>	<u>71.878</u>

7. STAFF COSTS (continued)**Defined Benefit Plans (continued)**

The principal assumptions used in the actuarial valuations were:

	2004	2003
Discount rate	6,0%	6,0%
Average expected return on plan assets	6,0%	6,0%
Average increase in basic insurable earnings	4,5%	4,5%
Average increase in total salaries	7,5%	7,5%
Average increase in inflation	2,5%	2,5%

8. DEPRECIATION AND AMORTISATION

	2004 CE '000	2003 CE '000
Depreciation of property and equipment (Note 28)	7.599	7.987
Fair value adjustment of property (Note 28)	1.391	-
Amortisation of computer software (Note 27)	3.345	2.548
Amortisation of goodwill (Note 27)	<u>4.370</u>	<u>4.803</u>
	<u>16.705</u>	<u>15.338</u>

9. OTHER ADMINISTRATIVE EXPENSES

Administrative expenses include computer expenses, marketing and sales expenses, occupancy costs, printing and stationery expenses, telephone expenses and other administrative expenses.

Administrative expenses for the year ended 31 December, 2004 also include a fine of CE 1.695.000 paid by the Bank to the Committee for the Protection of Competition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROFIT BEFORE PROVISION FOR IMPAIRMENT OF ADVANCES

	2004 € '000	2003 € '000
Profit before provision for impairment of advances is stated after deducting the following:		
Directors' emoluments:		
Fees	67	61
Emoluments in executive capacity	466	399
Auditors' remuneration	280	249
Operating lease rentals	6.044	5.751
(Profit)/loss on disposal of property and equipment (Note 28)	(577)	165

11. PROVISION FOR IMPAIRMENT OF ADVANCES

	2004 € '000	2003 € '000
Provision for impairment of advances for the year (Note 19)	65.346	60.829
Release of provision and recoveries (Note 19)	<u>(18.397)</u>	<u>(11.241)</u>
	<u>46.949</u>	<u>49.588</u>

12. TAX

	2004 € '000	2003 € '000
Current year tax		
Cyprus corporation tax	4.097	1.589
Defence tax	57	38
Overseas tax	5.527	3.710
Deferred tax (Note 33)	523	(1.005)
Share in the tax of associated companies (Note 26)	201	189
Total current year tax	<u>10.405</u>	<u>4.521</u>
Prior year tax		
Cyprus corporation tax	1.133	750
Defence tax	103	493
Total prior year tax	<u>1.236</u>	<u>1.243</u>
Total tax charge	<u>11.641</u>	<u>5.764</u>

12. TAX (continued)

As from 1 January, 2003 the provisions of the new tax legislation came into effect according to which the profit of the Bank and its subsidiaries in Cyprus are subject to corporation tax at the rate of 10% and the defence tax on profits is abolished. For the years 2003 and 2004 only, profits over € 1 m are subject to additional corporation tax at the rate of 5%.

From 1 January, 2003 dividends are subject to a deduction of special contribution for defence at the rate of 15% for individual shareholders that are resident in Cyprus.

From the tax year commencing 1 January 2003 onwards companies, which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year during the following two years. This special contribution for defence is payable for the account of the shareholders.

The profit from overseas operations is subject to corporation tax at the appropriate rates of taxation applicable in the countries in which the profit is derived.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2004	2003
	€ '000	€ '000
Profit before tax	<u>33.092</u>	<u>15.096</u>
Tax calculated at the applicable tax rates	4.598	2.126
Tax effect of expenses not deductible for tax purposes	2.747	1.401
Tax effect of income not subject to tax	(168)	(1.141)
Tax effect of different tax rates in Greece, the United Kingdom and Australia	<u>3.228</u>	<u>2.135</u>
Total current year tax	<u>10.405</u>	<u>4.521</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. EARNINGS PER SHARE

	2004 € '000	2003 € '000
Net profit attributable to the shareholders of the Bank	<u>21.100</u>	<u>9.511</u>
	2004 '000	2003 '000
Weighted average number of shares in issue during the year	<u>304.011</u>	<u>303.613</u>
Earnings per share - cents	<u>6,9</u>	<u>3,1</u>

Fully diluted earnings per share is not disclosed, as the price for the conversion of debentures is higher than the market price of the Cyprus Popular Bank Public Company Ltd share at the Cyprus Stock Exchange as at 31 December, 2004.

14. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with Central Banks include obligatory minimum reserves held for liquidity purposes. These reserves are not available for financing the Group's operational transactions.

	2004 € '000	2003 € '000
Cash in hand	51.767	126.702
Balances with Central Banks other than obligatory reserves for liquidity purposes	243.331	66.749
Obligatory reserves for liquidity purposes	<u>176.471</u>	<u>135.262</u>
Cash and balances with Central Banks (Note 40)	<u>471.569</u>	<u>328.713</u>

15. DUE FROM OTHER BANKS

	2004	2003
	CE '000	CE '000
Items in course of collection from other banks	28.645	30.703
Placements with other banks	812.344	693.423
	<u>840.989</u>	<u>724.126</u>
Maturity analysis		
Repayable on demand	508.106	240.662
Three months or less	263.367	437.830
Over three months but less than one year	63.287	44.864
Over one but less than five years	6.229	770
	<u>840.989</u>	<u>724.126</u>

16. TRADING INVESTMENTS

	2004	2003
	CE '000	CE '000
Debt securities	26.723	7.866
Equity securities	9.362	12.173
Derivative financial instruments with positive fair value (Note 38)	2.156	2.427
	<u>38.241</u>	<u>22.466</u>
Debt securities		
Listed on the Cyprus Stock Exchange	1.856	2.864
Listed on other Stock Exchanges	3.052	2.642
Not listed	21.815	2.360
	<u>26.723</u>	<u>7.866</u>
Equity securities		
Listed on the Cyprus Stock Exchange	8.015	11.395
Listed on other Stock Exchanges	744	25
Not listed	603	753
	<u>9.362</u>	<u>12.173</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. ADVANCES TO CUSTOMERS

	2004 € '000	2003 € '000
Advances to customers	3.357.065	2.983.758
Instalment finance and leasing (Note 18)	<u>375.168</u>	<u>356.696</u>
	3.732.233	3.340.454
Provision for impairment of advances (Note 19)	<u>(272.858)</u>	<u>(216.872)</u>
	<u>3.459.375</u>	<u>3.123.582</u>

The amount of income suspended is included in provision for impairment of advances.

	2004 € '000	2003 € '000
Maturity analysis		
Repayable on demand	1.007.842	934.528
Three months or less	586.125	539.951
Over three months but less than one year	311.143	312.096
Over one but less than five years	862.664	681.436
Over five years	<u>964.459</u>	<u>872.443</u>
	<u>3.732.233</u>	<u>3.340.454</u>
Analysis by sector		
Trade	736.071	758.307
Manufacturing	343.062	341.182
Tourism	319.572	327.136
Property and construction	606.861	599.276
Personal, professional and home loans	1.333.962	1.034.861
Other sectors	<u>392.705</u>	<u>279.692</u>
	<u>3.732.233</u>	<u>3.340.454</u>
Analysis by geographical area		
Cyprus	2.266.010	2.085.236
United Kingdom	271.342	249.488
Greece	1.062.458	893.312
Australia	<u>132.423</u>	<u>112.418</u>
	<u>3.732.233</u>	<u>3.340.454</u>

18. INSTALMENT FINANCE AND LEASING

	2004	2003
	€ '000	€ '000
Gross investment in hire purchase and finance leases	437.043	414.533
Unearned finance income	(61.875)	(57.837)
	<u>375.168</u>	356.696
Present value of minimum hire purchase and finance lease payments	375.168	356.696
Provision for impairment of hire purchase and finance leases	(44.187)	(38.417)
	<u>330.981</u>	318.279
Gross investment in hire purchase and finance leases		
Three months or less	65.899	61.558
Over three months but less than one year	87.595	134.902
Over one but less than five years	247.129	190.206
Over five years	36.420	27.867
	<u>437.043</u>	414.533
Present value of minimum hire purchase and finance lease payments		
Three months or less	61.430	55.177
Over three months but less than one year	75.016	120.719
Over one but less than five years	210.447	158.710
Over five years	28.275	22.090
	<u>375.168</u>	356.696

The most important terms of the hire purchase contracts are as follows:

- The hirer pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase the goods.
- The hirer pays monthly instalments including interest on the amount outstanding.
- The hirer is responsible for any loss or damage incurred on the goods concerned.

The most important terms of the finance lease contracts are as follows:

- The lessee undertakes the equipment under lease for the rental period concerned and pays during that period rentals and any other amounts that are payable in accordance with the terms of the contract.
- The rentals and any other amounts payable are subject to interest.
- The lessee is obliged to maintain the equipment in good condition and to compensate the owner for any damage or fault occurred.
- Upon expiry of the agreement, the lessee can either return the equipment to the owner or pay a minimal annual nominal fee in exchange for the right to continue to use the equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. PROVISION FOR IMPAIRMENT OF ADVANCES

	Provisions C£ '000	Suspension of income C£ '000	Total C£ '000
2004			
Balance at 1 January	180.246	36.626	216.872
Provision for impairment of advances for the year	65.346	-	65.346
Release of provision and recoveries	(18.397)	(5.181)	(23.578)
Loans written-off	(8.579)	(1.193)	(9.772)
Translation adjustments	(267)	-	(267)
Suspension of income for the year	-	24.257	24.257
	<u>218.349</u>	<u>54.509</u>	<u>272.858</u>
Balance at 31 December			
2003			
Balance at 1 January	152.056	25.390	177.446
Provision for impairment of advances for the year	60.829	-	60.829
Release of provision and recoveries	(11.241)	(4.003)	(15.244)
Loans written-off	(21.517)	(3.066)	(24.583)
Translation adjustments	119	-	119
Suspension of income for the year	-	18.305	18.305
	<u>180.246</u>	<u>36.626</u>	<u>216.872</u>
Balance at 31 December			

The total amount of non-performing loans (including accumulated income suspended) amounts to C£ 479.020.000 (2003: C£ 405.365.000).

20. CORPORATE BONDS AND DEBENTURES

This amount comprises of bonds and debentures in Cypriot companies acquired directly from the issuer and are measured at amortised cost.

21. GOVERNMENT BONDS AND TREASURY BILLS

	Held for trading € '000	Held-to-maturity € '000	Total € '000
2004			
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	1.569	136.418	137.987
Other government bonds and treasury bills	96.718	31.353	128.071
	<u>98.287</u>	<u>167.771</u>	<u>266.058</u>
Maturity analysis			
Three months or less	86.952	48.065	135.017
Over three months but less than one year	-	12.000	12.000
Over one but less than five years	5.596	80.026	85.622
Over five years	5.739	27.680	33.419
	<u>98.287</u>	<u>167.771</u>	<u>266.058</u>
Listed on the Cyprus Stock Exchange	1.001	99.168	100.169
Listed on other Stock Exchanges	96.591	31.353	127.944
Not listed	695	37.250	37.945
	<u>98.287</u>	<u>167.771</u>	<u>266.058</u>
Movement in held-to-maturity			
Balance at 1 January		193.967	
Additions		112.820	
Redemptions		(138.444)	
Amortisation of premium/discount		(43)	
Exchange differences		(529)	
Balance at 31 December		<u>167.771</u>	
2003			
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	773	169.725	170.498
Other government bonds and treasury bills	66.360	24.242	90.602
	<u>67.133</u>	<u>193.967</u>	<u>261.100</u>
Maturity analysis			
Three months or less	66.264	101.476	167.740
Over three months but less than one year	205	36.175	36.380
Over one but less than five years	568	48.736	49.304
Over five years	96	7.580	7.676
	<u>67.133</u>	<u>193.967</u>	<u>261.100</u>
Listed on the Cyprus Stock Exchange	773	169.725	170.498
Listed on other Stock Exchanges	66.263	24.242	90.505
Not listed	97	-	97
	<u>67.133</u>	<u>193.967</u>	<u>261.100</u>
Movement in held-to-maturity			
Balance at 1 January		175.166	
Additions		142.920	
Redemptions		(122.419)	
Amortisation of premium/discount		(428)	
Exchange differences		(1.272)	
Balance at 31 December		<u>193.967</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. VALUE OF LIFE ASSURANCE BUSINESS ATTRIBUTABLE TO SHAREHOLDERS

	2004 € '000	2003 € '000
Life assurance net assets attributable to shareholders	19.408	16.907
Value of policies in force	<u>19.359</u>	<u>19.151</u>
	<u>38.767</u>	<u>36.058</u>

The net assets attributable to policyholders comprise the following:

	2004 € '000	2003 € '000
Equity shares	18.188	19.943
Advances	18.588	18.899
Investment properties	16.081	16.211
Foreign investments	48.608	43.321
Debentures	20.842	19.611
Government bonds	19.082	10.777
Other deposits	<u>49.775</u>	<u>52.380</u>
	<u>191.164</u>	181.142
Net current assets	<u>2.974</u>	<u>3.525</u>
Net assets attributable to policyholders	<u>194.138</u>	<u>184.667</u>

The increase in the value of life assurance business attributable to shareholders of € 2.709.000 (2003: € 2.622.000) is analysed as follows:

	2004 € '000	2003 € '000
Profit after tax	2.194	2.238
Revaluation of available-for-sale investments	502	(930)
Revaluation of property	<u>13</u>	<u>1.314</u>
Increase in the value of life assurance business	<u>2.709</u>	<u>2.622</u>

The value of policies in force is determined in consultation with qualified actuaries and is calculated by discounting future profits that are expected to emerge from in-force business at a discount rate that includes a risk margin. The risk margin is designed to reflect uncertainties in expected profit. Projections of profit are based on prudent assumptions relating to long-term economic conditions, future mortality, persistency and level of administrative and selling expenses, and average return on investments. The key assumptions used in the actuarial valuation are: risk discount rate (net of tax) of 10% (2003: 10%), average return on investments (gross of tax) of 6% (2003: 6%) and inflation rate of 3,5% (2003: 3,5%).

23. AVAILABLE-FOR-SALE INVESTMENTS

	2004	2003
	€ '000	€ '000
Equity securities		
Listed on the Cyprus Stock Exchange	8.491	12.204
Not listed	<u>10.990</u>	<u>10.990</u>
	<u>19.481</u>	<u>23.194</u>
Movement in available-for-sale investments		
Balance at 1 January	23.194	28.725
Revaluation for the year (Note 37)	<u>(3.713)</u>	<u>(5.531)</u>
Balance at 31 December	<u>19.481</u>	<u>23.194</u>

The deficit or surplus arising from the revaluation of the carrying value of the investments to their market value at the end of the year is included in the investment revaluation reserves. The available-for-sale investments consist of the Group's shareholdings in Apollo Investment Fund Public Co. Ltd, Universal Life Insurance Co. Ltd, Amathus Navigation Co. Ltd, CLR Capital Public Ltd, Lumiere T.V. Ltd, Bank of Cyprus Public Co. Ltd and Hellenic Bank Ltd. All of the above companies are registered in Cyprus. All of them are also listed on the Cyprus Stock Exchange except for Universal Life Insurance Co. Ltd and Lumiere T.V. Ltd.

The Group holds 34,7% of the issued share capital of Universal Life Insurance Co. Ltd, the total issued share capital of which is € 3,3 m. The Group does not exercise significant influence in the management of the company and, consequently, the company is not considered to be an associate. This investment is accounted for as an available-for-sale investment.

The fair value of the Bank's shareholding in Universal Life Insurance Co. Ltd and Lumiere T.V. Ltd has been estimated using available financial information for those companies.

The fair value of the listed available-for-sale investments was determined based on the closing prices of the shares at 31 December, 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. HELD-TO-MATURITY INVESTMENTS

	2004 € '000	2003 € '000
Debt securities		
Listed on Stock Exchanges other than the Cyprus Stock Exchange	<u>360.447</u>	<u>323.241</u>
Movement in held-to-maturity investments		
Balance at 1 January	323.241	253.720
Additions	116.042	172.950
Redemptions	(67.074)	(85.977)
Amortisation of premium/discount	237	(33)
Exchange differences	<u>(11.999)</u>	<u>(17.419)</u>
Balance at 31 December	<u>360.447</u>	<u>323.241</u>
Maturity analysis		
Three months or less	23.775	22.260
Over three months but less than one year	43.969	15.353
Over one but less than five years	288.063	285.628
Over five years	<u>4.640</u>	<u>-</u>
	<u>360.447</u>	<u>323.241</u>

25. OTHER ASSETS

	2004 € '000	2003 € '000
Interest receivable	20.242	14.253
Other assets from life assurance business	20.060	27.391
Other assets from general insurance business	14.077	12.089
Other assets	<u>39.758</u>	<u>62.143</u>
	<u>94.137</u>	<u>115.876</u>

26. INVESTMENTS IN ASSOCIATES

	2004 € '000	2003 € '000
Balance at 1 January	9.434	8.390
Share of results before tax	1.514	1.233
Share of tax (Note 12)	(201)	(189)
Dividend from investment in associate	(798)	-
Disposal of Laiki CLR Ventures Ltd	(5.014)	-
Balance at 31 December	<u>4.935</u>	<u>9.434</u>

The associated companies are the following:

Name	Activities	Country of registration	Participation	Issued capital € '000
JCC Payments Systems Ltd	Processing of credit card transactions	Cyprus	30%	1.000
Viewfair Ltd	Investments in private companies and venture projects	Cyprus	26,7%	23

The shares in Viewfair Ltd are held by Laiki Investments E.P.E.Y. Public Co. Ltd in which the Bank has a shareholding of 57%. There were no changes in the participation in the capital of the aforementioned associates during the year ended 31 December, 2004.

On 30 June, 2004 Laiki Investments E.P.E.Y. Public Co. Ltd sold its shareholding in Laiki CLR Ventures Ltd to CLR Investment Fund Public Co. Ltd. In consideration for the sale of its shareholding Laiki Investments E.P.E.Y. Public Co. Ltd acquired corporate bonds and debentures of € 5.153.000. The net profit of € 97.000 arising on the sale was recognised in the consolidated income statement under "Other income". The profit has been calculated using the share of the associated company's net assets in accordance with its audited financial statements for the year ended 31 December, 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. INTANGIBLE ASSETS

	2004	2004	2004	2003
	Goodwill	Computer	Total	Total
	CE '000	software	CE '000	CE '000
		CE '000		
Cost				
Balance at 1 January	46.131	15.255	61.386	59.594
Additions	62	4.013	4.075	1.625
Exchange differences	(48)	(96)	(144)	167
Balance at 31 December	<u>46.145</u>	<u>19.172</u>	<u>65.317</u>	<u>61.386</u>
Amortisation				
Balance at 1 January	16.672	8.938	25.610	18.182
Charge for the year (Note 8)	4.370	3.345	7.715	7.351
Exchange differences	(18)	(47)	(65)	77
Balance at 31 December	<u>21.024</u>	<u>12.236</u>	<u>33.260</u>	<u>25.610</u>
Net book value at 31 December	<u>25.121</u>	<u>6.936</u>	<u>32.057</u>	<u>35.776</u>

Goodwill is amortised by equal annual instalments on a straight-line basis as follows:

Goodwill relating to the acquisition and increase in participating interest in subsidiary companies abroad	Over 10 years
Goodwill relating to the acquisition of Paneuropean Insurance group	Over 12 years

28. PROPERTY AND EQUIPMENT

	2004 Property € '000	2004 Equipment € '000	2004 Total € '000	2003 Total € '000
Cost or valuation				
Balance at 1 January	73.748	59.882	133.630	129.121
Additions	3.235	3.547	6.782	8.095
Disposals	(1.771)	(3.273)	(5.044)	(4.768)
Revaluation of property	(940)	-	(940)	1.180
Exchange differences	(232)	(171)	(403)	2
Balance at 31 December	<u>74.040</u>	<u>59.985</u>	<u>134.025</u>	<u>133.630</u>
Depreciation				
Balance at 1 January	8.323	39.677	48.000	43.843
Charge for the year (Note 8)	1.569	6.030	7.599	7.987
Disposals	(459)	(3.135)	(3.594)	(3.754)
Revaluation of property	(2.937)	-	(2.937)	-
Exchange differences	(24)	(162)	(186)	(76)
Balance at 31 December	<u>6.472</u>	<u>42.410</u>	<u>48.882</u>	<u>48.000</u>
Net book value at 31 December	<u>67.568</u>	<u>17.575</u>	<u>85.143</u>	<u>85.630</u>

Included within the property of the Group is an amount of € 265.000 (2003: € 265.000) which represents buildings under construction.

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2004 € '000	2003 € '000
Net book value	1.450	1.014
Profit/(loss) on disposal of property and equipment (Note 10)	577	(165)
Transfer from reserves to income statement (Note 37)	<u>(371)</u>	<u>(215)</u>
Proceeds from disposal of property and equipment	<u>1.656</u>	<u>634</u>

At 31 December, 2004 a valuation of the Group's property was performed by independent professional valuers based on their existing use. Increases in the carrying amount arising on the revaluation were credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset were charged against that reserve. All other decreases were charged to the consolidated income statement and are included under "Depreciation and amortisation" (Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. PROPERTY AND EQUIPMENT (continued)

Cost or valuation of property

	2004 C£ '000	2003 C£ '000
Property stated at revalued amounts	62.032	59.606
Property stated at cost – leasehold buildings	<u>12.008</u>	<u>14.142</u>
	<u>74.040</u>	<u>73.748</u>

The net book value of revalued property that would have been included in the financial statements had the assets been carried at cost less depreciation is C£ 35.008.000 (2003: C£ 35.163.000). The gross amount of property and equipment not depreciated is C£ 30.613.000 (2003: C£ 18.136.000).

29. DUE TO OTHER BANKS

	2004 C£ '000	2003 C£ '000
Maturity analysis		
Repayable on demand	28.355	29.201
Three months or less	33.162	20.576
Over three months but less than one year	8.205	50.790
Over one but less than five years	<u>-</u>	<u>13.656</u>
	<u>69.722</u>	<u>114.223</u>
Analysis by geographical area		
Cyprus	28.340	41.438
United Kingdom	8.981	18.974
Greece	<u>32.401</u>	<u>53.811</u>
	<u>69.722</u>	<u>114.223</u>

30. CUSTOMER DEPOSITS

	2004 C£ '000	2003 C£ '000
Maturity analysis		
Repayable on demand	1.578.354	1.031.938
Three months or less	2.387.376	2.513.897
Over three months but less than one year	599.093	560.297
Over one but less than five years	<u>100.214</u>	<u>41.928</u>
	<u>4.665.037</u>	<u>4.148.060</u>
Analysis by geographical area		
Cyprus	3.163.145	2.931.095
United Kingdom	248.786	233.470
Greece	1.120.080	873.325
Australia	<u>133.026</u>	<u>110.170</u>
	<u>4.665.037</u>	<u>4.148.060</u>

31. SENIOR DEBT

	2004	2003
	€ '000	€ '000
Loan from syndication of banks	-	69.597
Senior debt in euro 2004/2007	173.836	-
	173.836	69.597

Loan from syndication of banks

In August 2004 the Bank proceeded in repaying the whole of the loan from syndication of banks. The loan, for euro 120 m, paid an interest of 0,575% plus the three-month rate of euro (Euribor) and gave the Bank the option to repay any portion of the loan in full or in part on the last day of its interest period by giving the lender 30 days notice.

Senior debt in euro 2004/2007

During the year the Bank set up a Euro Medium Term Note Programme for a total amount of euro 750 m. Pursuant to the Programme the Bank has the ability to issue senior and/or subordinated debt in accordance to its needs.

In July 2004 the Bank issued euro 300 m of senior debt from the above Programme. The bonds are repayable three years from their issue and pay interest every three months. The interest rate is set at the three-month rate of euro (Euribor) plus 0,5%.

The bonds are listed on the Luxembourg Stock Exchange and their market value at 31 December, 2004 was euro 299,6 m.

32. OTHER LIABILITIES

	2004	2003
	€ '000	€ '000
Interest payable	27.170	29.340
Other liabilities from general insurance business	24.996	24.006
Derivative financial instruments with negative fair value (Note 38)	1.969	1.699
Other liabilities	76.746	74.392
	130.881	129.437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DEFERRED TAX LIABILITIES

Deferred tax is calculated in full on all temporary differences under the liability method using the applicable tax rates (Note 12). Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The movement on the deferred taxation account is as follows:

	Difference between depreciation and wear and tear allowance C€ '000	Revaluation of property C€ '000	Embedded value C€ '000	Tax losses C€ '000	Other C€'000	Total C€ '000
2004						
Balance at 1 January	510	3.026	2.671	(771)	12	5.448
Charged/(credited) to:						
Income statement (Note 12)	197	-	23	635	(332)	523
Property revaluation reserve (Note 37)	-	895	-	-	-	895
Exchange differences	-	-	-	-	12	12
Balance at 31 December	<u>707</u>	<u>3.921</u>	<u>2.694</u>	<u>(136)</u>	<u>(308)</u>	<u>6.878</u>
2003						
Balance at 1 January	468	3.065	2.940	(371)	400	6.502
Charged/(credited) to:						
Income statement (Note 12)	42	-	(269)	(400)	(378)	(1.005)
Property revaluation reserve (Note 37)	-	(39)	-	-	-	(39)
Exchange differences	-	-	-	-	(10)	(10)
Balance at 31 December	<u>510</u>	<u>3.026</u>	<u>2.671</u>	<u>(771)</u>	<u>12</u>	<u>5.448</u>

34. LOAN CAPITAL

	2004 € '000	2003 € '000
Convertible debentures 2001/2006		
Balance at 1 January	8.754	9.768
Conversion of debentures during the year	-	(1.014)
	<u>8.754</u>	<u>8.754</u>
Convertible debentures 2003/2010	6.796	6.796
Non-convertible debentures 2003/2009	30.000	30.000
Non-convertible debentures 2003/2007	15.000	15.000
Eurobonds due 2011	104.018	104.962
Capital securities	<u>50.000</u>	<u>50.000</u>
	214.568	215.512
Equity element of convertible debentures (Note 35)	<u>(444)</u>	<u>(444)</u>
Total loan capital	<u>214.124</u>	<u>215.068</u>

The repayment date of the above debentures with the exception of eurobonds due 2011 falls in the period of "over one but less than five years" from the balance sheet date. The repayment date of eurobonds due 2011 falls in the period of "over 5 years" from the balance sheet date. The capital securities are perpetual.

Convertible debentures 2001/2006

In March 1997 the Bank issued € 15 m convertible debentures due 2006. The debentures pay interest every six months on 30 June and 31 December of each year. Interest was fixed at 7% on nominal value for the first two years. Thereafter, interest is reset every six months based on the average interest rate of government bonds in the preceding six-monthly period.

The debentures were convertible into Cyprus Popular Bank Public Company Ltd shares in June of each year until 2003. The conversion price was set at € 1,20 (adjustment due to bonus issue) per share in the years 2000 to 2003. The conversion price was adjusted every time there was a new issue of shares.

In the period from 30 June, 2001 to 30 June, 2006, the Bank has the right to repurchase all or part of the debentures at par and to pay the holder an amount equal to the nominal value of debentures plus any accrued interest. In such a case, the holder of the debentures reserves the right to convert the debentures into shares, according to the terms of the debenture issue.

The debentures are not secured and they rank for payment after the claims of depositors and other creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. LOAN CAPITAL (continued)

Convertible debentures 2003/2010

In June 2001 the Bank issued € 6,7 m convertible debentures due 2010. The debentures pay interest every six months on 31 January and 31 July of each year. Interest was fixed at 7% on nominal value for the first year. Thereafter, interest is reset based on the higher of the average interest rate of government bonds plus 0,25% or the highest interest offered on yearly deposits plus 0,25%.

The debentures are convertible into Cyprus Popular Bank Public Company Ltd shares in July of each year from 2003 to 2009. The conversion price is set at € 5,70 per share in the years 2003 to 2009. The conversion price is adjusted every time there is a new issue of shares, according to the terms of the debenture issue.

In the period from 31 July, 2003 to 25 June, 2010, the Bank has the right to repurchase all or part of the debentures at par and to pay the holder an amount equal to the nominal value of debentures plus any accrued interest. In such a case, the holder of the debentures reserves the right to convert the debentures into shares.

The debentures are not secured and they rank for payment after the claims of depositors and other creditors.

Non-convertible debentures 2003/2009

In June 1999 the Bank issued € 30 m non-convertible debentures due 2009. The debentures pay interest every six months on 31 May and 30 November of each year. Interest was fixed at 7,25% on nominal value for the first year. Thereafter, the debentures pay floating interest. The floating interest rate is equal to the average interest rate of government bonds for one year plus 0,75% or the highest interest rate offered by the Bank for one year customer deposits plus 0,75%, whichever is higher.

After 31 May, 2003, the Bank has the right to repurchase all or part of the debentures at par and to pay the holder an amount equal to the nominal value of the debentures plus any accrued interest.

The debentures are not secured and they rank for payment after the claims of depositors and other creditors.

Non-convertible debentures 2003/2007

In April 2003 the Bank issued € 15 m non-convertible debentures due 2007. The debentures pay interest every six months on 30 June and 31 December of each year.

Interest was fixed at 6,50% on nominal value until 31 December, 2004. Thereafter, the debentures will pay floating interest. The floating interest rate will be equal to the weighted average base rate for the relevant six-monthly period plus 1%.

The Bank has the right to repurchase the debentures in the market, by special agreement or by offer to all debenture holders at any price.

The debentures are not secured and they rank for payment after the claims of depositors and other creditors.

34. LOAN CAPITAL (continued)**Eurobonds due 2011**

In November 2001 the Bank issued euro 180 m step-up floating rate subordinated bonds redeemable in whole on 28 November, 2011. The bonds pay interest every three months in arrears on 28 February, 28 May, 28 August and 28 November in each year. Interest is set at 1,40% above the three-month rate of euro (Euribor). After 28 November, 2006 its interest will be set at 2,8% above Euribor.

The Bank has the option to redeem the bonds in whole on or after 28 November, 2006.

The bonds constitute unsecured, subordinated obligations of the Bank and they rank for payment after the claims of the depositors and other creditors.

The bonds are listed on the Luxembourg Stock Exchange and their market value at 31 December 2004 was euro 180,4 m.

Capital securities

In June 2003 the Bank issued C£ 25 m capital securities, which were offered to a limited number of investors. In September 2003 the Bank issued an additional C£ 25 m capital securities, which were offered to the Bank's shareholders and to the public.

The securities pay floating interest, which is revised at the beginning of each interest period. The floating interest rate is equal to the base rate at the beginning of the period plus 1,2%. The capital securities pay interest quarterly at 31 March, 30 June, 30 September and 31 December in each year.

The capital securities are perpetual, but can be repurchased in full at the option of the Bank at nominal value plus accrued interest on 30 June, 2008 or at any interest payment date thereafter, after approval from the Central Bank of Cyprus.

In case the capital securities are not repurchased by the Bank 10 years after their issue, then the holder has the right to exchange the securities with ordinary shares of the Bank at any interest payment date thereafter, at a discount of 10% on the average price of the ordinary share as this will be traded on the Cyprus Stock Exchange for a period of one month before the respective exchange date.

The capital securities constitute direct non-secured and subordinated obligations of the Bank. They rank for payment after the claims of depositors and other creditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. SHARE CAPITAL

	2004 Shares '000	2003 Shares '000	2004 CE '000	2003 CE '000
Authorised				
Ordinary shares of CE 0,50 each	<u>400.000</u>	<u>400.000</u>	<u>200.000</u>	<u>200.000</u>
Issued and paid-up				
Balance at 1 January	304.011	303.167	152.006	151.583
Conversion of debentures	<u>-</u>	<u>844</u>	<u>-</u>	<u>423</u>
Balance at 31 December	<u>304.011</u>	<u>304.011</u>	<u>152.006</u>	<u>152.006</u>
Equity element of convertible debentures (Note 34)			<u>444</u>	<u>444</u>
Share capital at 31 December			<u>152.450</u>	<u>152.450</u>

The subsidiary companies Paneuropean Insurance Co. Ltd, Philiki Insurance Co. Ltd and Cyprialife Ltd held as at 31 December, 2004 a total of 732.000 (2003: 732.000) shares of the Bank, percentage of 0,2% (2003: 0,2%) as part of their trading portfolio. The subsidiary company Laiki Cyprialife Ltd held 5.592.000 (2003: 5.585.000) shares of the Bank, percentage 1,8% (2003: 1,8%) as part of its policyholders funds.

36. SHARE PREMIUM

	2004 CE '000	2003 CE '000
Balance at 1 January	2.949	2.385
Conversion of debentures	-	591
Adjustment in the value of shares issued for the acquisition of Action Insurance Brokers Ltd	<u>-</u>	<u>(27)</u>
Balance at 31 December	<u>2.949</u>	<u>2.949</u>

Share premium is not available for distribution to shareholders.

37. RESERVES

	2004 C€ '000	2003 C€ '000
Revenue reserves		
Balance at 1 January	115.015	105.412
Net profit for the year	21.100	9.511
Transfer from property revaluation reserves	<u>160</u>	<u>92</u>
Balance at 31 December	<u>136.275</u>	<u>115.015</u>
Property revaluation reserves		
Balance at 1 January	12.996	11.873
Revaluation for the year	3.389	1.391
Transfer to revenue reserves	(160)	(92)
Deferred tax on property revaluation	(895)	39
Transfer to income statement	<u>(371)</u>	<u>(215)</u>
Balance at 31 December	<u>14.959</u>	<u>12.996</u>
Investment revaluation reserves		
Balance at 1 January	741	3.772
Transfer to income statement due to impairment of available-for-sale investments	4.942	2.500
Revaluation for the year (Note 23)	<u>(3.713)</u>	<u>(5.531)</u>
Balance at 31 December	<u>1.970</u>	<u>741</u>
Currency translation reserves		
Balance at 1 January	(3.739)	(4.019)
Exchange differences arising in the year	<u>59</u>	<u>280</u>
Balance at 31 December	<u>(3.680)</u>	<u>(3.739)</u>
Total reserves at 31 December	<u>149.524</u>	<u>125.013</u>

According to the Companies Law and the Articles of Association of the Bank there is no restriction in the distribution of reserves. According to the regulations of the Central Bank the reserves arising from exchange differences are not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments, used by the Group, and the method of determining their fair value are as follows:

Forward foreign exchange contracts specify the rate at which two currencies will be exchanged at a future date; the exchange rate agreed is determined when the deal is made. Forward foreign exchange contracts are revalued daily by calculating the new forward rate until the settlement of the contract based on the current market rates.

Currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a future date. The currency swaps are fairly valued (using the current exchange rates) by calculating the new swap points at the time of the revaluation.

Interest rate swaps are commitments to exchange one set of cash flows based on a fixed interest rate with one set of cash flows based on a floating interest rate. The cash flows are calculated on a fixed notional amount and for a fixed period of time. The fair value of interest rate swaps is calculated by comparing the present value of the discounted cash flows at the date of the revaluation with the current outstanding notional amount of the swap.

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised on the balance sheet, but they do not indicate the amounts of future cash flows or the fair value of the instruments and, therefore, do not present the Group's exposure to credit and other market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

The notional and fair value of derivatives was:

	2004		2004		2003		2003		
	Contract/ Notional Amount C€ '000	Fair values		Contract/ Notional Amount C€ '000	Fair values		Contract/ Notional Amount C€ '000	Fair values	
		Assets	Liabilities		Assets	Liabilities			
Derivatives									
Foreign exchange derivatives:									
Currency forwards	163.934	1.174	607	144.914	1.191	837			
Currency swaps	336.235	632	417	310.028	525	21			
Interest rate derivatives:									
Interest rate swaps	251.782	<u>350</u>	<u>945</u>	201.347	<u>711</u>	<u>841</u>			
		<u>2.156</u>	<u>1.969</u>		<u>2.427</u>	<u>1.699</u>			

39. CASH GENERATED FROM OPERATIONS

	2004 C€ '000	2003 C€ '000
Profit before tax	33.092	15.096
Adjustments for:		
Impairment of available-for-sale investments	4.942	2.500
Share of results of associates before tax	(1.514)	(1.233)
Minority interest	(351)	179
Depreciation of property and equipment (Note 28)	7.599	7.987
Amortisation of computer software (Note 27)	3.345	2.548
Amortisation of goodwill (Note 27)	4.370	4.803
Fair value adjustment of property (Note 8)	1.391	-
Effect of exchange rate changes on cash and cash equivalents	3.999	1.059
Income received from held-to-maturity investments	(7.809)	(5.937)
Dividends from available-for-sale investments (Note 6)	(135)	(80)
Interest paid on loan capital (Note 3)	9.936	8.194
(Profit)/loss on disposal of property and equipment (Note 28)	(577)	165
Profit on disposal of investments in associates (Note 26)	(97)	-
Profit before tax adjusted for items not involving the movement of cash	<u>58.191</u>	<u>35.281</u>
Change in:		
Due to other banks	(44.501)	(13.617)
Customer deposits	516.977	137.598
Other liabilities	1.444	(19.147)
Retirement benefit obligations	10.980	12.276
Due from other banks	(23.882)	3.279
Trading investments	(15.775)	3.213
Advances to customers	(335.793)	(209.757)
Corporate bonds and debentures	(852)	(4.462)
Government bonds and treasury bills	(37.681)	180.065
Held-to-maturity investments	(37.206)	(69.521)
Other assets	26.771	(6.595)
Cash generated from operations	<u>118.673</u>	<u>48.613</u>

40. CASH AND CASH EQUIVALENTS

	2004 C€ '000	2003 C€ '000
Cash and balances with Central Banks (Note 14)	471.569	328.713
Due from other banks - due within three months (Note 15)	771.473	678.492
Government bonds and treasury bills - due within three months (Note 21)	<u>135.017</u>	<u>167.740</u>
	1.378.059	1.174.945
Effect of exchange rate changes on cash and cash equivalents	-	(3.999)
	<u>1.378.059</u>	<u>1.170.946</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.1. SEGMENTAL ANALYSIS

By business class (primary segment)

	Banking services C£ '000	Insurance services C£ '000	Financial and other services C£ '000	Eliminations C£ '000	Total C£ '000
2004					
External revenues	314.165	13.580	44.279	-	372.024
Revenues from other segments	<u>22.445</u>	<u>1.706</u>	<u>772</u>	<u>(24.923)</u>	<u>-</u>
Total revenues	<u>336.610</u>	<u>15.286</u>	<u>45.051</u>	<u>(24.923)</u>	<u>372.024</u>
Profit before tax, amortisation of goodwill and impairment of available-for sale investments	<u>25.815</u>	<u>5.648</u>	<u>10.941</u>		<u>42.404</u>
Profit before tax	<u>22.175</u>	<u>1.071</u>	<u>9.846</u>		33.092
Tax					<u>(11.641)</u>
Profit after tax					21.451
Minority interest					<u>(351)</u>
Net profit attributable to the shareholders of the Bank					<u>21.100</u>
Segment assets	5.137.638	78.345	471.728		5.687.711
Investments in associates	4.929	-	6		<u>4.935</u>
Total assets					<u>5.692.646</u>
Segment liabilities	5.081.067	35.766	21.862		5.138.695
Loan capital	214.124	-	-		214.124
Other segment items					
Share of results of associates before tax	1.514	-	-		1.514
Capital expenditure	8.937	924	996		10.857
Depreciation	7.098	202	299		7.599
Amortisation of computer software	3.034	28	283		3.345
Amortisation of goodwill	335	3.154	881		4.370
Provision for impairment of advances	38.297	-	8.652		46.949
Impairment of available-for-sale investments	3.305	1.423	214		4.942

41. SEGMENTAL ANALYSIS (continued)
By business class (primary segment) (continued)

	Banking services C£ '000	Insurance services C£ '000	Financial and other services C£ '000	Eliminations C£ '000	Total C£ '000
2003					
External revenues	272.821	11.380	46.639	-	330.840
Revenues from other segments	21.875	1.769	478	(24.122)	-
Total revenues	<u>294.696</u>	<u>13.149</u>	<u>47.117</u>	<u>(24.122)</u>	<u>330.840</u>
Profit before tax, amortisation of goodwill and impairment of available for-sale investments	5.137	3.869	13.393		22.399
Profit before tax	<u>2.307</u>	<u>281</u>	<u>12.508</u>		15.096
Tax					<u>(5.764)</u>
Profit after tax					9.332
Minority interest					<u>179</u>
Net profit attributable to the shareholders of the Bank					<u>9.511</u>
Segment assets	4.526.744	80.940	458.356		5.066.040
Investment in associates	4.444	-	4.990		<u>9.434</u>
Total assets					<u>5.075.474</u>
Segment liabilities	4.485.356	33.856	31.389		4.550.601
Loan capital	215.068	-	-		215.068
Other segment items					
Share of results of associates before tax	1.295	-	(62)		1.233
Capital expenditure	8.610	709	401		9.720
Depreciation	7.152	390	445		7.987
Amortisation of computer software	2.433	34	81		2.548
Amortisation of goodwill	330	3.588	885		4.803
Provision for impairment of advances	40.977	-	8.611		49.588
Impairment of available- for-sale investments	2.500	-	-		2.500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. SEGMENTAL ANALYSIS (continued)

By geographical segment

	Cyprus C€ '000	Greece C€ '000	UK C€ '000	Australia C€ '000	Total C€ '000
2004					
Total revenues	265.349	70.013	25.556	11.106	372.024
Capital expenditure	7.235	3.673	203	322	11.433
Segment assets	3.734.953	1.401.305	374.996	181.392	5.692.646
Segment liabilities	3.374.636	1.179.352	449.563	135.144	5.138.695
2003					
Total revenues	238.114	64.966	19.800	7.960	330.840
Capital expenditure	4.963	3.145	1.227	385	9.720
Segment assets	3.451.814	1.167.994	312.431	143.235	5.075.474
Segment liabilities	3.175.210	953.987	309.567	111.837	4.550.601

Reconciliation with the amounts included in the consolidated income statement:

	2004 C€ '000	2003 C€ '000
Total revenues	372.024	330.840
Interest expense per consolidated income statement	(148.236)	(132.231)
Fees and commission expense per consolidated income statement	(2.131)	(2.417)
Operating income per consolidated income statement	<u>221.657</u>	<u>196.192</u>

42. CONTINGENCIES AND COMMITMENTS**Credit-related financial instruments**

Credit-related financial instruments include commitments relating to documentary credits and guarantees, which are designed to meet the financial requirements of the Group's customers. The credit risk on these transactions represents the contract amount. However, the majority of these facilities are offset by corresponding obligations of third parties.

	2004	2003
	CE '000	CE '000
Acceptances	69.109	64.667
Guarantees	308.736	280.206
	<u>377.845</u>	<u>344.873</u>

Unutilised credit facilities

The amount of approved unutilised credit facilities was CE 679.673.000 (2003: CE 450.258.000).

Trustee services

The Bank acts as a trustee of approved investments of insurance companies according to the provisions of the Insurance Companies Laws of 1984 and 1990. The value of all approved investments under trust as at 31 December, 2004 was CE 14 m (2003: CE 14 m).

Capital commitments

Capital expenditure contracted but not provided for at 31 December, 2004 amounted to CE 12,9 m (2003: CE 1,2 m).

Legal proceedings

As at 31 December, 2004 there were pending litigations against the Group in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not expected that the Group will suffer any damage. Therefore, no provision has been made in the consolidated financial statements regarding these cases.

Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	2004	2003
	CE '000	CE '000
Less than one year	1.686	1.274
Over one but less than five years	3.161	4.581
Over five years	495	934
	<u>5.342</u>	<u>6.789</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction between two knowledgeable parties. Differences therefore can arise between book values recorded under the historical cost and fair value estimates. The definition of fair value assumes that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted market prices or to prices prevailing for similar financial instruments.

With reference to the above, the book value of the Bank's assets and liabilities is not materially different from their fair value with the exception of investments in associates as explained below.

The investments in associates are accounted for in the consolidated financial statements under the equity method of accounting. Under this method the book value of the investment consists of the Group's share of the net assets of the associated company.

The fair value of quoted trading and available-for-sale investments is based on stock exchange prices at the balance sheet date. The fair value of not quoted available-for-sale investments is estimated using available financial information for those companies.

44. FINANCIAL RISK MANAGEMENT

As other financial institutions the Group is exposed to several risks. These are continually monitored with various methods so that the concentration of unreasonable risks is avoided. The nature of these risks and the way the Group deals with them are explained below.

Credit risk

Credit risk is the risk of loss due to a borrower or counter party default from actual, contingent or potential claims. Credit risk management focuses on ensuring a disciplined risk culture, risk transparency and intelligent risk taking.

Industry sector and sub-sector analyses supported by economic forecasts provide the main guideline to the credit policy that is reviewed at least semi-annually.

Limits of authority and segregation of duties in the lending processes are in place to maintain objectivity, independence and control over new and existing lending exposures.

44. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk concentrations may arise at industry or customer level. Such concentrations are analysed and monitored on an ongoing basis to minimise any potential excessive exposure to a single industry, industry sub-sector or customer. Loan portfolio exposures are managed to adhere to the credit policy guideline limits set for each industry sector.

Balancing the risk-return relationship is vital for the continuing success of the Group. The risk-return relationship is analysed at customer and product level by the internal pricing mechanism that has been developed to incorporate both the risk taken by the Group and the expected return.

Customer quality rating is applied to new and existing customers. A customer-oriented internal rating system with clear and objective defined quality grades is maintained. The internal rating system evaluates each customer's and group of customers' repayment ability based on the customers' financial and qualitative factors as well as the industry sectors in which the customers operate at least on a quarterly basis. This ensures that the customers' rating reflects the fairly up-to-date default risk taken and acts as a warning sign for monitoring purposes. The ongoing quality evaluation is supported by periodic audits conducted by both the credit risk management and internal audit departments.

The internal rating system is complemented by credit scoring models for retail customers and Moody's Risk Advisor for medium and large businesses. Moody's Risk Advisor is a modern and widely used system that rates the financial strength of companies based on their financial statements, industry risk, the company's standing within the industry sector it operates and the quality of its management.

Changes in the quality of the loan portfolio are monitored closely to develop timely and appropriate strategies to avoid increases in risks taken.

The customer internal rating system is the basis for developing internal probabilities of default that will assist in future credit risk taking decisions and credit risk monitoring.

Credit risk methodologies are adapted to reflect the changing financial environment. The credit quality review methods used and actions taken are reviewed annually and are adapted to fall in line with both the Group's overall strategic direction and the short-term and long-term objectives of risk management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk of fluctuations in the value of financial instruments and in the Bank's net interest income as a result of changes in the market interest rates. Interest rate risk arises from holding assets and liabilities, actual or notional, with different maturity dates or repricing dates, creating exposure to changes in the level of interest rates.

The Bank uses the PVBP (Present Value of a Basis Point) methodology for measuring, monitoring and managing interest rate risk. PVBP shows the effect on the Bank's net interest income and consequently to its profitability, from a one basis point change in the current interest rate yield curve of a specific currency.

The Bank's interest rate risk positions are mainly created from the retail activity of the Bank and are normally hedged in the interbank market. In addition there is very limited trading activity in interest rates, as compared to the size of the Group's balance sheet, with small positions in fixed bonds and futures.

The Bank uses exposure calculations and associated limit structures in PVBPs for monitoring:

- (a) Gross overall exposure across all currencies by time periods.
- (b) Exposure in each individual currency (principally Cyprus Pound, Sterling Pound, United States Dollar, Euro and Australian Dollar).
- (c) Exposure by maturity period.
- (d) Overall exposure.

The Bank evaluates its position by calculating a "maximum potential loss" scenario. The maximum potential loss is calculated by assuming simultaneous shifts in the current interest rate yield curves in all major currencies in a direction that adversely affects the Bank. It should be noted that even under this scenario, the Bank believes that its maximum potential loss would not be significant.

The following tables summarise the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing and maturity dates.

44. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

2004	On demand C£ '000	3 months or less C£ '000	Over 3 months but less than 1 year C£ '000	Over 1 year but less than 5 years C£ '000	Over 5 years C£ '000	Non- interest bearing C£ '000	Total C£ '000
Assets							
Cash and balances with							
Central Banks	448.532	9.876	12.305	-	-	856	471.569
Due from other banks	643.231	122.494	74.582	-	-	682	840.989
Trading investments	22.493	928	750	1.321	-	12.749	38.241
Advances to customers	2.670.692	393.045	126.332	241.084	2.104	26.118	3.459.375
Corporate bonds and debentures	2.950	2.000	-	5.517	-	-	10.467
Government bonds and treasury bills	112.561	65.378	83.495	4.572	52	-	266.058
Available-for-sale investments	-	-	-	-	-	19.481	19.481
Held-to-maturity investments	61.620	298.827	-	-	-	-	360.447
Other assets	2.057	-	-	595	9.747	91.485	103.884
Investments in associates	-	-	-	-	-	4.935	4.935
Intangible assets	-	-	-	-	-	32.057	32.057
Property and equipment	-	-	-	-	-	85.143	85.143
Total assets	3.964.136	892.548	297.464	253.089	11.903	273.506	5.692.646
Liabilities							
Due to other banks	37.448	32.274	-	-	-	-	69.722
Customer deposits	2.770.016	1.087.685	622.761	177.608	6.967	-	4.665.037
Senior debt	173.836	-	-	-	-	-	173.836
Other liabilities	15.114	-	-	-	9.482	122.646	147.242
Retirement benefit obligations	-	-	-	-	-	82.858	82.858
	2.996.414	1.119.959	622.761	177.608	16.449	205.504	5.138.695
Loan capital	6.796	154.018	53.310	-	-	-	214.124
Total liabilities	3.003.210	1.273.977	676.071	177.608	16.449	205.504	5.352.819
Net liquidity gap	960.926	(381.429)	(378.607)	75.481	(4.546)		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.4. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

2003	On demand C£ '000	3 months or less C£ '000	Over 3 months but less than 1 year C£ '000	Over 1 year but less than 5 years C£ '000	Over 5 years C£ '000	Non-interest bearing C£ '000	Total C£ '000
Assets							
Cash and balances with Central Banks	282.738	11.158	26.642	-	-	8.175	328.713
Due from other banks	553.626	125.492	42.171	1.296	-	1.541	724.126
Trading investments	1.130	2.642	2.772	1.321	1	14.600	22.466
Advances to customers	2.404.481	355.412	111.682	232.745	3.449	15.813	3.123.582
Corporate bonds and debentures	1.500	2.250	218	494	-	-	4.462
Government bonds and treasury bills	141.547	37.861	40.914	38.778	2.000	-	261.100
Available-for-sale investments	-	-	-	-	-	23.194	23.194
Held-to-maturity investments	108.017	215.224	-	-	-	-	323.241
Other assets	247	5.344	-	827	17.875	109.457	133.750
Investments in associates	-	-	-	-	-	9.434	9.434
Intangible assets	-	-	-	-	-	35.776	35.776
Property and equipment	-	-	-	-	-	85.630	85.630
Total assets	3.493.286	755.383	224.399	275.461	23.325	303.620	5.075.474
Liabilities							
Due to other banks	53.262	10.021	50.940	-	-	-	114.223
Customer deposits	2.325.383	1.132.982	551.593	138.102	-	-	4.148.060
Senior debt	69.597	-	-	-	-	-	69.597
Other liabilities	16.397	-	-	-	11.958	118.488	146.843
Retirement benefit obligations	-	-	-	-	-	71.878	71.878
	2.464.639	1.143.003	602.533	138.102	11.958	190.366	4.550.601
Loan capital	6.796	154.962	53.310	-	-	-	215.068
Total liabilities	2.471.435	1.297.965	655.843	138.102	11.958	190.366	4.765.669
Net liquidity gap	1.021.851	(542.582)	(431.444)	137.359	11.367		

44. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

Currency risk relates to the risk of fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates. Currency risk arises from an open position, either overbought or oversold, in a foreign currency, creating exposure to a change in the relevant exchange rate. This may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or forward exchange derivatives including options. The risk also arises from the net position of subsidiary companies and branches that have a measurement currency other than the Cyprus pound. The Group hedges the larger part of this risk by maintaining equivalent liabilities in the same currency.

The Group enters into foreign exchange transactions in order to accommodate customer needs and for hedging its own exposure. It is the Group's policy to match its assets and liabilities for each currency. To this effect, the Group's Treasury departments engage only to limited active proprietary trading, monitored through a set of predefined limits.

The Group uses exposure calculations and associated limit structures for monitoring:

- (a) Open position by currency – net long/short position of each currency.
- (b) Total net short position – sum of short positions in all currencies.
- (c) Maximum loss limits – maximum level of losses resulting from foreign exchange fluctuations on a daily/monthly/yearly basis.

The Group Risk Management Unit calculates the maximum potential loss for the open positions in different currencies by assuming several "worst case scenarios", otherwise known as "stress testing". These scenarios assume large fluctuations in all currencies in a way that could adversely affect the Group. The loss of these scenarios determines the actual open position limits for the Group.

The following tables summarise the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The tables also present the notional amount of foreign exchange derivatives, which are used to reduce the Group's exposure to currency movements, categorised by currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.4. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

	Cyprus Pound € '000	Euro € '000	United States Dollar € '000	Sterling Pound € '000	Australian Dollar € '000	Other currencies € '000	Total € '000
2004							
Assets							
Cash and balances with Central Banks	288.102	116.979	50.047	12.094	4.182	165	471.569
Due from other banks	44.292	77.299	532.448	146.288	34.861	5.801	840.989
Trading investments	12.316	23.800	2.125	-	-	-	38.241
Advances to customers	1.744.746	969.065	271.180	257.456	132.764	84.164	3.459.375
Corporate bonds and debentures	10.467	-	-	-	-	-	10.467
Government bonds and treasury bills	130.737	121.368	7.385	6.568	-	-	266.058
Available-for-sale investments	19.481	-	-	-	-	-	19.481
Held-to-maturity investments	-	173.242	144.992	35.584	6.628	1	360.447
Other assets	59.854	30.772	3.285	7.247	2.036	690	103.884
Investments in associates	4.935	-	-	-	-	-	4.935
Intangible assets	23.412	7.647	-	607	391	-	32.057
Property and equipment	69.517	9.495	-	4.998	1.133	-	85.143
Total assets	2.407.859	1.529.667	1.011.462	470.842	181.995	90.821	5.692.646
Liabilities							
Due to other banks	3.798	40.543	14.359	9.600	86	1.336	69.722
Customer deposits	1.853.738	927.738	1.040.715	486.437	252.722	103.687	4.665.037
Senior debt	-	173.836	-	-	-	-	173.836
Other liabilities	94.524	25.623	2.299	20.716	3.441	639	147.242
Retirement benefit obligations	82.858	-	-	-	-	-	82.858
	2.034.918	1.167.740	1.057.373	516.753	256.249	105.662	5.138.695
Loan capital	110.106	104.018	-	-	-	-	214.124
Minority interest	9.360	25.544	-	-	-	-	34.904
Shareholders' equity	304.923	-	-	-	-	-	304.923
Total liabilities and shareholders' equity	2.459.307	1.297.302	1.057.373	516.753	256.249	105.662	5.692.646
Net on balance sheet position	(51.448)	232.365	(45.911)	(45.911)	(74.254)	(14.841)	
Off balance sheet net notional position	4.148	(196.709)	49.144	54.276	96.989	(14.009)	
Net currency position	(47.300)	35.656	3.233	8.365	22.735	(28.850)	

44. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (continued)

2003	Cyprus Pound CE '000	Euro CE '000	United States Dollar CE '000	Sterling Pound CE '000	Australian Dollar CE '000	Other currencies CE '000	Total CE '000
Assets							
Cash and balances with							
Central Banks	250.909	45.214	17.450	8.657	6.326	157	328.713
Due from other banks	37.369	101.558	411.194	139.888	12.973	21.144	724.126
Trading investments	19.215	3.251	-	-	-	-	22.466
Advances to customers	1.702.040	784.819	179.082	233.561	113.682	110.398	3.123.582
Corporate bonds and debentures	4.462	-	-	-	-	-	4.462
Government bonds and treasury bills	167.566	83.951	9.583	-	-	-	261.100
Available-for-sale investments	23.194	-	-	-	-	-	23.194
Held-to-maturity investments	-	129.179	164.452	24.370	5.238	2	323.241
Other assets	76.170	45.479	3.808	5.326	1.613	1.354	133.750
Investments in associates	9.434	-	-	-	-	-	9.434
Intangible assets	26.049	8.356	-	858	513	-	35.776
Property and equipment	69.959	9.673	-	4.850	1.148	-	85.630
Total assets	2.386.367	1.211.480	785.569	417.510	141.493	133.055	5.075.474
Liabilities							
Due to other banks	20.867	64.176	12.866	15.800	-	514	114.223
Customer deposits	1.825.547	710.860	833.991	453.926	226.158	97.578	4.148.060
Senior debt	-	52.772	-	16.825	-	-	69.597
Other liabilities	95.025	24.326	2.403	19.413	2.792	2.884	146.843
Retirement benefit obligations	71.878	-	-	-	-	-	71.878
	2.013.317	852.134	849.260	505.964	228.950	100.976	4.550.601
Loan capital	110.107	104.961	-	-	-	-	215.068
Minority interest	9.893	19.500	-	-	-	-	29.393
Shareholders' equity	280.412	-	-	-	-	-	280.412
Total liabilities and shareholders' equity	2.413.729	976.595	849.260	505.964	228.950	100.976	5.075.474
Net on balance sheet position	(27.362)	234.885	(63.691)	(88.454)	(87.457)	32.079	
Off balance sheet net notional position	(3.200)	(213.658)	70.826	92.643	85.147	(31.456)	
Net currency position	(30.562)	21.227	7.135	4.189	(2.310)	623	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not coincide. Liquidity risk also refers to the risk that the Group, might be unable to meet its obligations relating to financial instruments or transactions when they fall due.

The Group recognises the nature of liquidity risk and manages the particular risk through a well-developed liquidity management structure comprising of a diverse range of controls and limits. The Group has to comply both with liquidity ratios set by foreign and local banking regulators, as well as, with internal limits.

The Bank monitors and manages liquidity through the use of the following set of controls:

- (a) Balance in the Minimum Reserve Account as set by the Central Bank of Cyprus.
- (b) Mismatch ratios, set by the Central Bank of Cyprus, between maturing assets and liabilities for the time periods up to one month.
- (c) Ratio of liquid assets over total customer deposits, set internally.

The foreign operations of the Group comply with well-defined liquidity requirements set by the Central Bank of Cyprus and their local regulators.

The following tables analyse assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

44. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

2004	On demand C€ '000	3 months or less C€ '000	Over 3 months but less than 1 year C€ '000	Over 1 year but less than 5 years C€ '000	Over 5 years C€ '000	Total C€ '000
Assets						
Cash and balances						
with Central Banks	236.212	42.415	17.964	-	174.978	471.569
Due from other banks	508.106	263.367	63.287	6.229	-	840.989
Trading investments	24.035	1.807	175	1.047	11.177	38.241
Advances to customers	753.487	584.330	310.086	856.123	955.349	3.459.375
Corporate bonds and debentures	1.001	134.016	12.000	85.622	33.419	266.058
Government bonds and treasury bills	-	-	-	6.967	3.500	10.467
Available-for-sale investments	-	-	-	-	19.481	19.481
Held-to-maturity investments	-	23.775	43.969	288.063	4.640	360.447
Other assets	18.526	24.130	10.926	19.231	31.071	103.884
Investments in associates	-	-	-	-	4.935	4.935
Intangible assets	-	-	-	-	32.057	32.057
Property and equipment	-	-	-	-	85.143	85.143
Total assets	1.541.367	1.073.840	458.407	1.263.282	1.355.750	5.692.646
Liabilities						
Due to other banks	28.355	33.162	8.205	-	-	69.722
Customer deposits	1.578.354	2.387.376	599.093	100.214	-	4.665.037
Senior debt	-	-	-	173.836	-	173.836
Other liabilities	40.454	50.392	35.474	5.643	15.279	147.242
Retirement benefit obligations	-	-	-	-	82.858	82.858
	1.647.163	2.470.930	642.772	279.693	98.137	5.138.695
Loan capital	-	-	-	53.754	160.370	214.124
Total liabilities	1.647.163	2.470.930	642.772	333.447	258.507	5.352.819
Net liquidity gap	(105.796)	(1.397.090)	(184.365)	929.835	1.097.243	339.827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

2003	On demand C€ '000	3 months or less C€ '000	Over 3 months but less than 1 year C€ '000	Over 1 year but less than 5 years C€ '000	Over 5 years C€ '000	Total C€ '000
Assets						
Cash and balances with						
Central Banks	164.218	1.693	23.553	20	139.229	328.713
Due from other banks	240.662	437.830	44.864	770	-	724.126
Trading investments	13.796	4.490	1.163	1.959	1.058	22.466
Advances to customers	778.880	491.550	310.098	675.927	867.127	3.123.582
Corporate bonds and debentures	-	-	298	664	3.500	4.462
Government bonds and treasury bills	-	167.740	36.380	49.304	7.676	261.100
Available-for-sale investments	365	-	-	2.865	19.964	23.194
Held-to-maturity investments	-	22.260	15.353	285.628	-	323.241
Other assets	14.291	35.764	25.532	22.373	35.790	133.750
Investments in associates	-	-	-	4.990	4.444	9.434
Intangible assets	-	-	-	-	35.776	35.776
Property and equipment	-	-	-	-	85.630	85.630
Total assets	1.212.212	1.161.327	457.241	1.044.500	1.200.194	5.075.474
Liabilities						
Due to other banks	29.201	20.576	50.790	13.656	-	114.223
Customer deposits	1.031.938	2.513.897	560.297	41.928	-	4.148.060
Senior debt	-	-	-	69.597	-	69.597
Other liabilities	38.088	52.017	36.070	5.543	15.125	146.843
Retirement benefit obligations	32	-	-	-	71.846	71.878
	1.099.259	2.586.490	647.157	130.724	86.971	4.550.601
Loan capital	-	-	-	23.754	191.314	215.068
Total liabilities	1.099.259	2.586.490	647.157	154.478	278.285	4.765.669
Net liquidity gap	112.953	(1.425.163)	(189.916)	890.022	921.909	309.805

45. DIRECTORS' INTEREST

The beneficial interest in the Bank's share capital owned by the directors, their spouses and minor children and by companies in which they hold directly or indirectly at least 20% of the voting rights in a general meeting was as follows:

	Beneficial interest at 31 December, 2004	Beneficial interest at 4 April, 2005
Kikis N. Lazarides	0,35%	0,35%
Michalis R. Erotokritos	0,01%	0,01%
Marios and Platon E. Lanitis*	8,59%	8,59%
Christos Papaellinas	0,06%	0,06%
Rena Rouvitha Panou	0,01%	0,01%

* The percentage controlled by Messrs Marios and Platon E. Lanitis is made up of the holdings of Lanitis E.C. Holdings Ltd (31.12.2004: 8,53%, 04.04.2005: 8,53%), Mr. Marios E. Lanitis (31.12.2004: 0,04%, 04.04.2005: 0,04%) and Mr. Platon E. Lanitis (31.12.2004: 0,02%, 04.04.2005: 0,02%).

46. SHAREHOLDERS WITH MORE THAN 5% OF SHARE CAPITAL

Shareholding in excess of 5% of the Bank's share capital is held by the following:

	Shareholding at 31 December, 2004	Shareholding at 4 April, 2005
HSBC Finance (Netherlands)	21,33%	21,33%
Lanitis E.C. Holdings Ltd	8,53%	8,53%
Provident Fund of the Employees of Cyprus Popular Bank Ltd	5,71%	5,71%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. RELATED PARTY TRANSACTIONS

The advances to directors and their connected persons at 31 December, 2004 amounted to € 75,400,000 (2003: € 75,400,000).

	Number of Directors	Total € '000
More than 1% of the net assets of the Group	3	71,500
Less than 1% of the net assets of the Group	<u>7</u>	<u>3,900</u>
	<u>10</u>	<u>75,400</u>

In addition to the advances mentioned above, there were contingent liabilities of € 17,100,000 for guarantees and € 4,300,000 for letters of credit to directors and their connected persons whose credit facilities exceed an amount equivalent to 1% of the net assets of the Group. There were also contingent liabilities of € 400,000 for letters of credit to directors and their connected persons whose credit facilities are less than an amount equivalent to 1% of the net assets of the Group. Connected persons include the spouse, minor children and companies in which a director holds directly or indirectly at least 20% of the voting rights in a general meeting.

The deposits by related companies at 31 December, 2004 were € 4,979,000 (2003: € 4,133,000). At 31 December, 2004 there were also interbank deposits of € 3,680,000 (2003: € 11,411,000) and placements of € 1,806,000 (2003: € 400,000) with the HSBC Group, which is regarded as a related party.

The above transactions are carried out as part of the normal banking activities of the Group on commercial terms.

48. DIVIDENDS

The Board of Directors of the Bank has decided to recommend to the Annual General Meeting, which will be held on the 25 May, 2005, a dividend payment of 6% (2003: 0%), 3 cents per share of 50 cent nominal value. The dividend of € 9,120,000 will be paid to the shareholders registered in the Shareholders Registry on 31 May, 2005.

These consolidated financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December, 2005. From 1 January, 2003 dividends paid to individuals, who are Cyprus tax residents are subject to a deduction of special contribution for defence at the rate of 15%.

The Board will also give the right of re-investing the dividend in shares of the Bank. The Conversion price of the dividend into shares will be based on the average of the closing prices of the Bank's shares on the Cyprus Stock Exchange for five business days commencing on 27 May, 2005 (the first day the shares would be quoted ex-dividend) and ending 2 June, 2005, less a 10% discount.

49. INVESTMENTS IN SUBSIDIARY COMPANIES

The subsidiary companies of the Group are as follows:

	Activity	Shareholding
Laiki Bank (Hellas) S.A.	Banking	78%
Laiki Leasing S.A.	Leasing	89%
Laiki Factoring S.A.	Factoring and invoice discounting	89%
Laiki A.E.D.A.K.	Mutual funds management	87%
Laiki ATTALOS Securities S.A.	Brokerage	82%
Laiki Life S.A.	Life assurance	89%
Laiki Insurance Agencies S.A.	Insurance agents	89%
Laiki Bank (Australia) Ltd	Banking	100%
Laiki Cyprialife Ltd	Life assurance	100%
Laiki Insurance Ltd	General insurance	100%
Action Insurance Brokers Ltd	General insurance	100%
Aeolos Insurance Ltd	General insurance	100%
Philiki Insurance Co. Ltd	Investment company	100%
Paneuropean Insurance Co. Ltd	Investment company	100%
Cyprialife Ltd	Investment company	100%
Laiki Insurance Agencies Ltd	Insurance agents	100%
The Cyprus Popular Bank (Finance) Ltd	Installment finance and leasing	100%
Laiki Factors Ltd	Factoring and invoice discounting	100%
Laiki Investments E.P.E.Y. Public Co. Ltd	Investment banking	57%
Laiki Brokerage E.P.E.Y. Ltd	Brokerage	57%
Laiki E.D.A.K. and Asset Management Ltd	Asset management	57%
Laiki E.D.A.K. Ltd	Mutual funds management	100%
Laiki Lefkothea Centre Ltd	Property development	100%
Labancor Ltd	Property development	100%
Auction Yard Ltd	Auctions	100%
Laiki Trustees Ltd	Management services	100%
Laiki Bank (Nominees) Ltd	Trustee services	100%
Popular Bank Computers Ltd	Dormant company	100%
Direct Insurance Co. Ltd	Dormant company	100%
TICC Ltd	Dormant company	100%
Pinnocchio Textiles Enterprises Ltd	Dormant company	100%
Philiki Management Services Ltd	Dormant company	100%
Imperial Life Assurance Ltd	Dormant company	100%
Dosos Ltd	Dormant company	100%

The Cyprus Popular Bank Public Company Ltd is registered in Cyprus and operates in Cyprus and the United Kingdom. Laiki Bank (Hellas) S.A., Laiki Leasing S.A., Laiki Factoring S.A., Laiki A.E.D.A.K., Laiki ATTALOS Securities S.A., Laiki Life S.A. and Laiki Insurance Agencies S.A. are registered and operate in Greece. Laiki Bank (Australia) Ltd is registered and operates in Australia. All other subsidiary companies are registered and operate in Cyprus.

On 30 September, 2004 the Bank acquired 5,19% of the share capital of Laiki Bank (Hellas) S.A. increasing its shareholding to 78%. The cost of acquisition amounted to € 5.876.000 paid in cash and goodwill arising on acquisition was € 62.000.

There were no other changes in the participation rates in the subsidiary companies during the year ended 31 December, 2004.

50. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 6 April, 2005.

ENTHUSIASM



As much as strategy is a basic precondition for the fulfilment of the vision so is a feeling of enthusiasm an important factor in this process. It is an element which feeds our dynamism and lends positiveness and creativity to our actions.

The Group relies on the enthusiasm of its people because it knows that enthusiasm, zeal and dedication cannot be acquired but are won. The staff of the Group is the transmitter and receiver of a new philosophy of participation of which the dominant element is the individual in the team and through the team.

IMPORTANT ADDRESSES

CYPRUS

GROUP'S HEAD OFFICES

Laiki Group Building
154 Limassol Avenue
Tel: 22-552000, Fax: 22-811250

MAIN BRANCHES LAIKI BANK

NICOSIA

Main Branch Nicosia (001)
39 Arch. Makarios III Avenue, 1065 Nicosia
Tel: 8000 2000, Fax: 22-812250

LIMASSOL

Main Branch Limassol (020)
Corner Athinon & N. Xiouta, 3041 Limassol
Tel: 8000 2000, Fax: 25-815141

LARNACA

Main Branch Larnaca (040)
33 Lord Byron St., 6023 Larnaca
Tel: 8000 2000, Fax: 24-814111

PAPHOS

Main Branch Paphos (063)
10 Apostolou Pavlou Avenue, 8046 Paphos
Tel: 8000 2000, Fax: 26-816182

FAMAGUSTA AREA

Main Branch Paralimni (037)
102-104 April 1st Str., 5280 Paralimni
Tel: 8000 2000, Fax: 23-813016

DOMESTIC BANKING

154 Limassol Avenue, P.O.Box 22032, 1598 Nicosia
Tel: 22-811101, Fax: 22-811489

INTERNATIONAL OPERATIONS

154 Limassol Avenue, P.O.Box 22032, 1598 Nicosia
Tel: 22-811123, Fax: 22-811489

LAIKI eBANK

www.laikiebank.com, Tel: 8000 2000
Calls from overseas: 357 22 887766

INVESTOR RELATIONS

E-mail: investorrelations@laiki.com
Tel: 22-811865, Fax: 22-811811

SUBSIDIARY COMPANIES

LAIKI FINANCE

19 Stasinou Str., Engomi, 2404 Nicosia
P.O.Box 24515, 1300 Nicosia
Tel: 22-552000, Fax: 22-367296

LAIKI INVESTMENTS (FINANCIAL SERVICES)

39 Evagorou, Etita Court, 1st floor, 1066 Nicosia
P.O.Box 25065, 1306 Nicosia
Tel: 22-718300, Fax: 22-718568

LAIKI FACTORS

39 Arch. Makarios III Avenue, 1065 Nicosia
P.O.Box 22032, 1598 Nicosia
Tel: 22-552000, Fax: 22-812333

LAIKI CYPRIALIFE

64 Arch. Makarios & 1 Karpenisiou
1077 Nicosia
P.O.Box 20819, 1664 Nicosia
Tel: 22-887300, Fax: 22-887460

LAIKI INSURANCE

35,37 & 45 Vyzantiou Str.
2064 Strovolos, Nicosia
P.O.Box 25218, 1307 Nicosia
Tel: 22-887600, Fax: 22-887509



OVERSEAS

LAIKI BANK (HELLAS) S.A.

HEAD OFFICES

16 Panepistimiou, 106 72 Athens
Tel: 30210 33 50 000, Fax: 30210 32 43 141

SUBSIDIARY COMPANIES

LAIKI LEASING S.A.

24 Sygrou & Hadjichristou Avenue
117 42 Athens
Tel: 30210 90 03 400, Fax: 30210 90 03 401

LAIKI FACTORING S.A.

24 Sygrou & Hadjichristou Avenue
117 42 Athens
Τηλ: 30210 90 03 460, Φαξ: 30210 90 03 461

LAIKI AEDAK

16 Panepistimiou, 106 72 Athens
Tel: 30210 33 50 200, Fax: 30210 33 50 111

LAIKI ATTALOS SECURITIES S.A.

5 Kanaris Street, 106 71 Athens
Tel: 30210 36 79 500, Fax: 30210 36 44 912

LAIKI LIFE INSURANCE COMPANY S.A.

54 Kyprou & Electroupoleos street
164 52 Argyroupoli
Τηλ: 30210 99 46 680, Φαξ: 30210 99 38 187

LAIKI INSURANCE AGENTS LTD

54 Kyprou & Electroupoleos street
164 52 Argyroupoli
Τηλ: 30210 99 46 660, Φαξ: 30210 99 38 731

LAIKI BANK (AUSTRALIA) LTD

Level 9, 12 Castlereagh Street
Sydney NSW 2000
Tel: 612 8233 9100, Fax: 612 9230 0001

LAIKI BANK UK

14 Cavendish Place, London W1G 9DJ
Tel: 4420 7307 8400, Fax: 4420 7307 8404

LAIKI BANK (GUERNSEY) LTD

21 Glatigny Esplanade, St Peter Port, Guernsey, Channel Islands
Tel: 44 (0) 1481 722988, Fax: 44 (0) 1481 722998

REPRESENTATIVE OFFICES

USA

New York, 450, Park Avenue
19th floor, suite no. 1901
New York, NY 10022
Tel: 1212 319 3515, Fax: 1212 319 3516
E-mail: laiki.ny@laiki.com

CANADA

Toronto, 484, Danforth Avenue, 2nd floor
Toronto, Ontario M4K 1P6
Tel: 1416 466 8180, Fax: 416 466 9609
E-mail: laiki.toronto@laiki.com

Montreal, 5724, Ave. du Parc Montreal,
Quebec H2V 4H1
Tel: 1514 495 8118, Fax: 1514 495 9746
E-mail: laiki.montreal@bellnet.ca

SOUTH AFRICA

2nd Floor, Village Walk Office Complex
Village Walk Shopping Centre, Corner Maude &
Rivonia Drive Sandown, 2146 Gauteng
Tel: 27 11 263 9880, Fax: 27 11 884 0558
E-mail: laiki.sa@laiki.com

RUSSIA

Moscow, Office 1005A, 10th floor Sovincentr,
Entrance no. 3, Krasnopresneskaya Nab. 12,
Moscow 123610
Tel: 7095 9670185, Fax: 7095 9670186
E-mail: laiki.moscow@laiki.com

SERBIA & MONTENEGRO

30 Knez Mihajlova, 3rd floor, 11000 Belgrade
Tel: 381 11 3036270/1, Fax: 381 11 33772
E-mail: laiki.yu@laiki.com

General Supervision
Group Corporate Affairs

Design & Production
M.A.D. (Mike Adamou Designs)

Printed by
J.G. Cassoulides & Sons Ltd

We would like to thank all the colleagues who were photographed for the purposes of the Annual Report 2004

- Additional copies of the Annual Report may be obtained from Laiki Telebank, tel: 8000 2000
- Annual Report and other information on Laiki Group are available on our web site: www.laiki.com

