

**FINANCIAL STATEMENTS**

Directors' Report

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Auditors' Report

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Consolidated Profit and Loss Account

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Consolidated Balance Sheet

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Bank's Balance Sheet

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Consolidated Statement of Total Recognised Gains and Losses

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Consolidated Cash Flow Statement

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Notes to the Financial Statements

## **DIRECTORS` REPORT**

The Directors submit for approval their Annual Report and the audited financial statements for the year ended 31 December 2002.

### **Main activities and review of operations**

The main activities of the Group during the year were the provision of banking, financial and insurance services. A review of the development of the business of the Group during the year is given in the Chairman's statement on pages 1 to 5 and in the accompanying reports on the Group's activities.

### **Results for the year and dividend**

The results for 2002 are shown in the consolidated profit and loss account on page 35. The Group operating profit before the loss from disposal and revaluation of securities reached C£ 64,9 m compared to C£ 60,5 m in 2001. Operating profit after the loss from disposal and revaluation of securities (C£ 12,1 m) reached C£ 52,9 m compared to C£ 19,9 m in 2001. After providing for bad and doubtful debts of C£ 53,8 m and the transfer from the investment revaluation reserve of C£ 47,1 m, loss before tax reached C£ 48,1 m against a profit of C£ 2,1 m in 2001. After deducting taxation (C£ 5,4 m) and minority interest (C£ 1,7 m), loss attributable to the shareholders of the Bank reached C£ 51,8 m against loss of C£ 9,2 m in 2001. No dividend is proposed for the year, as shown in Note 10 to the financial statements.

### **Share Capital**

In February 2002 the Bank issued 1.920.000 shares to the employees of the Group.

In June 2002, 144.000 convertible debentures 2001/2006 were converted into 120.000 shares. Also in June 2002 2.797.000 shares were issued as a result of the reinvestment of the final dividend 2001. As a result of the above, the issued share capital of the Bank has increased from 298.330.000 shares in 2001 to 303.167.000 in 2002.

### **Board of Directors**

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

Messrs Kikis N. Lazarides, Iacovos Demetriou, Antis Loutsios and Andreas Papaellinas retire by rotation and, being eligible, offer themselves for re-election.

In July 2002 Mrs Rena Rouvitha Panou and in November 2002 Mr Anthony Townsend were appointed to the Board of Directors in accordance with section 98 of the Bank's Articles of Association and, being eligible, offer themselves for re-election.

In November 2002 Mr. David Baker retired from the Board of Directors.

## **Auditors**

The auditors of the Bank Messrs Deloitte & Touche have undergone a restructuring and on 19 December 2002 the partnership of Deloitte & Touche was dissolved. At the same date the Board of Directors of the Bank appointed Messrs PricewaterhouseCoopers as their auditors. A resolution for the confirmation of their appointment and for fixing their remuneration will be proposed at the Annual General Meeting.

Kikis N. Lazarides  
*Executive Chairman*

Nicosia, 10 April 2003

## **AUDITORS' REPORT TO THE MEMBERS OF THE CYPRUS POPULAR BANK LIMITED**

We have audited the financial statements on pages 35 to 83 and have obtained all the information and explanations we considered necessary. These financial statements are the responsibility of the Company's 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.

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 Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper books of account have been kept by the Company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the Company as of 31 December 2002 and of the Group results and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Companies Law, Cap. 113.

PricewaterhouseCoopers  
Chartered Accountants

Nicosia  
10 April 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 C£ '000	2001 C£ '000
Interest receivable	2	273.041	293.757
Interest payable	3	<u>(150.555)</u>	<u>(178.909)</u>
Net interest income		122.486	114.848
Fees and commissions receivable		41.363	37.373
Profit from dealing in exchange		12.370	10.399
Other operating income	4	<u>10.414</u>	<u>3.010</u>
Operating income		186.633	165.630
Staff costs	5	(76.559)	(64.100)
Depreciation and amortisation	23, 24	(13.274)	(11.108)
Other expenses	6	<u>(31.817)</u>	<u>(29.902)</u>
Operating profit before the results from disposal and revaluation of securities	7	64.983	60.520
Loss on disposal and revaluation of securities	8	<u>(12.097)</u>	<u>(40.649)</u>
Operating profit after the results from disposal and revaluation of securities		52.886	19.871
Provision for bad and doubtful debts	18	<u>(53.845)</u>	<u>(17.773)</u>
(Loss)/profit before transfer from investment revaluation reserve		(959)	2.098
Transfer from investment revaluation reserve due to impairment in the value of available-for-sale Investments	27	<u>(47.149)</u>	<u>-</u>
(Loss)/profit before tax		(48.108)	2.098
Tax	9	<u>(5.426)</u>	<u>(15.147)</u>
Loss after tax		(53.534)	(13.049)
Minority interest		1.701	3.786
Loss attributable to the shareholders of the Bank	27	<u>(51.833)</u>	<u>(9.263)</u>
Dividend	10	<u>-</u>	<u>23.866</u>
<b>Earnings per share</b>			
Earnings per share – cents	11	(17,2)	(3,1)

The notes on pages 42 to 83 form an integral part of the financial statements

**CONSOLIDATED BALANCE SHEET**  
31 DECEMBER 2002

	Note	2002 C£ '000	2001 C£ '000
<b>Assets</b>			
Cash and deposits with Central Banks	12	<b>413.131</b>	266.103
Items in course of collection from other banks		<b>49.021</b>	34.169
Placements with other banks	13	<b>570.719</b>	843.574
Government bonds and treasury bills	14	<b>344.922</b>	412.243
Other bonds	15	<b>280.765</b>	217.510
		<b>1.658.558</b>	1.773.599
Advances	16	<b>2.913.825</b>	2.601.348
Other assets	19	<b>145.910</b>	158.930
		<b>4.718.293</b>	4.533.877
Investments	22	<b>37.115</b>	53.021
Tangible fixed assets	23	<b>85.278</b>	86.310
Intangible assets	24	<b>41.412</b>	41.427
		<b>4.882.098</b>	4.714.635
<b>Share capital and reserves</b>			
Share capital	25	<b>151.819</b>	149.404
Share premium	26	<b>2.385</b>	427
		<b>154.204</b>	149.831
Reserves	27	<b>120.896</b>	152.468
		<b>275.100</b>	302.299
<b>Shareholders' equity</b>			
<b>Minority interest</b>		<b>26.039</b>	28.062
<b>Loan capital</b>	28	<b>148.723</b>	149.015
		<b>449.862</b>	479.376
<b>Liabilities</b>			
Deposits by banks	29	<b>127.840</b>	199.901
Customer deposits	30	<b>4.010.462</b>	3.756.460
Loan from syndication of banks	31	<b>68.364</b>	68.379
Other liabilities	32	<b>225.570</b>	210.519
		<b>4.882.098</b>	4.714.635

K.N. Lazarides, *Executive Chairman*  
A. Loutsios, C. Pavlou, *Directors*  
A. Philippidou, *Manager-Group Financial Control*

The notes on pages 42 to 83 form an integral part of the financial statements.

**BANK'S BALANCE SHEET**  
31 DECEMBER 2002

	Note	2002 C£ '000	2001 C£ '000
<b>Assets</b>			
Cash and deposits with Central Banks	12	<b>371.491</b>	217.155
Items in course of collection from other banks		<b>48.689</b>	32.306
Placements with other banks	13	<b>532.988</b>	803.472
Government bonds and treasury bills	14	<b>147.395</b>	258.001
Other bonds	15	<b>280.765</b>	217.510
		<b>1.381.328</b>	1.528.444
Advances	16	<b>1.867.372</b>	1.792.901
Other assets	19	<b>40.352</b>	37.538
Amounts due from subsidiary companies		<b>279.876</b>	281.794
		<b>3.568.928</b>	3.640.677
Investments in subsidiary companies	21	<b>193.651</b>	166.990
Investments	22	<b>27.369</b>	42.321
Tangible fixed assets	23	<b>70.855</b>	71.925
Intangible assets	24	<b>36.069</b>	35.416
		<b>3.896.872</b>	3.957.329
<b>Share capital and reserves</b>			
Share capital	25	<b>151.819</b>	149.404
Share premium	26	<b>2.385</b>	427
		<b>154.204</b>	149.831
Reserves	27	<b>120.896</b>	152.468
		<b>275.100</b>	302.299
<b>Shareholders' equity</b>		<b>275.100</b>	302.299
<b>Loan capital</b>	28	<b>148.723</b>	149.015
		<b>423.823</b>	451.314
<b>Liabilities</b>			
Deposits by banks	29	<b>78.286</b>	162.208
Customer deposits	30	<b>3.191.481</b>	3.158.620
Loan from syndication of banks	31	<b>68.364</b>	68.379
Other liabilities	32	<b>134.918</b>	116.808
		<b>3.896.872</b>	3.957.329

K.N. Lazarides, *Executive Chairman*  
A. Loutsios, C. Pavlou, *Directors*  
A. Philippidou, *Manager-Group Financial Control*

The notes on pages 42 to 83 form an integral part of the financial statements.

**CONSOLIDATED STATEMENT  
OF TOTAL RECOGNISED GAINS AND LOSSES**  
FOR THE YEAR ENDED 31 DECEMBER 2002

	<b>2002</b> <b>C£ '000</b>	2001 C£ '000
Revaluation of available-for-sale investments	<b>(20.792)</b>	(22.602)
Transfer to the profit and loss account due to impairment in the value of available-for-sale Investments	<b>47.149</b>	-
Revaluation of land and buildings	<b>971</b>	-
Deferred taxes on property revaluation	<b>2.038</b>	(233)
Transfer from revaluation reserve to profit and loss account on disposal of property	<b>(28)</b>	-
Exchange differences arising in the year	<b>(70)</b>	266
Net profit/(loss) not recognised in the profit and loss account	<b>29.268</b>	(22.569)
Loss attributable to the shareholders of the Bank	<b>(51.833)</b>	(9.263)
Total recognised loss	<b>(22.565)</b>	(31.832)
Reserves at 1 January	<b>152.468</b>	220.071
Total recognised loss	<b>(22.565)</b>	(31.832)
Dividend	<b>(9.007)</b>	(35.771)
Reserves at 31 December	<b>120.896</b>	152.468

The notes on pages 42 to 83 form an integral part of the financial statements

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 C£ '000	2001 C£ '000
<b>Cash inflow/(outflow) from/(used in) operating activities</b>	40	<b>130.887</b>	(267.243)
<b>Taxation</b>			
Corporation and defence tax paid		<b>(16.988)</b>	(18.548)
<b>Net cash inflow/(outflow) from/(used) in operating activities</b>		<b>113.899</b>	(285.791)
<b>Cash outflow used in investing activities</b>			
Purchase of fixed assets		<b>(7.846)</b>	(16.080)
Purchase of computer software		<b>(5.401)</b>	(4.035)
Proceeds from sale of fixed assets		<b>210</b>	371
Increase of participation in subsidiary companies		-	(2.495)
Additions less disposals of available-for-sale Investments		<b>(3.979)</b>	(21.953)
Acquisition of Action Insurance Brokers Ltd		-	(320)
Return of capital invested in associate		-	594
<b>Net cash outflow used in investing activities</b>		<b>(17.016)</b>	(43.918)
<b>Cash (outflow)/inflow (used in)/ from financing activities</b>			
Interest received from investment securities		<b>5.432</b>	7.571
Dividend received from available-for-sale investments		<b>322</b>	828
Interest paid on loan capital		<b>(7.810)</b>	(3.572)
Issue of share capital		<b>960</b>	76
Dividend paid		<b>(5.735)</b>	(35.771)
Issue of loan capital		-	109.342
Proceeds from loan from syndication of banks		-	68.379
<b>Net cash (outflow)/inflow (used in)/from financing activities</b>		<b>(6.831)</b>	146.853
<b>Net increase/(decrease) in cash and cash equivalents</b>	41	<b>90.052</b>	(182.856)

The notes on pages 42 to 83 form an integral part of the financial statements

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## NOTES TO THE FINANCIAL STATEMENTS

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies followed remained the same as in the previous year.

#### **Preparation of financial statements**

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of freehold property, investments in securities, derivatives and investments in Group companies.

The financial statements have been prepared in accordance with the provisions of the Cyprus Companies Law Cap. 113, the Cyprus Stock Exchange Law and Regulations and the International Financial Reporting Standards.

The financial statements of the Group are presented in Cyprus Pounds, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group and the Bank, and consolidate the financial statements of the Bank and its subsidiary companies as at 31 December 2002.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiary companies as at 31 December 2002.

On acquisition of a new company, its assets and liabilities are recognised in the consolidated financial statements at their fair value at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of the subsidiary companies acquired or disposed during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All transactions and balances between Group companies are eliminated on consolidation.

#### **Foreign currency**

Assets and liabilities in foreign currencies as well as the results of overseas operations are translated into Cyprus Pounds at the rates of exchange ruling at the year-end.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency (continued)

The exchange differences, which arise on the translation of the opening net assets of the overseas subsidiaries, are transferred directly to reserves. In addition, the exchange difference arising from the translation of the part of the loan from syndication of banks 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. All other exchange differences, which arise on the translation of foreign currency transactions, are taken to the profit and loss account.

Goodwill arising on the acquisition of foreign subsidiary companies is translated in Cyprus Pounds at the rate of exchange ruling at the date of acquisition.

The exchange rates of the main currencies as at 31 December 2002 were as follows:

US Dollar:	1,8312	Australian Dollar:	3,2395
Pound Sterling:	1,1356	Euro:	1,7446

#### Interest and commissions

Interest and commissions are taken to revenue in the period in which they are receivable.

The Group adopts the policy of suspending interest on non-performing loans for which a specific provision has been made. In those cases, the recognition of interest in revenue is suspended until it is received and therefore, it is not included in the interest receivable in the profit and loss account but it is transferred to an interest suspense account.

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

#### Installment finance and leasing

Income from instalment finance and leasing is taken to revenue 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".

#### Retirement benefits

The Group operates a defined retirement benefit plan, which is exclusively funded by the Group. Annual contributions are made to the plan in order to build up sufficient reserves during the employees' life, which will fund the lump sum benefit to be given to the employees upon retirement. The cost of these benefits is charged to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Retirement benefits (continued)

Retirement benefit costs relating to the defined benefit plan are assessed using the projected unit credit method. Under this method, the cost of providing defined benefit pensions is charged to the profit and loss account 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 pension obligation 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.

Actuarial gains and 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 whereby both the employer and employee contribute towards the fund. Each fund is governed by specified regulations as agreed between the two parties and in compliance with relevant statutory obligations.

The Group also pays contributions to Government defined contribution pension plans (social insurance) in accordance with the legal requirements.

The contributions of the Group to the defined contribution plans are charged to the profit and loss account in the year they relate to.

#### Doubtful debts

Specific provisions are made in the financial statements for doubtful debts that arise in the ordinary course of business of the Group. The charge to the profit and loss account represents the increase of these provisions, less recoveries for the year.

In addition, the Group maintains a general provision for banking risks to cover losses, which, although not specifically identified, may be present in any portfolio of bank advances.

When a loan is deemed uncollectible, it is written off against the related provision. Subsequent recoveries are credited to the profit and loss account if the loan was previously written off.

#### Cash and cash equivalents

Cash and cash equivalents represent highly liquid short-term placements, items in course of collection from other banks, government bonds and treasury bills. This category also includes the minimum reserve requirement that the Group is obliged to place with Central Banks.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **General insurance business**

Premiums from general insurance business are recognised in the profit and loss account over the period covered by the related policies.

Reinsurance costs are recognised in the profit and loss account 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 profit and loss account under "Other operating 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 profit and loss account when receivable.

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. Differences between the provisions for outstanding claims at the balance sheet date and any subsequent revisions and settlements are included in the profit and loss account in subsequent years.

Net income from life assurance business is included in the profit and loss account under "Other operating 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 profit and loss account under "Other operating income".

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of acquired entities. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is amortised on a straight-line basis over its estimated useful economic life.

The useful economic life of goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage, is estimated based on the foreseeable life of the business acquired and does not exceed 20 years.

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 is recognised in the profit and loss account.

#### **Computer software**

Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Computer software development costs recognized as assets are amortised using the straight-line method over their useful economic lives, not exceeding a period of 5 years.

#### **Investments in subsidiary companies**

Investments in subsidiary companies are stated in the balance sheet of the Bank at valuation. Valuation is carried out on 31 December of each year at the book value of the net assets of the companies. Changes in value are credited or debited to the revaluation reserve.

On the disposal or part disposal of an investment in a subsidiary the difference between net proceeds and the carrying value of the part of the investment sold is credited to the profit and loss account.

#### **Investments in associated companies**

Investments in associated companies are accounted for in the financial statements of the Group and the Bank using the equity method of accounting.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Available-for-sale investments**

Available-for-sale investments were not purchased with a view to profit from short-term price fluctuations. All purchases and sales of available-for-sale investments are recognized at trade date, which is the date that the Group commits to purchase or sell the asset. These investments are initially recognised at cost and are subsequently remeasured at their fair value at 31 December every year. Changes in their fair value are credited or debited in the revaluation reserve.

For investments in listed companies, the fair value is determined based on the market value at the Balance Sheet date. The market value is based on the closing price at the CSE. For investments in non-listed companies, fair value is estimated using the available financial information on the specific companies.

When the available-for-sale investments are impaired, they are shown net of the provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets measured at fair value, i.e. available-for-sale investments, is calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Upon sale of the available-for-sale investments, the difference between net proceeds and the carrying value of the investment, as well as any relevant amount previously credited or debited in the revaluation reserve, are transferred to the profit and loss account.

Dividends received from available-for sale investments are recognized in the profit and loss account on receipt.

#### **Held-to-maturity securities**

These are securities with a fixed maturity date where the Group has both the intent and the ability to hold to maturity. These securities are stated in the balance sheet at their nominal value plus any premium or minus any discount, which has not yet been amortised, less any provision for impairment. Any premium or discount on the purchase of such securities is amortised over the period between the date of purchase and the maturity date.

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, i.e. held-to-maturity securities, is calculated as the difference between the carrying amount of the asset and the present value of expected future cash flows discounted at the asset's original effective interest rate.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial instruments held for trading**

Financial instruments held for trading include investments in shares and other securities of public companies and derivatives (see "Derivative financial instruments" below).

Investments held for trading are stated at their fair value at the balance sheet date. For investments in listed companies, the fair value is determined based on the market value at the Balance Sheet date. The market value is based on the closing price at the CSE. For investments in non-listed companies, fair value is estimated using the available financial information on the specific companies.

All purchases and sales of investments held for trading are recognized in the balance sheet at trade date.

The profit or loss from the sale of investments held for trading is the difference between the net proceeds and the carrying value of that investment, and it is included in the profit and loss account.

The profit or loss from the revaluation of investments held for trading, is calculated as the difference between their market value at the balance sheet date and the carrying value of those investments, and it is included in the profit and loss account.

#### **Derivative financial instruments**

Derivative financial instruments include forward exchange contracts, currency and interest rate swaps.

These derivative financial instruments are remeasured to their fair value as at 31 December. Their fair value is calculated using discounted cash flow and other models as appropriate, based on quoted exchange and interest rate market prices. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

#### **Premises and equipment**

Premises are included at cost or at valuation on the basis of open market values for existing use less accumulated depreciation. Furniture and equipment are included at cost less accumulated depreciation. Special attention is given to maintain premises and equipment in a very good condition. Significant expenses that will provide future economic benefit are capitalised while other expenses are written off to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Premises and equipment (continued)

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

Furniture and equipment are depreciated on a straight-line basis over their useful economic life, which is a period between three to ten years.

On disposal of property and equipment the difference between net proceeds and the carrying value of the related asset, as well as any relevant amount previously credited to the property revaluation reserve, are transferred to the profit and loss account.

Any revaluation increase arising on the revaluation of land and buildings is credited to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense. In such case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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 of these assets commences when the assets are ready for their intended use.

#### Taxation

A provision is made for taxation based on the law and the tax rates effective in Cyprus and the other countries in which the Group operates. In addition, deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from revaluation of land and buildings, accelerated tax depreciation on property, plant and equipment, embedded value of life insurance business and tax losses carried forward. Deferred tax assets relating to unutilized tax losses carried forward, are recognised to the extent that it is probable that future taxable profit will be available against which unused tax losses can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Credit-related instruments

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.

#### Segmental analysis

There are three major classes of business for the Group:

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

The geographical segments of the Group are analysed as follows:

- (i) Operations in Cyprus, which incorporate the activities of all Group companies in Cyprus.
- (ii) Operations abroad, which incorporate the activities of all Group companies in Greece, Australia and the United Kingdom branches.

The costs of each company are apportioned based on the relevant geographical segment above. The pricing of the transactions between the Group companies is at arms-length basis.

#### Comparatives

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

### 2. INTEREST RECEIVABLE

	2002 C£ '000	2001 C£ '000
Advances to customers	208.634	205.163
Placements with other banks	40.321	58.328
Government and other bonds	24.086	30.266
	<u>273.041</u>	<u>293.757</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 3. INTEREST PAYABLE

	2002 C£ '000	2001 C£ '000
Customer deposits	127.799	150.586
Deposits by banks	14.946	24.751
Loan capital	7.810	3.572
	<u>150.555</u>	<u>178.909</u>

### 4. OTHER OPERATING INCOME

	2002 C£ '000	2001 C£ '000
Net income from life assurance business	3.625	(1.398)
Net income from general insurance business	3.551	(1.643)
Share of profit from associated companies	1.302	1.172
Dividends from available-for-sale investments	322	828
Dividends from investments held for trading	365	897
Other income	1.249	3.154
	<u>10.414</u>	<u>3.010</u>

### 5. STAFF COSTS

	2002 C£ '000	2001 C£ '000
Salaries and employer's contributions	59.981	54.330
Retirement benefit costs:		
Defined benefit plan	14.471	7.321
Defined contribution plan	673	585
Other staff costs	1.434	1.864
	<u>76.559</u>	<u>64.100</u>

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

	2002	2001
Banking services	2.938	2.836
Insurance services	323	329
Financial and other services	164	195
	<u>3.425</u>	<u>3.360</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 5. STAFF COSTS (continued)

#### Defined Benefit Plan

95% of the employees of the Group in Cyprus are covered by the Group's retirement benefit plan, which is a defined benefit plan. Actuarial valuations of the assets and liabilities of the plan are carried out at least once every three years by professionally qualified actuaries to determine the financial position of the plan and to enable the Group to determine the level of contributions to be made to the plan. The latest valuation of the plan was made on 31 December 2002.

The amounts recognised in the consolidated balance sheet with respect to the defined benefit plan are as follows:

	<b>2002</b> <b>C£ '000</b>	2001 C£ '000
Present value of obligations	<b>85.184</b>	57.461
Fair value of plan assets	<b>(4.050)</b>	(4.460)
	<b>81.134</b>	53.001
Unrecognised actuarial loss	<b>(21.532)</b>	(6.168)
Liability in the balance sheet (Note 32)	<b>59.602</b>	46.833

The pension plan assets include ordinary shares and convertible debentures issued by the Bank with a fair value of C£ 3.645.000 (2001: C£ 4.042.000).

The amounts recognised in the consolidated profit and loss account with respect to the defined benefit plan are as follows:

	<b>2002</b> <b>C£ '000</b>	2001 C£ '000
Current service cost	<b>6.809</b>	6.344
Interest cost on plan liabilities	<b>3.735</b>	2.585
Expected return on plan assets	<b>(290)</b>	(1.054)
Actuarial loss/(profit) recognized	<b>17</b>	(554)
Past service cost arising from change in the retirement benefits	<b>4.200</b>	-
	<b>14.471</b>	7.321

The actual return on plan assets was a loss of C£ 410.000 (2001: loss of C£ 11.756.000).

## NOTES TO THE FINANCIAL STATEMENTS

### 5. STAFF COSTS (continued)

#### Defined Benefit Plan (continued)

Movement in the liability recognised in the balance sheet:

	2002 C£ '000	2001 C£ '000
Balance at 1 January	46.833	41.365
Total cost as above	14.471	7.321
Contributions paid	(1.702)	(1.853)
Balance at 31 December	<u>59.602</u>	<u>46.833</u>

The main assumptions used in the actuarial valuation were:

	2002	2001
Discount rate	6,5%	6,5%
Average expected return on plan assets	6,5%	6,5%
Average increase in basic insurable earnings	4,5%	4,5%
Average increase in total salaries	8,5%	8,5%
Average increase in inflation	2,5%	2,5%

### 6. ADMINISTRATIVE EXPENSES

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

### 7. OPERATING PROFIT BEFORE THE RESULTS FROM DISPOSAL AND REVALUATION OF SECURITIES

	2002 C£ '000	2001 C£ '000
Group operating profit before the results from disposal and revaluation of securities is stated after deducting the following charges:		
Directors' emoluments:		
Fees	48	34
Emoluments in executive capacity	409	505
Auditors' remuneration	219	235
Depreciation of tangible fixed assets	8.046	6.913
Amortisation of intangible assets	5.228	4.195
Rent payable	5.150	4.763
Interest on loan capital	7.810	3.572

## NOTES TO THE FINANCIAL STATEMENTS

### 8. LOSS ON DISPOSAL AND REVALUATION OF SECURITIES

	2002 C£ '000	2001 C£ '000
Loss on disposal of investments held for trading	(373)	(8.446)
Gain on disposal of available-for-sale investments	11	-
Unrealised loss on revaluation of investments held for trading	(11.735)	(32.203)
	<b>(12.097)</b>	<b>(40.649)</b>

### 9. TAXATION

	2002 C£ '000	2001 C£ '000
<b>Current year taxation</b>		
Cyprus corporation tax	3.638	9.269
Defence tax	2.257	2.089
Overseas tax	3.505	3.959
Deferred tax	(5.292)	(1.121)
Share in the taxation of associated companies (Note 22)	405	324
Total current year taxation	<b>4.513</b>	<b>14.520</b>
<b>Prior year taxation</b>		
Cyprus corporation tax	856	618
Cyprus defence tax	57	9
Total prior year taxation	<b>913</b>	<b>627</b>
<b>Total taxation charge</b>	<b>5.426</b>	<b>15.147</b>

The profit of the Bank and its subsidiary companies in Cyprus is subject to corporation tax at the rates of 20% and 25% and defence tax at the rate of 3%. 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.

As from 1 January 2003 the provisions of the new tax legislation come into effect according to which the profit of the Bank and its Cypriot subsidiary companies will be 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 C£ 1m will be subject to additional corporation tax at the rate of 5%.

From 1 January 2003 dividends will be subject to a deduction of special contribution for defence at the rate of 15% for individual shareholders that are resident in Cyprus. In the case that a company does not declare a dividend two years following the end of the tax year in which the profits are earned, the company will be deemed to have distributed 70% of these profits as dividend on which 15% special contribution for defence will be imposed.

## NOTES TO THE FINANCIAL STATEMENTS

### 9. TAXATION (continued)

#### Reconciliation of effective to actual current year tax charge

	2002 C£ '000	2001 C£ '000
(Loss)/profit before tax	<b>(48.108)</b>	2.098
Tax at 28%	<b>(13.487)</b>	572
Expenses not deductible for tax purposes	<b>22.254</b>	17.120
Income not subject to tax	<b>(1.391)</b>	(4.389)
Tax effect of different tax rates in Greece, the United Kingdom and Australia	<b>1.495</b>	1.217
Reduction in deferred tax due to changes in tax rates	<b>(4.358)</b>	-
<b>Actual current year taxation</b>	<b>4.513</b>	14.520

The Bank is a public company for income tax purposes.

### 10. DIVIDEND

	2002 Cents	2001 Cents	2002 C£ '000	2001 C£ '000
Interim dividend paid (2001: 10%)	-	5	-	14.916
Final dividend proposed (2001: 6%)	-	3	-	8.950
	-	8	-	23.866

According to the revised International Accounting Standard 10, the final dividend proposed is not recognised as a liability in the balance sheet.

### 11. EARNINGS PER SHARE

	2002 C£ '000	2001 C£ '000
<b>Earnings per share</b>		
Loss attributable to the shareholders of the Bank	<b>(51.833)</b>	(9.263)
Net interest expense relating to convertible debentures	<b>387</b>	528
Fully diluted loss attributable to the shareholders of the Bank	<b>(51.446)</b>	(8.735)

## NOTES TO THE FINANCIAL STATEMENTS

### 11. EARNINGS PER SHARE (continued)

	2002 '000	2001 '000
Weighted average number of shares in issue during the year:		
Basic	301.639	298.051
Conversion of debentures	8.140	8.261
Fully diluted	<u>309.779</u>	<u>306.312</u>
Earnings per share – cents	<u>(17,2)</u>	<u>(3,1)</u>

Fully diluted earnings per share is not disclosed, as the conversion of debentures into shares would decrease the loss per share.

### 12. CASH AND DEPOSITS WITH CENTRAL BANKS

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

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Obligatory reserves for liquidity purposes	<u>154.314</u>	150.019	<u>121.262</u>	107.526

### 13. PLACEMENTS WITH OTHER BANKS

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
<b>Maturity analysis</b>				
Repayable on demand	37.044	26.620	16.122	7.972
Three months or less	484.762	537.216	469.189	516.394
Over three months but less than one year	48.295	259.035	47.060	258.403
Over one but less than five years	618	20.703	617	20.703
	<u>570.719</u>	843.574	<u>532.988</u>	803.472

The market value of the above placements does not vary materially from their value in the books of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

### 14. GOVERNMENT BONDS AND TREASURY BILLS

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Government bonds and treasury bills	<b>324.980</b>	301.719	<b>127.453</b>	147.477
Other bills eligible for rediscounting with the Central Bank of Cyprus	<b>19.942</b>	110.524	<b>19.942</b>	110.524
	<b>344.922</b>	412.243	<b>147.395</b>	258.001
<b>Maturity analysis</b>				
Within one year	<b>318.589</b>	362.496	<b>123.318</b>	237.642
Over one but less than five years	<b>23.026</b>	42.353	<b>20.770</b>	13.282
Over five years	<b>3.307</b>	7.394	<b>3.307</b>	7.077
	<b>344.922</b>	412.243	<b>147.395</b>	258.001
Listed on the Cyprus Stock Exchange	<b>46.713</b>	44.607	<b>45.989</b>	44.607
Not listed	<b>298.209</b>	367.636	<b>101.406</b>	213.394
	<b>344.922</b>	412.243	<b>147.395</b>	258.001
Market value	<b>346.062</b>	414.805	<b>149.196</b>	260.526

The above government bonds and treasury bills include obligatory placements for liquidity purposes amounting to C£ 78.598.000 (2001: C£ 105.207.000). The above bonds also include C£ 196.801.000 (2001: C£ 151.905.000) that represent bonds that are held for trading, and are valued at their fair value at the year end. The remaining bonds are investments held to maturity.

### 15. OTHER BONDS

	The Group and The Bank	
	2002 C£ '000	2001 C£ '000
Government organisations	<b>27.045</b>	14.117
Banks and other organisations	<b>253.720</b>	203.393
	<b>280.765</b>	217.510
<b>Maturity analysis</b>		
Within one year	<b>20.214</b>	29.846
Over one but less than five years	<b>257.685</b>	187.664
Over five years	<b>2.866</b>	-
	<b>280.765</b>	217.510
All the above bonds are listed.		
Market value	<b>280.735</b>	217.850

## NOTES TO THE FINANCIAL STATEMENTS

### 15. OTHER BONDS (continued)

The net amount of discount that has not been amortised is C£ 227.000 (2001: C£ 214.000). The Bonds are investments held to maturity.

### 16. ADVANCES

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Advances to customers	<b>2.760.480</b>	2.423.981	<b>1.995.090</b>	1.873.137
Instalment finance and leasing (Note 17)	<b>330.791</b>	296.618	-	-
	<b>3.091.271</b>	2.720.599	<b>1.995.090</b>	1.873.137
Provision for bad and doubtful debts (Note 18)	<b>(177.446)</b>	(119.251)	<b>(127.718)</b>	(80.236)
	<b>2.913.825</b>	2.601.348	<b>1.867.372</b>	1.792.901

The suspension of interest account is included in the amount of provision for bad and doubtful debts.

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
<b>Maturity analysis</b>				
Repayable on demand	<b>1.054.140</b>	1.029.874	<b>905.347</b>	853.475
Three months or less	<b>420.468</b>	383.855	<b>182.374</b>	233.768
Over three months but less than one year	<b>276.512</b>	241.958	<b>110.444</b>	92.602
Over one but less than five years	<b>645.832</b>	569.226	<b>312.682</b>	291.720
Over five years	<b>694.319</b>	495.686	<b>484.243</b>	401.572
	<b>3.091.271</b>	2.720.599	<b>1.995.090</b>	1.873.137
<b>Analysis by sector</b>				
Trade	<b>661.484</b>	585.912	<b>414.583</b>	420.108
Manufacturing	<b>256.317</b>	238.720	<b>165.336</b>	165.362
Tourism	<b>311.336</b>	265.617	<b>230.630</b>	211.250
Property and construction	<b>457.694</b>	353.833	<b>392.282</b>	326.141
Personal, home loans and professional	<b>976.539</b>	859.743	<b>641.827</b>	590.620
Other sectors	<b>427.901</b>	416.774	<b>150.432</b>	159.656
	<b>3.091.271</b>	2.720.599	<b>1.995.090</b>	1.873.137
<b>Analysis by geographical area</b>				
Cyprus	<b>2.049.043</b>	1.947.571	<b>1.748.546</b>	1.655.272
Overseas	<b>1.042.228</b>	773.028	<b>246.544</b>	217.865
	<b>3.091.271</b>	2.720.599	<b>1.995.090</b>	1.873.137

## NOTES TO THE FINANCIAL STATEMENTS

### 17. INSTALMENT FINANCE AND LEASING

	The Group	
	2002	2001
	£ '000	£ '000
Gross investment in hire purchase and finance leases	<b>383.188</b>	349.116
Unearned finance income	<b>(52.397)</b>	(52.498)
	<hr/>	<hr/>
Present value of minimum hire purchase and finance lease payments	<b>330.791</b>	296.618
	<hr/>	<hr/>
<b>Gross investment in hire purchase and finance leases</b>		
Within one year	<b>188.824</b>	175.591
Over one but less than five years	<b>184.537</b>	167.018
Over five years	<b>9.827</b>	6.507
	<hr/>	<hr/>
	<b>383.188</b>	349.116
	<hr/>	<hr/>
<b>Present value of minimum hire purchase and finance lease payments</b>		
Within one year	<b>168.041</b>	162.371
Over one but less than five years	<b>154.176</b>	130.559
Over five years	<b>8.574</b>	3.688
	<hr/>	<hr/>
	<b>330.791</b>	296.618
	<hr/>	<hr/>

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

- The hirer pays an initial deposit at the signing of the agreement in exchange for the right to purchase the goods at the end of the hire purchase term.
- 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 is obliged to return the equipment to the owner.

## NOTES TO THE FINANCIAL STATEMENTS

### 18. PROVISION FOR BAD AND DOUBTFUL DEBTS

	Provisions C£ '000	Suspension of interest C£ '000	Total C£ '000
<b>The Group</b>			
<b>2002</b>			
Balance at 1 January	101.552	17.699	119.251
Charge for the year	53.845	-	53.845
Debts written-off	(3.110)	(400)	(3.510)
Translation adjustments	(231)	-	(231)
Suspension of interest for the year	-	8.091	8.091
	<b>152.056</b>	<b>25.390</b>	<b>177.446</b>
2001			
Balance at 1 January	92.921	8.789	101.710
Charge for the year	17.773	-	17.773
Debts written-off	(9.261)	(673)	(9.934)
Translation adjustments	119	-	119
Suspension of interest for the year	-	9.583	9.583
	<b>101.552</b>	<b>17.699</b>	<b>119.251</b>
<b>The Bank</b>			
<b>2002</b>			
Balance at 1 January	62.919	17.317	80.236
Charge for the year	41.945	-	41.945
Debts written-off	(1.663)	(389)	(2.052)
Translation adjustments	(196)	-	(196)
Suspension of interest for the year	-	7.785	7.785
	<b>103.005</b>	<b>24.713</b>	<b>127.718</b>
2001			
Balance at 1 January	60.611	8.789	69.400
Charge for the year	10.338	-	10.338
Debts written-off	(8.131)	(673)	(8.804)
Translation adjustments	101	-	101
Suspension of interest for the year	-	9.201	9.201
	<b>62.919</b>	<b>17.317</b>	<b>80.236</b>

The total amount of advances for which a specific provision/suspension of interest has been made amounts to C£ 351.515.000 (2001: C£ 240.103.000) for the Group and C£ 240.530.000 (2001: C£ 154.146.000) for the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

### 19. OTHER ASSETS

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Interest receivable	15.550	22.502	9.110	12.455
Other assets from life assurance				
Business	24.716	28.907	-	-
Other assets from general insurance				
Business	12.340	9.239	-	-
Investments held for trading	24.526	32.287	-	-
Taxation refundable	14.721	7.711	8.846	2.518
Other assets	54.057	58.284	22.396	22.565
	<b>145.910</b>	158.930	<b>40.352</b>	37.538

#### Investments held for trading

Listed on Stock Exchange	21.638	27.654	-	-
Not listed	2.888	4.633	-	-
	<b>24.526</b>	32.287	-	-

### 20. VALUE OF LIFE ASSURANCE BUSINESS ATTRIBUTABLE TO SHAREHOLDERS

	The Group	
	2002 C£ '000	2001 C£ '000
Life assurance net assets attributable to shareholders	13.982	3.947
Value of policies in force	23.312	24.633
Goodwill	-	(8.413)
	<b>37.294</b>	20.167

## NOTES TO THE FINANCIAL STATEMENTS

### 20. VALUE OF LIFE ASSURANCE BUSINESS ATTRIBUTABLE TO SHAREHOLDERS (continued)

The net assets attributable to policyholders comprise the following:

	The Group	
	2002	2001
	C£ '000	C£ '000
Equity shares	23.823	47.039
Advances	24.578	27.052
Investment properties	16.986	16.953
Foreign investments	25.296	22.437
Debentures	11.171	11.916
Government development bonds	11.853	16.595
Statutory deposits	30	30
Other deposits	61.783	58.919
	<b>175.520</b>	200.941
Net current assets	<b>4.453</b>	8.467
Net assets attributable to policyholders	<b>179.973</b>	209.408

The increase in the value of life assurance business attributable to shareholders of C£ 17.127.000 (2001: decrease C£ 20.293.000) is analysed as follows:

	2002	2001
	C£ '000	C£ '000
Loss after taxation	(2.818)	(26.274)
Revaluation of available-for-sale investments	(1.026)	(2.784)
Revaluation of property	971	-
Issue of shares	20.000	10.000
Net assets not attributable to life assurance business	-	(1.235)
Increase/(decrease) in the value of life assurance business	<b>17.127</b>	(20.293)

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. 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 risk margin is designed to reflect uncertainties in expected profit. The key assumptions used in the actuarial valuation are: risk discount rate (net of tax) of 10% (2001: 10%), average return on investments (gross of tax) of 6% (2001: 6,5%) and inflation rate of 3,5% (2001: 3,5%).

Life assurance assets under trust amounted to C£167.117.000 (2001:C£ 158.122.000).

## NOTES TO THE FINANCIAL STATEMENTS

### 21. INVESTMENTS IN SUBSIDIARY COMPANIES

	2002 C£ '000	2001 C£ '000
Balance at 1 January	166.990	175.233
Issue of shares by subsidiary companies:		
Laiki Insurance Ltd	4.000	2.000
Laiki Bank (Australia) Ltd	1.759	-
Laiki Cyprialife Ltd	20.000	10.000
Increase in participating interest in subsidiary companies:		
Laiki Bank (Hellas) S.A.	-	1.417
Laiki A.E.D.A.K.	-	17
Laiki Factoring S.A.	-	6
Laiki Leasing S.A.	-	12
ATTALOS Securities S.A.	-	49
Sale of shares of Laiki Investments Ltd	-	(390)
Net assets on acquisition of Action Insurance Brokers Ltd	-	(173)
Establishment of Laiki Bank (Nominees) Ltd	1	-
Establishment of Laiki Insurance Agencies S.A.	17	-
Establishment of Laiki Life S.A.	792	-
Establishment of Laiki Bank (Australia) Ltd	-	18.249
Revaluation for the year	92	(39.430)
	<b>193.651</b>	<b>166.990</b>
Balance at 31 December	<b>193.651</b>	<b>166.990</b>

The subsidiary companies of the Group are as follows:

	<u>Activity</u>	<u>Shareholding</u>
Laiki Bank (Hellas) S.A.	Banking	72%
Laiki Leasing S.A.	Leasing	86%
Laiki Factoring S.A.	Factoring and invoice discounting	86%
Laiki A.E.D.A.K.	Mutual funds management	84%
ATTALOS Securities S.A.	Brokerage	79%
Laiki Life S.A.	Life assurance	86%
Laiki Insurance Agencies S.A.	Insurance agents	86%
Laiki Bank (Australia) Ltd	Banking	100%
Cyprialife Ltd	Investment company	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%
Laiki Insurance Agencies Ltd	Insurance agents	100%
The Cyprus Popular Bank (Finance) Ltd	Instalment finance and leasing	100%

## NOTES TO THE FINANCIAL STATEMENTS

### 21. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

	<u>Activity</u>	<u>Shareholding</u>
Laiki Factors Ltd	Factoring and invoice discounting	100%
Laiki Investments Ltd	Investment banking	57%
Laiki Brokerage Ltd	Brokerage	57%
Laiki 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%
Demonax Computer Services Ltd	Computer 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 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., 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.

### 22. INVESTMENTS

	The Group		The Bank	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>€ '000</b>	€ '000	<b>€ '000</b>	€ '000
In associated companies	<b>8.390</b>	7.493	<b>3.338</b>	2.383
Available-for-sale investments	<b>28.725</b>	45.528	<b>24.031</b>	39.938
	<b>37.115</b>	53.021	<b>27.369</b>	42.321
<b>Associated companies</b>				
Balance at 1 January	<b>7.493</b>	7.239	<b>2.383</b>	1.536
Share of results before tax	<b>1.302</b>	1.172	<b>1.327</b>	1.129
Share of tax (Note 9)	<b>(405)</b>	(324)	<b>(372)</b>	(282)
Decrease of capital – Viewfair Ltd	-	(594)	-	-
Balance at 31 December	<b>8.390</b>	7.493	<b>3.338</b>	2.383

## NOTES TO THE FINANCIAL STATEMENTS

### 22. INVESTMENTS

The associated companies are the following:

Name	Activities	Country of registration	Participation	Issued share capital C£'000
JCC Payments Systems Ltd	Processing of credit card transactions	Cyprus	30%	1.000
Laiki CLR Ventures Ltd	Management of venture capital investments	Cyprus	33%	15.350
Viewfair Ltd	Investments in private companies and venture projects	Cyprus	26,7%	23

The shares in Laiki CLR Ventures Ltd and in Viewfair Ltd are held by Laiki Investments Ltd in which the Bank has a shareholding of 57%.

In August 2001 Viewfair Ltd reduced its issued share capital from C£ 2.250.000 to C£ 22.500.

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
<b>Available-for-sale investments</b>				
Balance at 1 January	<b>45.528</b>	46.177	<b>39.938</b>	37.798
Additions during the year	<b>4.028</b>	21.953	<b>4.028</b>	21.841
Disposals	<b>(39)</b>	-	-	-
Revaluation for the year (Note 27)	<b>(20.792)</b>	(22.602)	<b>(19.935)</b>	(19.701)
Balance at 31 December	<b>28.725</b>	45.528	<b>24.031</b>	39.938

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 revaluation reserve in the balance sheet.

The available-for-sale investments consist of the Group's shareholdings in Apollo Investment Fund Ltd, Universal Life Insurance Co. Ltd, Amathus Navigation Co. Ltd, CLR Financial Services Ltd, Lumiere T.V. Ltd, Bank of Cyprus Ltd and Hellenic Bank Ltd. All 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 fair value of the Bank's shareholding in Universal Life Insurance Co. Ltd has been estimated using available financial information for that company as at 31 December 2002 and is C£ 9.285.200.

The fair value of the Bank's shareholding in Lumiere T.V. Ltd has also been estimated using available financial information for that company as at 31 December 2002 and is C£ 1.705.000.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. TANGIBLE FIXED ASSETS

	2002 Property C£ '000	2002 Equipment C£ '000	2002 Total C£ '000	2001 Total C£ '000
<b>The Group</b>				
<b>Cost or valuation</b>				
Balance at 1 January	68.091	55.543	123.634	108.567
Additions	2.320	5.526	7.846	16.080
Disposals	(196)	(1.390)	(1.586)	(1.233)
Translation adjustments	(448)	(325)	(773)	220
Balance at 31 December	69.767	59.354	129.121	123.634
<b>Depreciation</b>				
Balance at 1 January	5.325	31.999	37.324	31.143
Charge for the year	1.584	6.462	8.046	6.913
Disposals	(4)	(1.207)	(1.211)	(817)
Translation adjustments	(56)	(260)	(316)	85
Balance at 31 December	6.849	36.994	43.843	37.324
<b>Net book value 31 December</b>	62.918	22.360	85.278	86.310
<b>The Bank</b>				
<b>Cost or valuation</b>				
Balance at 1 January	57.045	41.550	98.595	90.325
Additions	641	3.792	4.433	8.941
Disposals	(196)	(1.253)	(1.449)	(843)
Translation adjustments	(383)	(185)	(568)	172
Balance at 31 December	57.107	43.904	101.011	98.595
<b>Depreciation</b>				
Balance at 1 January	1.886	24.784	26.670	22.909
Charge for the year	466	4.323	4.789	4.338
Disposals	(4)	(1.091)	(1.095)	(641)
Translation adjustments	(42)	(166)	(208)	64
Balance at 31 December	2.306	27.850	30.156	26.670
<b>Net book value 31 December</b>	54.801	16.054	70.855	71.925

Included under property of the Bank and the Group is an amount of C£ 253.000 (2001: C£ 161.000) which represents buildings under construction.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. TANGIBLE FIXED ASSETS (continued)

The most recent valuation of the Group's land and buildings was performed at 30 June 2000 by independent professional valuers based on their existing use.

#### Cost or valuation of property

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Property stated at revalued amounts determined in 2000	<b>58.426</b>	58.622	<b>51.522</b>	51.718
Property stated at cost	<b>11.341</b>	9.469	<b>5.585</b>	5.327
	<b>69.767</b>	68.091	<b>57.107</b>	57.045

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£ 35.690.000 (2001: C£ 36.227.000) for the Group and C£ 25.481.000 (2001: C£ 25.717.000) for the Bank. The gross amount of tangible fixed assets not depreciated is C£ 18.328.000 (2001: C£ 18.327.000) for the Group and C£ 17.956.000 (2001: C£ 17.866.000) for the Bank.

### 24. INTANGIBLE ASSETS

	2002	2002	2002	2001
	Goodwill C£ '000	Computer Software C£ '000	Total C£ '000	Total C£ '000
<b>The Group</b>				
<b>Cost</b>				
Balance at 1 January	46.166	8.235	<b>54.401</b>	48.494
Additions	-	5.401	<b>5.401</b>	4.035
Reduction in goodwill on acquisition of Action Insurance Brokers Ltd	(111)	-	<b>(111)</b>	-
Increase of participation in subsidiary companies	-	-	-	994
Acquisition of Action Insurance Brokers Ltd	-	-	-	853
Exchange difference	(15)	(82)	<b>(97)</b>	25
Balance at 31 December	46.040	13.554	<b>59.594</b>	54.401
<b>Amortisation</b>				
Balance at 1 January	8.892	4.082	<b>12.974</b>	8.774
Charge for the year	2.952	2.276	<b>5.228</b>	4.195
Exchange difference	(3)	(17)	<b>(20)</b>	5
Balance at 31 December	11.841	6.341	<b>18.182</b>	12.974
<b>Net book value at 31 December</b>	<b>34.199</b>	<b>7.213</b>	<b>41.412</b>	<b>41.427</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 24. INTANGIBLE ASSETS (continued)

	2002	2002	2002	2001
	Goodwill	Computer	Total	Total
	C£ '000	Software	C£ '000	C£ '000
		C£ '000		
<b>The Bank Cost</b>				
Balance at 1 January	39.239	5.396	<b>44.635</b>	41.359
Additions	-	4.719	<b>4.719</b>	2.294
Increase in participation in subsidiary companies	-	-	-	979
Exchange difference	-	(17)	<b>(17)</b>	3
Balance at 31 December	39.239	10.098	<b>49.337</b>	44.635
<b>Amortisation</b>				
Balance at 1 January	6.293	2.926	<b>9.219</b>	5.980
Charge for the year	2.347	1.711	<b>4.058</b>	3.238
Exchange difference	-	(9)	<b>(9)</b>	1
Balance at 31 December	8.640	4.628	<b>13.268</b>	9.219
<b>Net book value at 31 December</b>	<b>30.599</b>	<b>5.470</b>	<b>36.069</b>	<b>35.416</b>

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 20 years
Goodwill relating to the acquisition of Action Insurance Brokers Ltd	Over 5 years

### 25. SHARE CAPITAL

	2002	2001	2002	2001
	Shares	Shares	C£ '000	C£ '000
	'000	'000		
<b>Authorised</b>				
Ordinary shares of C£ 0,50 each	<b>400.000</b>	400.000	<b>200.000</b>	200.000
<b>Issued and paid-up</b>				
Balance at 1 January	<b>298.330</b>	297.713	<b>149.165</b>	148.856
Issue of shares to staff	<b>1.920</b>	140	<b>960</b>	71
Conversion of debentures	<b>120</b>	400	<b>60</b>	200
Reinvestment of dividend	<b>2.797</b>	-	<b>1.398</b>	-
Exercise of rights	-	2	-	1
Issue of shares for acquisition of Action Insurance Brokers Ltd	-	75	-	37
<b>Balance at 31 December</b>	<b>303.167</b>	298.330	<b>151.583</b>	149.165
Equity element of convertible debentures (Note 28)			<b>236</b>	239
<b>Share capital at 31 December</b>			<b>151.819</b>	149.404

## NOTES TO THE FINANCIAL STATEMENTS

### 26. SHARE PREMIUM

	2002 C£ '000	2001 C£ '000
Balance at 1 January	427	-
Conversion of debentures	84	280
Reinvestment of dividend	1.874	-
Exercise of rights	-	4
Issue of shares for acquisition of Action Insurance Brokers Ltd	-	143
	<hr/>	<hr/>
Balance at 31 December	<b>2.385</b>	427

Share premium is not available for distribution to shareholders.

### 27. RESERVES

	2002 C£ '000	2001 C£ '000
<b>Revenue reserves</b>		
Balance at 1 January	170.100	215.080
Loss for the year	(51.833)	(9.263)
Dividends paid	(9.007)	(35.771)
Transfer from property revaluation reserves	10	54
	<hr/>	<hr/>
Balance at 31 December	<b>109.270</b>	170.100
<b>Property revaluation reserves</b>		
Balance at 1 January	8.902	9.189
Revaluation for the year	971	-
Transfer to revenue reserves	(10)	(54)
Deferred taxes on property revaluation	2.038	(233)
Transfer to profit and loss account on disposal of property	(28)	-
	<hr/>	<hr/>
Balance at 31 December	<b>11.873</b>	8.902
<b>Investment revaluation reserves</b>		
Balance at 1 January	(22.585)	17
Transfer to the profit and loss account due to impairment in the value of available-for-sale investments	47.149	-
Revaluation for the year (Note 22)	(20.792)	(22.602)
	<hr/>	<hr/>
Balance at 31 December	<b>3.772</b>	(22.585)

## NOTES TO THE FINANCIAL STATEMENTS

### 27. RESERVES (continued)

	2002 C£ '000	2001 C£ '000
<b>Currency translation reserves</b>		
Balance at 1 January	(3.949)	(4.215)
Exchange differences arising in the year	(70)	266
	<u>(4.019)</u>	<u>(3.949)</u>
<b>Balance at 31 December</b>	<b>(4.019)</b>	<b>(3.949)</b>
<b>Total reserves at 31 December</b>	<b>120.896</b>	<b>152.468</b>

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.

The revaluation of surplus of C£ 971.000 arose on the revaluation of buildings held under trust by the life funds.

### 28. LOAN CAPITAL

	2002 C£ '000	2001 C£ '000
<b>Convertible debentures 2001/2006</b>		
Balance at 1 January	9.912	10.392
Conversion of debentures during the year	(144)	(480)
	<u>9.768</u>	<u>9.912</u>
Equity element of convertible debentures (Note 25)	(236)	(239)
	<u>9.532</u>	<u>9.673</u>
<b>Balance at 31 December</b>	<b>9.532</b>	<b>9.673</b>
<b>Convertible debentures 2003/2010</b>	<b>6.796</b>	<b>6.796</b>
<b>Non convertible debentures 2003/2009</b>	<b>30.000</b>	<b>30.000</b>
<b>Subordinated Eurobonds due 2011</b>	<b>102.395</b>	<b>102.546</b>
<b>Total loan capital at 31 December</b>	<b>148.723</b>	<b>149.015</b>

The repayment date of the above debentures with the exception of convertible debentures 2001/2006 falls in the period of "over 5 years" from the balance sheet date, i.e. later than 2007.

#### Convertible debentures 2001/2006

In March 1997 the Bank issued C£ 15 m convertible debentures. The debentures pay interest every six months on 30 June and 31 December of each year and they mature in 2006. Interest is 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 28. LOAN CAPITAL (continued)

#### **Convertible debentures 2001/2006** (continued)

The debentures are convertible into Cyprus Popular Bank Ltd shares in June of each year until 2003. The conversion price is set at C£ 1,20 (adjustment due to bonus issue) per share in the years 2000 to 2003. The conversion price is adjusted every time there is 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.

#### **Convertible debentures 2003/2010**

In June 2001 the Bank issued C£ 6,7 m convertible debentures. The debentures pay interest every six months on 31 January and 31 July of each year and they mature in 2010. Interest is 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 Ltd shares in July of each year from 2003 to 2009. The conversion price is set at C£ 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 C£ 30 m non-convertible debentures. The debentures pay interest every six months on 31 May and 30 November of each year and they mature in 2009. Interest is fixed at 7,25% on nominal value for the first year. Thereafter, the debentures will 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 28. LOAN CAPITAL (continued)

#### Non-convertible debentures 2003/2009 (continued)

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

#### Subordinated 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 increase by 1,40%.

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 2002 was euro 180,5 m.

### 29. DEPOSITS BY BANKS

	The Group		The Bank	
	2002	2001	2002	2001
	C£ '000	C£ '000	C£ '000	C£ '000
<b>Maturity analysis</b>				
Repayable on demand	<b>32.711</b>	35.898	<b>31.887</b>	35.898
Three months or less	<b>61.120</b>	94.831	<b>12.390</b>	57.138
Over three months but less than one year	<b>34.009</b>	69.172	<b>34.009</b>	69.172
	<b>127.840</b>	199.901	<b>78.286</b>	162.208
<b>Analysis by geographical area</b>				
Cyprus	<b>53.544</b>	136.823	<b>53.546</b>	136.823
Overseas	<b>74.296</b>	63.078	<b>24.740</b>	25.385
	<b>127.840</b>	199.901	<b>78.286</b>	162.208

## NOTES TO THE FINANCIAL STATEMENTS

### 30. CUSTOMER DEPOSITS

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
<b>Maturity analysis</b>				
Repayable on demand	<b>736.675</b>	523.701	<b>504.482</b>	367.186
Three months or less	<b>1.886.262</b>	1.988.048	<b>1.367.314</b>	1.584.798
Over three months but less than one year	<b>1.292.729</b>	1.199.084	<b>1.266.007</b>	1.162.732
Over one but less than five years	<b>94.796</b>	44.132	<b>53.678</b>	42.409
Over five years	-	1.495	-	1.495
	<b>4.010.462</b>	3.756.460	<b>3.191.481</b>	3.158.620
<b>Analysis by geographical area</b>				
Cyprus	<b>2.944.532</b>	2.927.778	<b>2.944.532</b>	2.927.778
Overseas	<b>1.065.930</b>	828.682	<b>246.949</b>	230.842
	<b>4.010.462</b>	3.756.460	<b>3.191.481</b>	3.158.620

### 31. LOAN FROM SYNDICATION OF BANKS

	2002 C£ '000	2001 C£ '000
Loan from syndication of banks	<b>68.364</b>	68.379

In May 2001 the Bank entered into a loan agreement for euro 120 m with a syndication of banks. The rate of interest is set at the aggregate of 0,575% plus the three-month rate of euro (Euribor). Interest on the loan is paid every one, two, three or six months at the option of the Bank.

The loan is repayable in full on 4 May 2006. The Bank has 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.

The loan is not secured and ranks for payment pari passu with all the other unsecured obligations.

The purpose of the loan was to finance the Group's investments in foreign subsidiary companies and to cover the related exchange risk. In the cases where the investment in the foreign subsidiary company is in a currency other than the currency of the loan, the Group uses a currency swap to convert the specific part of the loan into the currency of the investment in order to hedge against the exchange risk.

## NOTES TO THE FINANCIAL STATEMENTS

### 32. OTHER LIABILITIES

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Interest payable	<b>35.405</b>	37.046	<b>31.637</b>	34.530
Defined benefit scheme (Note 5)	<b>59.602</b>	46.833	<b>53.440</b>	42.032
Tax payable	<b>10.882</b>	10.142	-	-
Deferred taxes (Note 33)	<b>6.502</b>	13.831	<b>3.432</b>	6.105
Creditors from general insurance business	<b>24.918</b>	26.097	-	-
Other liabilities	<b>88.261</b>	76.570	<b>46.409</b>	34.141
	<b>225.570</b>	210.519	<b>134.918</b>	116.808

### 33. DEFERRED TAXES

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Balance at 1 January	<b>13.831</b>	14.720	<b>6.105</b>	5.805
Profit and loss (credit)/charge	<b>(5.292)</b>	(1.121)	<b>(721)</b>	65
Revaluation reserve (credit)/charge	<b>(2.038)</b>	233	<b>(1.952)</b>	235
Translation adjustments	<b>1</b>	(1)	-	-
Balance at 31 December	<b>6.502</b>	13.831	<b>3.432</b>	6.105

Deferred tax liabilities are attributable to the following items:

	The Group		The Bank	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Deferred tax arising from:				
Accelerated capital allowances	<b>468</b>	1.155	<b>413</b>	1.134
Revaluation of property net of related depreciation	<b>3.065</b>	5.103	<b>3.019</b>	4.971
Embedded value	<b>2.940</b>	6.115	-	-
Tax losses	<b>(371)</b>	(371)	-	-
Other temporary differences	<b>400</b>	1.829	-	-
	<b>6.502</b>	13.831	<b>3.432</b>	6.105

## NOTES TO THE FINANCIAL STATEMENTS

### 34. ASSETS AND LIABILITIES IN CYPRUS POUNDS AND FOREIGN CURRENCY

	2002 C£ '000	2001 C£ '000
<b>Assets</b>		
Denominated in Cyprus pounds	2.441.732	2.345.170
Denominated in foreign currency	2.440.366	2.369.465
	<u>4.882.098</u>	<u>4.714.635</u>
<b>Liabilities</b>		
Denominated in Cyprus pounds	2.330.664	2.302.694
Denominated in foreign currency	2.551.434	2.411.941
	<u>4.882.098</u>	<u>4.714.635</u>

The above table does not include off-balance sheet items and therefore does not represent the Group's exposure to foreign exchange fluctuations.

### 35. FINANCIAL INSTRUMENTS AND DERIVATIVES

The Group's activities require the use of financial instruments including derivatives. The Group utilises derivative instruments to meet the needs of customers, to generate trading revenues and to hedge its own exposure to interest rate and currency risk. The Group has appropriate Board-approved procedures for the control of exposure to both market and credit risk from its activities in financial instruments and derivatives.

The Group's measure of credit risk exposure is the cost of replacing contracts at market rates should the counterparty default prior to the settlement date. The credit risk amounts to the loss of gross unrealised gains from transactions before taking account of any collateral held. In relation to derivatives this is a negligible percentage of the agreed or notional amount of the contracts.

### 36. FAIR VALUE OF DERIVATIVES

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

Currency forward 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 positions 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. FAIR VALUE OF DERIVATIVES (continued)

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 outstanding 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 fair value of derivatives was:

The Group	2002	2002		2001	2001	
	Contract/ Notional Amount C£ '000	Assets C£ '000	Liabilities C£ '000	Contract/ Notional Amount C£ '000	Assets C£ '000	Liabilities C£ '000
<b>Derivatives</b>						
Foreign exchange derivatives:						
Currency forwards	43.473	179	929	76.087	749	412
Currency swaps	305.672	41	91	106.452	87	71
Interest rate derivatives:						
Interest rate swaps	154.876	933	1.467	76.367	489	783
Total fair value of derivatives		1.153	2.487		1.325	1.266
<b>The Bank</b>						
	2002	2002		2001	2001	
	Contract/ Notional Amount C£ '000	Assets C£ '000	Liabilities C£ '000	Contract/ Notional Amount C£ '000	Assets C£ '000	Liabilities C£ '000
<b>Derivatives</b>						
Foreign exchange derivatives:						
Currency forwards	36.951	175	925	61.144	724	385
Currency swaps	90.371	18	19	101.107	80	18
Interest rate derivatives:						
Interest rate swaps	144.596	933	957	76.367	489	783
Total fair value of derivatives		1.126	1.901		1.293	1.186

## NOTES TO THE FINANCIAL STATEMENTS

### 37. CONTINGENT LIABILITIES AND COMMITMENTS

#### a. 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.

The notional principal amounts of outstanding credit-related contingent items are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>C£ '000</b>	C£ '000	<b>C£ '000</b>	C£ '000
Acceptances	<b>60.053</b>	67.296	<b>58.293</b>	65.561
Guarantees	<b>282.778</b>	298.826	<b>227.099</b>	248.655
Total	<b>342.831</b>	366.122	<b>285.392</b>	314.216

#### b. Trustee services

The Bank acts as a trustee of approved investments of insurance companies according to the provisions of the Insurance Companies Law of 1984 and 1990. The value of all approved investments under trust as at 31 December 2002 was C£ 283m (2001: C£338 m).

#### c. Capital commitments

Capital expenditure contracted but not provided for at 31 December 2002 amounted to C£ 2,4 m (2001: C£ 5,7 m).

### 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank's financial assets and liabilities are accounted for principally under the historical cost method (book value). 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 as explained below.

Investments in subsidiaries are included in the accounts at their net book value in compliance with International Financial Reporting Standards.

## NOTES TO THE FINANCIAL STATEMENTS

### 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

The investments in associated companies are accounted for in the Group financial statements under the equity method of accounting. Under this method the book value of the investment consists of the net assets of the associated company. The fair value and the book value of these investments are approximately the same.

Investments in companies, which are quoted on the Stock Exchange, other than subsidiaries and associates, are included in the accounts at their year-end quoted market price.

### 39. EXPOSURE TO RISK

The Group is exposed to several risks, as with all other banks and businesses. 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:

#### a. Currency risk

Fluctuations in foreign exchange rates expose the Group to risks emerging from transactions in foreign currency and from changes in the value of assets held in foreign currencies. The Group hedges this risk by entering into forward contracts, currency swaps and other financial instruments.

#### b. Interest rate risk

This is the risk the Group is exposed to because changes in market interest rates are applied to assets and liabilities at different times. The Group is hedged against the exposure to interest rate risk by the use of appropriate instruments, primarily interest rate swap contracts.

#### c. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This is a common risk, which any company operating in the banking sector is facing. The Group operates effective controls and procedures and obtains sufficient securities and guarantees for all the advances given to customers so that the possibility of loss from exposure to credit risk is minimised. The Group also ensures that credit risk is not concentrated geographically or within the various sectors of the economy. A provision has been set up for any specific losses anticipated or which are present in any bank's portfolio.

#### d. Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments or contracts. The fact that the Group's assets are highly liquid and also that the Group complies with regulations imposed by the Central Bank on liquidity, minimises this type of risk from the point of view that the Group will be the defaulting party. In case the risk of default lies with other parties, the Group operates controls and procedures that restrict the possibilities of incurring a loss.

## NOTES TO THE FINANCIAL STATEMENTS

### 39. EXPOSURE TO RISK (continued)

#### e. Risk from changes in the market values of investments

This is the risk that possible downward movements in the market values of investments will cause the Group to incur a loss. The management of this risk is performed both by each company within the Group and by the General Management, so that this risk remains within acceptable limits.

### 40. CASH INFLOW/(OUTFLOW) FROM/(USED IN) OPERATING ACTIVITIES

	2002 C£ '000	2001 C£ '000
(Loss)/profit before tax	<b>(48.108)</b>	2.098
Transfer from investment revaluation reserve due to impairment in the value of available-for-sale investments	<b>47.149</b>	-
Share of profit from associated companies	<b>(1.301)</b>	(1.172)
Minority interest	<b>1.701</b>	3.786
Depreciation of tangible fixed assets	<b>8.046</b>	6.913
Amortisation of goodwill	<b>5.228</b>	4.195
Exchange differences	<b>4.762</b>	(1.110)
Interest received from investment securities	<b>(5.432)</b>	(7.571)
Dividend income from available-for-sale investments	<b>(322)</b>	(828)
Interest paid on loan capital	<b>7.810</b>	3.572
Loss on sale of fixed assets	<b>138</b>	44
Profit on disposal of available-for-sale investments	<b>(11)</b>	-
	<b>19.660</b>	9.927
Increase/decrease in:		
Deposits by banks	<b>(72.061)</b>	5.058
Customer deposits	<b>254.002</b>	512.764
Other liabilities	<b>8.107</b>	22.351
Advances	<b>(312.477)</b>	(376.890)
Placements with other banks	<b>227.931</b>	(250.938)
Government bonds and treasury bills	<b>35.656</b>	(165.091)
Other bonds	<b>(63.254)</b>	(64.776)
Other assets	<b>33.323</b>	40.352
	<b>130.887</b>	(267.243)

### 41. CASH AND CASH EQUIVALENTS

	2002 C£ '000	2001 C£ '000
Cash and deposits with Central Banks	<b>413.131</b>	266.103
Items in course of collection from other banks	<b>49.021</b>	34.169
Short term placements with other banks	<b>521.806</b>	566.730
Government bonds and treasury bills	<b>98.541</b>	130.207
	<b>1.082.499</b>	997.209

## NOTES TO THE FINANCIAL STATEMENTS

### 41. CASH AND CASH EQUIVALENTS (continued)

	2002 C£ '000	2001 C£ '000
Balance at 1 January	992.447	1.180.065
Net increase/(decrease) in cash and cash equivalents	90.052	(182.856)
Balance at 31 December as previously reported	1.082.499	997.209
Exchange differences	-	(4.762)
Balance at 31 December as restated	<u>1.082.499</u>	<u>992.447</u>

### 42. 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 2002	Beneficial interest at 31 March 2003
Kikis N. Lazarides	0,38%	0,38%
Jacovos Dimitriou	0,05%	0,05%
Marios and Platon E. Lanitis*	8,62%	8,62%
Andys Loutsios	0,19%	0,19%
Andreas Papaellinas	0,17%	0,17%
Nicos A. Hadjinicolaou	0,10%	0,12%
Michalis Erotokritos	0,01%	0,01%
Irene 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 (31.12.2002: 8,56%, 31.03.2003: 8,56%), Mr. Marios E. Lanitis (31.12.2002: 0,04%, 31.03.2003: 0,04%) and Mr. Platon E. Lanitis (31.12.2002: 0,02%, 31.03.2003: 0,02% ).

### 43. 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 2002	Shareholding at 31 March 2003
HSBC Finance (Netherlands)	21,39%	21,39%
Lanitis E.C. Holdings Ltd	8,56%	8,56%
Provident Fund of the Cyprus Popular Bank Employees Ltd	5,72%	5,72%

## NOTES TO THE FINANCIAL STATEMENTS

### 44. TRANSACTIONS WITH RELATED PARTIES

The advances to directors and their connected persons at 31 December 2002 amounted to C£ 59.700.000 (2001: C£ 53.000.000).

	<b>Number of Directors</b>	<b>Total C£ '000</b>
More than 1% of the net assets of the Group	3	58.000
Less than 1% of the net assets of the Group	7	1.700
	<hr/>	<hr/>
	10	59.700

In addition to the advances mentioned above, there were contingent liabilities of C£ 17.200.000 for guarantees and C£ 2.300.000 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 C£ 400.000 for guarantees and C£ 1.700.000 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. SEGMENTAL ANALYSIS

	Banking services		Insurance services		Financial and other services		Eliminations		Total	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Gross income										
From third parties	<b>280.837</b>	297.871	<b>8.335</b>	(1.166)	<b>48.016</b>	47.834	-	-	<b>337.188</b>	344.539
Intra-group	<b>24.040</b>	21.586	<b>1.456</b>	6	<b>547</b>	2.397	<b>(26.043)</b>	(23.989)	-	-
<b>Total gross income</b>	<b>304.877</b>	319.457	<b>9.791</b>	(1.160)	<b>48.563</b>	50.231	<b>(26.043)</b>	(23.989)	<b>337.188</b>	344.539
(Loss)/profit before tax and the results from disposal and revaluation of securities and impairment	<b>(2.123)</b>	41.240	<b>(1.467)</b>	(13.983)	<b>14.728</b>	15.490			<b>11.138</b>	42.747
(Loss)/profit before tax	<b>(26.622)</b>	40.880	<b>(26.348)</b>	(30.305)	<b>4.862</b>	(8.477)			<b>(48.108)</b>	2.098
Tax									<b>(5.426)</b>	(15.147)
Loss after tax									<b>(53.534)</b>	(13.049)
Minority interest									<b>1.701</b>	3.786
Loss attributable to the shareholders of the Bank									<b>(51.833)</b>	(9.263)
<b>Other information</b>										
Segmental assets	<b>4.314.160</b>	4.196.186	<b>108.701</b>	94.411	<b>450.847</b>	416.545			<b>4.873.708</b>	4.707.142
Investment in associated Companies	<b>3.338</b>	2.383	-	-	<b>5.052</b>	5.110			<b>8.390</b>	7.493
<b>Consolidated total assets</b>	<b>4.317.498</b>	4.198.569	<b>108.701</b>	94.411	<b>455.899</b>	421.655			<b>4.882.098</b>	4.714.635
Segmental liabilities	<b>4.205.006</b>	4.024.797	<b>46.022</b>	53.055	<b>329.931</b>	306.422			<b>4.580.959</b>	4.384.274
Minority interest									<b>26.039</b>	28.062
Capital expenditure	<b>12.812</b>	18.493	<b>113</b>	499	<b>321</b>	1.123			<b>13.246</b>	20.115
Depreciation and Amortisation	<b>9.765</b>	7.592	<b>2.136</b>	2.182	<b>1.373</b>	1.334			<b>13.274</b>	11.108
Other non-cash expenses	<b>46.401</b>	11.517	-	-	<b>7.444</b>	6.256			<b>53.845</b>	17.773
Impairment in the value of available-for-sale Investments	<b>23.450</b>	-	<b>21.144</b>	-	<b>2.555</b>	-			<b>47.149</b>	-

## NOTES TO THE FINANCIAL STATEMENTS

### 45. SEGMENTAL ANALYSIS (continued)

#### By geographical area

	Cyprus		Overseas		Total	
	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000	2002 C£ '000	2001 C£ '000
Gross income	<b>251.161</b>	262.824	<b>86.027</b>	81.715	<b>337.188</b>	344.539
Capital expenditure	<b>8.506</b>	10.720	<b>4.740</b>	9.395	<b>13.246</b>	20.115
Segmental assets	<b>3.334.669</b>	3.443.479	<b>1.547.429</b>	1.271.156	<b>4.882.098</b>	4.714.635
Segmental liabilities	<b>3.366.723</b>	3.426.999	<b>1.214.236</b>	957.275	<b>4.580.959</b>	4.384.274

Reconciliation with the amounts included in the Consolidated Profit and Loss account:

	2002 C£ '000	2001 C£ '000
Gross income as above	<b>337.188</b>	344.539
Interest payable per Consolidated Profit and Loss account	<b>(150.555)</b>	(178.909)
Operating income per Consolidated Profit and Loss account	<b>186.633</b>	165.630

Reconciliation with the amounts included in the Consolidated Balance Sheet:

	2002 C£ '000	2001 C£ '000
Total liabilities as above	<b>4.580.959</b>	4.384.274
Total liabilities per Consolidated Balance Sheet:		
Loan capital	<b>148.723</b>	149.015
Deposits by banks	<b>127.840</b>	199.901
Customer deposits	<b>4.010.462</b>	3.756.460
Loan from syndication of banks	<b>68.364</b>	68.379
Other liabilities	<b>225.570</b>	210.519
	<b>4.580.959</b>	4.384.274

### 46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 10 April 2003.