



Bank of Cyprus Group

Consolidated Financial Statements

for the year ended 31 December 2009

Contents	Page
Directors and Executives	1
Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements	2
Directors' Report	3
Consolidated Income Statement	9
Consolidated Statement of Comprehensive Income	10
Consolidated Balance Sheet	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	14
Summary of Significant Accounting Policies	
1. Basis of preparation	15
2. Changes in accounting policies and disclosures	15
3. Standards and Interpretations that are issued but not yet effective	17
4. Significant accounting judgments and estimates	19
5. Basis of consolidation	21
6. Investments in associates	22
7. Interest in joint ventures	23
8. Foreign currency translation	23
9. Segmental reporting	24
10. Turnover	24
11. Revenue recognition	24
12. Retirement benefits	24
13. Share-based payments	25
14. Taxation	25
15. Financial instruments	26
16. Derecognition of financial assets and financial liabilities	28
17. Impairment of financial assets	28
18. Hedge accounting	30
19. Offsetting financial instruments	31
20. Cash and cash equivalents	31
21. Insurance business	31
22. Repurchase and reverse repurchase agreements	32
23. Finance leases – The Group as lessor	32
24. Operating leases – The Group as lessee	32
25. Property and equipment	32
26. Investment properties	33
27. Stock of property held for sale	33
28. Goodwill and other intangible assets	33
29. Share capital	33
30. Provisions for pending litigation or claims	33
31. Financial guarantees	33
32. Comparative information	34

Bank of Cyprus Group
Consolidated Financial Statements
for the year ended 31 December 2009

Contents <i>(continued)</i>	Page
Notes to the Consolidated Financial Statements	
1. Corporate information	35
2. Segmental analysis	35
3. Interest income	39
4. Interest expense	40
5. Fee and commission income and expense	40
6. Foreign exchange income and net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments	41
7. Insurance income and claims	42
8. Other income	43
9. Staff costs	43
10. Other operating expenses	50
11. Share of profit/(loss) of associate	50
12. Taxation	50
13. Earnings per share	52
14. Cash, balances with central banks and placements with banks	53
15. Investments	53
16. Derivative financial instruments	58
17. Fair value of financial instruments	61
18. Loans and advances to customers	64
19. Hire purchase and finance lease debtors	65
20. Life insurance business assets attributable to policyholders	66
21. Property and equipment	66
22. Intangible assets	68
23. Other assets	71
24. Obligations to central banks and amounts due to banks	72
25. Customer deposits	72
26. Insurance liabilities	73
27. Debt securities in issue	75
28. Other liabilities	77
29. Subordinated loan stock	78
30. Share capital	80
31. Dividends	81
32. Retained earnings	82
33. Fiduciary transactions	82
34. Analysis of assets and liabilities by expected maturity	83
35. Contingent liabilities and commitments	84
36. Net cash flow from/(used in) operating activities	86
37. Cash and cash equivalents	87
38. Operating leases – The Group as lessee	88
39. Risk management – Credit risk	88
40. Risk management – Market risk	98
41. Risk management – Liquidity risk	102
42. Risk management – Other risks	108
43. Capital management	110
44. Related party transactions	112
45. Group companies	116
46. Acquisition of subsidiary companies during 2008	118
47. Investment in associate	122
48. Events after the balance sheet date	122
Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd	123

Bank of Cyprus Group Directors and Executives

<p>Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)</p>	<p>Theodoros Aristodemou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Vassilis G. Rologis Costas Z. Severis Christakis G. Christofides Evdokimos Xenophontos Anna Diogenous George M. Georgiades Andreas J. Jacovides</p> <p>Christos Mouskis Manthos Mavrommatis Andreas Eliades Yiannis Kypri Costas Hadjipapas Nikolas P. Tsakos</p>
<p>Senior Group Executive Management</p>	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri GROUP CHIEF GENERAL MANAGER</p> <p>Vassos Shiarylly SENIOR GROUP GENERAL MANAGER</p> <p>Christis Hadjimitsis GROUP GENERAL MANAGER FINANCE AND STRATEGY</p> <p>Nicolas Karydas GROUP GENERAL MANAGER RISK MANAGEMENT AND MARKETS</p>
<p>Secretary</p>	<p>Yiannis Kypri</p>
<p>Legal Advisers</p>	<p>Chryssafinis & Polyviou</p>
<p>Independent Auditors</p>	<p>Ernst & Young Cyprus Ltd</p>
<p>Registered Office</p>	<p>51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY - 1398 Nicosia, Cyprus Telephone: +357 22122100, Telefax: +357 22336258</p>

Bank of Cyprus Public Company Ltd

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Consolidated Financial Statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2009, confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 9 to 122.
 - (i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidated financial statements taken as a whole, and
- (b) the Directors' report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Theodoros Aristodemou	Chairman
Andreas Artemis	Vice Chairman
Vassilis G. Rologis	Non-executive Director
Costas Z. Severis	Non-executive Director
Christakis G. Christofides	Non-executive Director
Evdokimos Xenophontos	Non-executive Director
Anna Diogenous	Non-executive Director
George M. Georgiades	Non-executive Director
Andreas J. Jacovides	Non-executive Director
Christos Mouskis	Non-executive Director
Manthos Mavrommatis	Non-executive Director
Andreas Eliades	Executive Director
Yiannis Kypri	Executive Director
Costas Hadjipapas	Non-executive Director
Nikolas P. Tsakos	Non-executive Director
Christis Hadjimitsis	Group General Manager Finance and Strategy

24 February 2010

Bank of Cyprus Public Company Ltd

Directors' Report

The Board of Directors submit to the shareholders of the Company their Report together with the audited consolidated financial statements for the year ended 31 December 2009.

Activities

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiaries in Cyprus and abroad during the year continued to be the provision of banking, financial services and insurance services.

All Group companies and branches are set out in Note 45 of the consolidated financial statements.

Financial results

Group profit after tax and non-controlling interests for 2009 amounted to €313 million (2008: €502 million), thus achieving the target set for the year. Profit before provisions for 2009 reached €612 million (2008: €654 million), recording a decrease of only 6% compared to 2008 despite the adverse economic conditions and intense competition. The Company's profit after tax for 2009 amounted to €249 million (2008: €498 million).

Group Financial Highlights			
	Change	2009	2008
		€000	€000
Profit before provisions	-6%	612.246	653.633
Profit before tax	-34%	365.221	551.614
Profit after tax and non-controlling interests	-38%	313.144	502.388
Earnings per share (basic)	-34,4 cent	52,9 cent	87,3 cent
Cost/income	+6,6 p.p.*	52,4%	45,8%
Return on equity	-11,1 p.p.*	14,0%	25,1%
Gross Loans	+6%	26.508.048	25.112.608
Deposits	+2%	28.584.561	27.935.747
Equity	+21%	2.485.498	2.056.367

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

Net interest income and fee and commission income for 2009 reached €1.091 million compared to €1.010 million for 2008, recording an annual increase of 8%, confirming the Group's ability to achieve high recurring income even under adverse economic conditions. It is also noteworthy that net interest income increased by 7%, reaching €848 million in 2009 (2008: €792 million). The Group's net interest margin amounted to 2,39% compared to 2,52% for 2008.

The Group maintains a strong capital position with the capital adequacy ratio at 31 December 2009 standing at 11,7%. The tier 1 and core tier 1 ratios improved significantly and reached 10,6% and 7,4% respectively at 31 December 2009, up from 7,2% and 6,5% respectively in 2008 (Note: the tier 1 ratio is calculated based on the maximum percentage of 35% of total tier 1 capital that can be in the form of hybrid capital).

The Group continues to maintain its strong liquidity with the loans to deposits ratio standing at 90%. The Group enjoys strong liquidity in its two main geographic markets, with the loans to deposits ratio in Cyprus and Greece standing at 83% and 87% respectively at 31 December 2009.

Group return on equity remained at a satisfactory level (14,0%) in the context of a particularly challenging and negative environment. The Group maintained its efficiency, with the cost to income ratio contained at 52,4% for 2009 despite the continuing adverse economic conditions and the recent expansion of its branch network in Russia, Romania, Ukraine and Greece.

Bank of Cyprus Public Company Ltd

Directors' Report

Financial results *(continued)*

All countries in which the Group operates had a positive contribution to Group profits. In the two main markets where the Group operates, Cyprus and Greece, profit before provisions for 2009 reached €377 million and €145 million respectively. Profit after tax for 2009 in Cyprus reached €282 million and in Greece €3 million.

The Group's operations in the United Kingdom and Australia recorded profits after tax for 2009 of €9 million and €2 million respectively. In Romania and Ukraine profit after tax for 2009 reached €9 million and €0,4 million respectively.

In Russia profit after tax for 2009 reached €7 million. The recovery in profitability which started in the third quarter of 2009 led to profit of €20 million for the second half of 2009, compared to losses of €13 million for the first half of the year. The Group, having identified opportunities for growth in the Russian market, recorded an increase in loans of 20% during 2009.

The prudent credit policy followed by the Group, as well as the weak demand for lending, led to a limited increase in Group loans (6%) and deposits (2%) for 2009.

The Group's loan quality remained at healthy levels as a result of the emphasis placed on effective credit risk management. As a result of the worsening economic environment in Cyprus and Greece, the non-performing loans ratio (defined as the ratio of loans in arrears for longer than three months which are not fully covered by tangible collateral divided by total loans) reached 5,6% at 31 December 2009 up from 3,8% at 31 December 2008. The worsening economic environment led to an increase in provisions for impairment of loans to 0,96% of total loans for 2009. As a result, the Group maintained a satisfactory provisions coverage ratio (provisions as a percentage of non-performing loans) of 59% at 31 December 2009. The remaining balance of non-performing loans is fully covered by tangible collateral with the coverage ratio including tangible collateral amounting to 127% (113% taking into account tangible collateral valued at forced sales value).

Dividends

The Board of Directors proposes the payment of a final dividend of €0,08 per share. An interim dividend of €0,08 per share amounting to €47,500 thousand was paid in December 2009. The total dividend for the year 2009 amounts to €0,16 (2008: €0,27) per share.

Strategy and Priorities

The Group's primary objective is to remain robust on the basis of the four parameters which distinguished the Group during 2009:

- Strong capital adequacy.
- Healthy liquidity which relies primarily on customer deposits.
- Satisfactory profitability.
- Effective risk management.

At the same time, the Group aims to further strengthen its presence in new markets with substantial prospects in which it already has a presence. Further enhancement of productivity and the maintenance of its strong customer-focused culture are also significant targets for future success in these markets.

Further expansion in the markets where the Group already operates will ensure that the Group achieves long-term diversification of assets, revenues, profitability and risks. The Group chooses its expansion on the basis of clearly defined criteria: countries with a large population, low banking penetration and higher expected growth rates than those of the European Union (EU). Interest spreads in these countries are considerably higher than the EU average. Thus, in conjunction with careful risk management and gradual achievement of economies of scale, the Group aims to achieve high profitability levels in the medium term.

The Group is in an excellent position to face future challenges. The global financial crisis that significantly affected the international banking environment has had the minimal possible impact on the Group. In this context, the Group is ready to take advantage of any opportunities that may arise.

The Group's strategic directions for each country in which it operates are set out below.

Bank of Cyprus Public Company Ltd

Directors' Report

Strategy and Priorities *(continued)*

The Group's strategy in the Cyprus market focuses on:

- Rational pricing of loans and deposits given the new market conditions created by the international financial crisis.
- Emphasis on increasing commissions from areas such as private banking, brokerage, investment services as well as from relatively new services such as project finance.
- Cost containment.
- Right management of the quality of its loan portfolio.
- Maintaining its leading position in the provision of international banking services through utilisation of the Group's already established presence in Russia.
- Facing competition at all levels through smart and innovative products and services.

In the Greek market, the Group focuses its actions on:

- Rational pricing of loans and deposits given the new market conditions created by the international financial crisis, as well as the crisis that has been particularly impacting Greece over the last few months.
- Growth of deposits and advances at higher rates than the market. The Group will place particular emphasis on closer monitoring of risks, in a difficult economic environment.
- Increasing commissions from services which the Group has only recently targeted more intensely, such as private banking, brokerage, investment services as well as project finance.
- Gradual expansion of the branch network to achieve enhanced geographic coverage.

In the Russian market, the Group aims over the next three years to achieve the following objectives:

- Increase market share in both advances and deposits.
- Increase profitability through economies of scale, improvement of its systems and methods, automation and further centralisation, as well as the enhancement of its human resources and the upgrading of products through innovation.

The Group's objectives for the United Kingdom over the next three years are:

- Improvement in product pricing.
- Utilise opportunities to increase the loan portfolio, given the stagnant competitive environment.
- Utilise its UK presence as a financial centre.

For the Romanian market, the Group aims at:

- Selective expansion of its network for servicing customers.
- Further development of its project finance activities.

In Australia, the Group aims at:

- Improving product pricing and increasing commissions.
- Moderate network expansion.
- Further strengthening of customer referrals to Cyprus and Greece.

For the Ukrainian market, the Group aims at:

- Upgrading the branch network, procedures and systems which will be completed during 2010.
- Upon completion of the above-mentioned upgrading, a more dynamic growth of footings will be pursued based on sound systems, procedures and risk management, taking into account the economic developments in the country.

With operations in multiple markets, the Group aims at injecting and adopting a common philosophy, that of 'One Bank', in all markets in which it operates, particularly the relatively new ones. To this end it has decided to adopt a common IT platform. The infusion of the 'One Bank' culture will also be achieved through the continuous improvement of the Group's human resource management procedures.

The Group continues on its course and remains strong despite the unprecedented crisis that has affected the international banking sector. The consistency, flexibility and clear objectives of the Group and its prudent risk, liquidity and capital management policies, constitute a guarantee for the achievement of its future objectives to exploit its internationalisation and treat challenges as mere opportunities.

Bank of Cyprus Public Company Ltd

Directors' Report

Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 48 of the consolidated financial statements.

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 39 to 42 of the consolidated financial statements.

Share capital

As at 31 December 2009 the Company had in issue 598.196.342 ordinary shares of nominal value €1,00 each. The Company's shares are listed on the Cyprus Stock Exchange and the Athens Exchange.

During the year, the issued share capital of the Company increased by €11.535 thousand as a result of dividend reinvestment as described in Note 30 of the consolidated financial statements.

There are no restrictions on the transfer of the Company's ordinary shares other than the provisions of the Banking Law of Cyprus which requires Central Bank of Cyprus approval prior to acquiring shares of the Company in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

Shares of the Company held by the life insurance subsidiaries of the Group as part of their financial assets which are invested for the benefit of insurance policyholders carry no voting rights, pursuant to the insurance law. The Company does not have any shares in issue which carry special control rights.

Agreements which are effective upon a change of control of the Company

In case of an announcement of a public tender offer to the Company's shareholders or the proposal of a resolution to the general meeting of the Company for a merger, acquisition or sale of its operations, then, based on the terms of issue of the Convertible Bonds 2013/2018, the Convertible Capital Securities and the Share Options granted to employees, a special conversion/exercise period is activated. During this period, holders may convert/exercise their securities into shares of the Company at a special conversion price as determined by the terms of issue. In addition, in case of a successful outcome of a public tender offer to the Company's shareholders, the holders of these securities have the right to demand repayment of their capital at par together with any accrued interest.

The service contracts of the executive directors include a clause for compensation in the event of an unjustified early termination. The compensation payable is two annual salaries.

Corporate Governance Statement

The Group recognises the importance of implementing sound corporate governance policies, practices and procedures. Being listed on the Cyprus Stock Exchange (CSE), the Company has adopted the CSE's Corporate Governance Code and applies its principles. The CSE's Corporate Governance Code is available on the CSE website (www.cse.com.cy).

The Group complies with the provisions of the second Revised Edition of the Corporate Governance Code of the CSE, except for provision A.2.3., due to the criterion for the definition of independent directors according to which a director with a tenure exceeding nine years is not considered independent. Provision A.2.3 requires that at least 50% of the members of the Board of Directors, excluding the Chairman, be independent non-executive directors. As at 31 December 2009, six directors were considered independent, representing 43% of the Board of Directors excluding the Chairman. In September 2009 the CSE issued the third Edition of the Corporate Governance Code which is effective from 1 January 2010 and will be included in the Annual Report of the Group for 2010. The Board of Directors will proceed with all necessary actions to ensure compliance with the new requirements.

Bank of Cyprus Public Company Ltd

Directors' Report

Corporate Governance Statement (continued)

In addition, being listed on the Athens Exchange, the Company follows the provisions on corporate governance of listed companies as laid out in law L3016/2002 of the Hellenic Republic, which is available on the website of the Hellenic Capital Market Commission (www.hcmc.gr).

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in section 1.5 of the Report on Corporate Governance. The powers of the executive and supervisory bodies of the Group are set out in the Report on Corporate Governance.

Any amendment or addition to the Articles of Association of the Company is only valid if approved by a special resolution at a shareholders' meeting.

The Board of Directors may issue share capital if there is sufficient authorised share capital which has not been issued and as long as the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares will not be offered to existing shareholders, the approval of the shareholders in General Meeting must be obtained. The Board of Directors may also propose to the General Meeting of shareholders a share buyback scheme.

Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the share capital section above.

The Annual Report on Corporate Governance for 2009 is available on the website of the Company, www.bankofcyprus.com.

Shareholders holding more than 5% of the share capital

As at 31 December 2009 and 18 February 2010, 7,5% of the share capital of the Company was held by pension/retirement plans funded in Cyprus by the Group. The Company is not aware of any other shareholders holding, directly or indirectly, more than 5% of the issued share capital of the Company.

Preparation of periodic reporting

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are transformed into financial statements, related disclosures and other financial reports.

The Group's risk assessment process for financial reporting purposes aims at the identification, analysis and management of risks relevant to the preparation of financial statements, related disclosures and other financial reports that comply with the respective financial reporting, legal and regulatory framework, including the periodic reporting required by the Transparency Law of Cyprus (Law Providing for Transparency Requirements in relation to Information about Issuers whose Securities are admitted to trading on a Regulated Market) of 2007 and 2009. This is achieved through the identification of the risks of material misstatements in the reports and the implementation of controls to prevent or detect errors or fraud that could result in material misstatements.

Board of Directors

The members of the Board of Directors of the Company are listed on page 1. All Directors were members of the Board throughout the year 2009 and up to the date of this Report. Mr Christos S. Pantzaris resigned from the Board on 15 January 2009. The members of the Board of Directors express their gratitude to Mr Christos S. Pantzaris for his valuable contribution during his tenure on the Board of Directors of the Company.

In accordance with the Company's Articles of Association, Messrs Theodoros Aristodemou, Costas Z. Severis, Evdokimos Xenophonos, George M. Georgiades and Costas Hadjipapas retire and being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

Bank of Cyprus Public Company Ltd

Directors' Report

Directors' interest in the share capital of the Company

The beneficial interest in the Company's shares held by members of the Board of Directors, directly or indirectly, at 31 December 2009 and 18 February 2010, is set out below:

	%
<i>Non-executives</i>	
Theodoros Aristodemou	1,767
Andreas Artemis	0,350
Vassilis G. Rologis	0,128
Costas Z. Severis	0,491
Christakis G. Christofides	0,073
Evdokimos Xenophontos	-
Anna Diogenous	0,178
George M. Georgiades	0,034
Andreas J. Jacovides	0,020
Christos Mouskis	0,034
Manthos Mavrommatis	0,050
Costas Hadjipapas	0,001
Nikolas P. Tsakos	-
<i>Executives</i>	
Andreas Eliades	0,055
Yiannis Kypri	0,012
	3,193

In the context of the Share Options 2008/2010 granted by the Group to its employees in 2008, 2.000 thousand options were granted to the executive directors and 12 thousand options were granted to a non-executive director in his capacity as employee of the Company.

Independent auditors

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

Theodoros Aristodemou
Chairman

24 February 2010

Bank of Cyprus Group

Consolidated Income Statement for the year ended 31 December 2009

		2009	2008
	Notes	€000	€000
Turnover		2.481.561	2.690.380
Interest income	3	1.997.034	2.098.057
Interest expense	4	(1.149.204)	(1.305.906)
Net interest income		847.830	792.151
Fee and commission income	5	257.658	227.214
Fee and commission expense	5	(14.286)	(9.408)
Foreign exchange income	6	28.589	158.790
Net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments	6	87.111	(59.719)
Insurance income	7	227.509	31.590
Insurance claims	7	(164.674)	29.530
Other income	8	16.761	35.104
		1.286.498	1.205.252
Staff costs	9	(413.933)	(330.988)
Other operating expenses	10	(260.319)	(220.631)
Profit before provisions		612.246	653.633
Provisions for impairment of loans and advances	39	(247.935)	(91.601)
Profit before share of profit of associate		364.311	562.032
Share of profit/(loss) of associate	11	910	(10.418)
Profit before tax		365.221	551.614
Taxation	12	(43.227)	(72.931)
Profit after tax		321.994	478.683

Attributable to:			
Non-controlling interests (profit/(loss))		8.850	(23.705)
Owners of the Company		313.144	502.388

Basic earnings per share (cent)	13	52,9	87,3
Diluted earnings per share (cent)	13	48,7	81,8

Bank of Cyprus Group

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009	2008
	€000	€000
Profit after tax	321.994	478.683
Other comprehensive income		
Foreign currency translation reserve		
Losses on translation of net investment in subsidiaries and overseas branches	(30.626)	(149.186)
Transfer to the consolidated income statement on reduction of capital of subsidiary	18.732	-
	(11.894)	(149.186)
Available-for-sale investments		
Gains/(losses) from revaluation before tax	116.223	(163.198)
Transfer to the consolidated income statement on impairment	361	9.225
Transfer to the consolidated income statement on sale	(6.909)	(7.901)
Taxation	(2.804)	(954)
	106.871	(162.828)
Cash flow hedges		
(Losses)/gains from revaluation before tax	(2.287)	8.778
Transfer to the consolidated income statement on termination of hedge accounting	(5.280)	(2.329)
Taxation	757	(639)
	(6.810)	5.810
Property revaluation		
(Losses)/gains from revaluation before tax	(4.011)	4.362
Taxation	921	(344)
	(3.090)	4.018
Other comprehensive income/(expense) after tax	85.077	(302.186)
Total comprehensive income for the year	407.071	176.497

Attributable to:		
Non-controlling interests (income/(expense))	9.362	(23.705)
Owners of the Company	397.709	200.202

Bank of Cyprus Group

Consolidated Balance Sheet

as at 31 December 2009

		2009	2008 restated	1 January 2008 restated
	Notes	€000	€000	€000
Assets				
Cash and balances with central banks	14	1.043.791	1.017.073	1.325.191
Placements with banks	14	5.947.768	4.582.076	6.158.367
Reverse repurchase agreements		120.137	120.000	-
Investments	15	4.928.113	4.237.368	4.131.148
Derivative financial assets	16	60.739	153.240	55.642
Loans and advances to customers	18	25.635.780	24.424.694	18.920.921
Life insurance business assets attributable to policyholders	20	541.574	447.679	530.610
Property and equipment	21	406.272	421.361	319.662
Intangible assets	22	453.141	475.211	82.127
Other assets	23	267.534	246.208	229.554
Investment in associate	47	6.552	5.663	17.318
Total assets		39.411.401	36.130.573	31.770.540
Liabilities				
Obligations to central banks and amounts due to banks	24	5.290.897	2.832.298	1.233.337
Repurchase agreements		494.806	305.000	435.140
Derivative financial liabilities	16	139.551	161.515	30.396
Customer deposits	25	28.584.561	27.935.747	25.178.966
Insurance liabilities	26	618.097	516.692	615.916
Debt securities in issue	27	519.111	959.169	1.253.690
Other liabilities	28	332.037	429.700	349.157
Subordinated loan stock	29	946.843	934.085	668.748
Total liabilities		36.925.903	34.074.206	29.765.350
Equity				
Share capital	30	598.197	586.662	483.726
Share premium		712.170	676.949	688.349
Revaluation and other reserves		28.613	(99.759)	186.325
Retained earnings	32	1.084.132	877.225	607.668
Equity attributable to the owners of the Company		2.423.112	2.041.077	1.966.068
Non-controlling interests		62.386	15.290	39.122
Total equity		2.485.498	2.056.367	2.005.190
Total liabilities and equity		39.411.401	36.130.573	31.770.540

Th. Aristodemou
A. Artemis
A. Eliades
Y. Kypri
Chr. Hadjimitsis

Chairman
Vice-Chairman
Group Chief Executive Officer
Group Chief General Manager
Group General Manager Finance and Strategy

Bank of Cyprus Group

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings (Note 32)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Cash flow hedge reserve	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Shares of the Company	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2009	586.662	676.949	877.225	104.673	(115.318)	6.842	67.099	5.173	(152.507)	(15.721)	2.041.077	15.290	2.056.367
Cost of share-based payments	-	-	13.726	-	-	-	-	-	-	-	13.726	-	13.726
Increase in value of in-force life insurance policies	-	-	(8.377)	-	-	-	8.377	-	-	-	-	-	-
Tax on increase in value of in-force life insurance policies	-	-	877	-	-	-	(877)	-	-	-	-	-	-
Transfer to retained earnings on change in ownership of subsidiary (Note 45)	-	-	(26.685)	-	-	-	-	-	26.685	-	-	-	-
Change in ownership of subsidiary (Note 45)	-	-	38.264	-	-	-	-	-	-	-	38.264	32.191	70.455
Purchase of shares of the Company by subsidiaries and associates	-	-	-	-	-	-	-	-	-	(423)	(423)	-	(423)
Disposal of shares of the Company by subsidiaries and associates	-	-	(1.282)	-	-	-	-	-	-	2.798	1.516	-	1.516
Dividend paid and reinvested (Note 30)	11.535	35.221	(117.711)	-	-	-	-	-	-	-	(70.955)	-	(70.955)
Derecognition of equity component of Convertible Bonds 2013/2018	-	-	4.756	-	-	-	-	(4.756)	-	-	-	-	-
Issue of Convertible Capital Securities	-	-	-	-	-	-	-	12.003	-	-	12.003	-	12.003
Exchange of Convertible Bonds 2013/2018 with Convertible Capital Securities	-	-	(9.805)	-	-	-	-	-	-	-	(9.805)	-	(9.805)
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	-	-	-	-	-	-	(1.439)	(1.439)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	6.982	6.982
Total comprehensive income/(expense) for the year	-	-	313.144	(3.090)	106.781	(6.810)	-	-	(12.316)	-	397.709	9.362	407.071
31 December 2009	598.197	712.170	1.084.132	101.583	(8.537)	32	74.599	12.420	(138.138)	(13.346)	2.423.112	62.386	2.485.498

Bank of Cyprus Group Consolidated Statement of Changes in Equity

for the year ended 31 December 2008

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings (Note 32)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Cash flow hedge reserve	Life insurance in-force business reserve	Equity component of convertible subordinated loan stock	Foreign currency translation reserve	Shares of the Company	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2008	483.726	688.349	607.668	100.773	47.510	1.032	57.665	-	(3.321)	(17.334)	1.966.068	39.122	2.005.190
Capitalisation of share premium due to change in the nominal value of shares from £0,50 to €1,00 each	82.497	(82.497)	-	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	4.701	-	-	-	-	-	-	-	4.701	-	4.701
Increase in value of in-force life insurance policies	-	-	(10.593)	-	-	-	10.593	-	-	-	-	-	-
Tax on increase in value of in-force life insurance policies	-	-	1.159	-	-	-	(1.159)	-	-	-	-	-	-
Transfer of realised profits on sale of property	-	-	118	(118)	-	-	-	-	-	-	-	-	-
Purchase of shares of the Company by subsidiaries and associates	-	-	-	-	-	-	-	-	-	(1.361)	(1.361)	-	(1.361)
Disposal of shares of the Company by subsidiaries and associates	-	-	(1.025)	-	-	-	-	-	-	2.974	1.949	-	1.949
Equity component of Convertible Bonds 2013/2018	-	-	-	-	-	-	-	5.173	-	-	5.173	-	5.173
Dividend paid and reinvested (Note 30)	20.439	71.097	(227.191)	-	-	-	-	-	-	-	(135.655)	-	(135.655)
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	-	-	-	-	-	-	(368)	(368)
Change in non-controlling interests and acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	241	241
Total comprehensive income/(expense) for the year	-	-	502.388	4.018	(162.828)	5.810	-	-	(149.186)	-	200.202	(23.705)	176.497
31 December 2008	586.662	676.949	877.225	104.673	(115.318)	6.842	67.099	5.173	(152.507)	(15.721)	2.041.077	15.290	2.056.367

Bank of Cyprus Group

Consolidated Statement of Cash Flows

for the year ended 31 December 2009

		2009	2008 restated
	Notes	€000	€000
Net cash flow from/(used in) operating activities	36	2.168.918	(1.139.187)
Cash flows used in investing activities			
Purchases of investments:			
- debt securities		(5.673.891)	(1.976.706)
- equity securities		(59.980)	(4.417)
Proceeds on disposal/redemption of investments:			
- debt securities		5.262.324	1.583.472
- equity securities		869	8.484
Interest on debt securities		128.821	123.208
Dividend income from equity securities		1.659	10.461
Dividends received from associate		392	1.237
Acquisition of subsidiaries net of cash acquired		-	(343.915)
Purchase of property and equipment		(29.965)	(43.279)
Proceeds on disposal of property and equipment		1.954	2.223
Purchase of intangible assets		(8.023)	(8.654)
Proceeds on disposal of intangible assets		-	252
Purchase of investment properties		(16.187)	(1.450)
Proceeds on disposal of investment properties		214	20.110
Net cash flow used in investing activities		(391.813)	(628.974)
Cash flows from financing activities			
Issue of subordinated loan stock		118.161	576.083
Redemption of subordinated loan stock		(50.284)	(299.463)
Redemption of senior debt		(378.682)	(296.090)
Dividend payment net of reinvestment		(70.955)	(135.655)
Dividend paid by subsidiaries to non-controlling interests net of reinvestment		(1.439)	(368)
Increase of capital of subsidiary attributed to non-controlling interests		6.982	-
Interest on subordinated loan stock		(46.919)	(46.723)
Acquisition of own shares		(423)	(1.361)
Disposal of own shares		1.516	1.949
Net cash flow used in financing activities		(422.043)	(201.628)
Net increase/(decrease) in cash and cash equivalents for the year		1.355.062	(1.969.789)
Cash and cash equivalents			
1 January		4.787.851	6.793.636
Exchange adjustments		13.743	(35.996)
Net increase/(decrease) in cash and cash equivalents for the year		1.355.062	(1.969.789)
31 December	37	6.156.656	4.787.851

Bank of Cyprus Group

Summary of Significant Accounting Policies

The accounting policies used by Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (the 'Group') that are relevant to an understanding of the consolidated financial statements are stated below.

1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties, investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 34.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

2. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except the adoption of the following new and amended IFRSs and IFRIC Interpretations during the year:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
The Group early adopted the revised standard from 1 January 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Other consequential amendments were made to IAS 7 'Statement of Cash Flows', IAS 12 'Income Taxes', IAS 21 'The Effects of Changes in Foreign Exchange Rates', IAS 28 'Investment in Associates' and IAS 31 'Interests in Joint Ventures'.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IFRS 8 'Operating Segments'

IFRS 8 requires additional disclosure of information about the Group's operating segments and replaces the requirement to identify primary and secondary reporting segments. The Group has concluded that the operating segments determined in accordance with IFRS 8 are the same as the geographic segments previously identified under IAS 14 as secondary segments. Comparative information has been revised accordingly. IFRS 8 disclosures are shown in Note 2.

Bank of Cyprus Group

Summary of Significant Accounting Policies

2. Changes in accounting policies and disclosures (continued)

IAS 1 'Presentation of Financial Statements' (Revised)

IAS 1 (Revised) requires an entity to present all owner changes in equity and all non-owner changes to be presented either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative balance sheet as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements of income and comprehensive income. The Bank has also provided a restated comparative balance sheet for the earliest comparative period, as it has made a retrospective restatement, in the financial statements. These restatements are detailed in Note 46.

Amendment to IFRS 7 'Improving Disclosures about Financial Instruments'

The amendments are intended to enhance fair value and liquidity risk disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level three of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been restated as this is not required by the transitional provisions of the amendment.

Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements'

IFRS 1 has been amended to allow an entity, in its separate financial statements, to determine the cost of its investments in subsidiaries, jointly controlled entities or associates (in its opening IFRS financial statements) at cost or at deemed cost. This determination is made for each investment, rather than being a policy decision. The revisions to IAS 27 were applied prospectively. These amendments are not relevant to the Group's financial statements.

Improvements to IFRSs

In May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These improvements did not have any impact on the financial position or performance of the Group.

IFRIC 13 'Customer Loyalty Programmes'

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group maintains loyalty programmes that fall within the scope of this interpretation, the adoption of which did not have any material impact on its consolidated financial statements.

IFRIC 15 'Agreement for the Construction of Real Estate'

The Interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the Interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 'Construction contracts' or IAS 18 'Revenue'. This Interpretation did not have any impact on the Group's financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled to the income statement on disposal of the net investment. The adoption of the interpretation did not have any impact on the Group's consolidated financial statements.

IFRIC 18 'Transfers of assets from customers'

This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. This Interpretation is not relevant to the Group's operations.

Bank of Cyprus Group

Summary of Significant Accounting Policies

2. Changes in accounting policies and disclosures (continued)

Amendments to IFRS 2 'Share-based Payment'

These Amendments clarify the definition of a vesting condition and prescribe the treatment for an award that is effectively cancelled. The adoption of the Amendments did not have any impact on the Group's financial statements.

IAS 23 'Borrowing Costs' (Revised)

The revised IAS 23 requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The option in the previous standard to expense borrowing costs to the income statement in case of a qualifying asset has been eliminated. In accordance with IAS 23 (Revised), borrowing costs are capitalised on qualifying assets with a commencement date after 1 January 2009. The Group made no adjustment for borrowing costs incurred prior to 1 January 2009 that have been expensed. This revision did not have any material impact on the Group's financial statements.

IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments: Recognition and Measurement'

The amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. These amendments had no impact on the financial position or performance of the Group.

Amendment to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation'

The amendments provide a limited scope exemption for puttable instruments to be classified as equity if they fulfill a number of specified features. These amendments had no impact on the financial position or performance of the Group, as the Group has not issued such instruments.

3. Standards and Interpretations that are issued but not yet effective

Up to the date of approval of the consolidated financial statements, certain new Standards, Interpretations and Amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

(i) Standards and Interpretations issued by the IASB and adopted by the EU

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items' (effective for annual periods beginning on or after 1 July 2009)

The Amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group does not expect this Amendment to impact its consolidated financial statements.

Revised IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective for annual periods beginning on or after 1 July 2009)

This revision of IFRS 1 issued in November 2008 retains the substance of the previous version, but within a changed structure. It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. This revision will have no impact on the financial statements of the Group.

IFRIC 17 'Distribution of Non cash Assets to Owners' (effective for annual periods beginning on or after 1 July 2009)

IFRIC 17 applies to all non-reciprocal distributions of non-cash assets, including those giving the owners a choice of receiving non-cash assets or cash, provided that all owners of the same class of equity instruments are treated equally and the non-cash assets are not ultimately controlled by the same parties both before and after the distribution, and as such, transactions under common control are excluded. The Group does not expect that this Interpretation will have any impact on its consolidated financial statements.

Bank of Cyprus Group

Summary of Significant Accounting Policies

3. Standards and Interpretations that are issued but not yet effective (continued)

(i) Standards and Interpretations issued by the IASB and adopted by the EU (continued)

Amendment to IAS 32 Financial Instruments: Presentation – Classification of rights issues denominated in a foreign currency (effective for periods beginning on or after 1 February 2010)

The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants (together, here termed rights) as equity instruments. The Group does not expect that this Interpretation will have any impact on its consolidated financial statements.

(ii) Standards and Interpretations issued by the IASB but not yet adopted by the EU

Improvements to IFRSs 2009 (effective for various periods, the earliest beginning on or after 1 January 2009)

In April 2009, the IASB issued its second omnibus of amendments to its standards and the related basis for conclusions. This document contains 15 amendments to 12 standards. Effective dates range from 1 January 2009 to 1 January 2010. The Group is in the process of assessing the impact of these amendments on its next annual financial statements.

Amendments to IFRS 1 'Additional Exemptions for First-time Adopters' (effective for accounting periods beginning on or after 1 January 2010)

These amendments provide relief from the full retrospective application of IFRS for the measurement of oil and gas assets and leases. This amendment does not apply to the Group.

Amendments to IFRS 2 Share-based Payment 'Group Cash-settled Share-based Payment Arrangements' (effective for accounting periods beginning on or after 1 January 2010)

The amendment provides guidance on how to account for cash-settled share based payment transactions in the separate financial statements of an entity. This amendment does not apply to the Group.

Revised IAS 24 'Related Party Disclosures' (effective for accounting periods beginning on or after 1 January 2011)

The IASB has amended IAS 24 in an effort to simplify the identification of related party relationships by clarifying the definition of related parties but without reconsidering the fundamental approach to related party disclosures. The Group is in the process of assessing the impact of this revision on its financial statements.

IFRS 9 'Financial Instruments: Classification and Measurement' (effective for accounting periods beginning on or after 1 January 2013)

On 12 November 2009 the IASB published the first phase of IFRS 9, the accounting standard that will eventually replace IAS 39 Financial Instruments: Recognition and Measurement. The aim is to replace IAS 39 in its entirety by the end of 2010. The main focus of the first phase is the classification and measurement of financial assets. IFRS 9 is required to be applied retrospectively and is expected to result in significant changes in the classification and measurement of financial instruments. The Group is currently in the process of assessing the impact of the new Standard on its financial statements.

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011)

The amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. It requires entities to treat such early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The Group is in the process of assessing the impact of this Amendment.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after 1 July 2010)

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Group does not currently have any transactions within the scope of the Interpretation.

Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' (effective for annual periods starting on or after 1 July 2010)

The amendment provides relief to first time adopters from the requirement to provide comparative period disclosures required by IFRS 7. This amendment does not apply to the Group.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. Significant accounting judgments and estimates

The preparation of the consolidated financial statements requires the Group's management to make judgments and estimates that can have a material impact on the amounts recognised in the consolidated financial statements. The accounting policies that are deemed critical to the Group's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of assumptions and estimation, are discussed below.

(i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) Provision for impairment of loans and advances to customers

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

In addition to provisions for impairment on an individual basis, the Group also makes collective impairment provisions. The Group adopts a formulaic approach for collective provisions. Loss rates are based on historical experience. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in each portfolio. In addition, the use of historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience. In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not fully reflected. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience.

Different factors are applied in each country to reflect the local economic conditions, laws and regulations. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly.

The total amount of the Group's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions across a number of geographical areas. Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the Group's loan impairment provisions as a whole are particularly sensitive. It is possible that the outcomes within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

(iii) Impairment of goodwill

The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The review of goodwill impairment represents management's best estimate of the factors below.

Firstly, significant management judgement is required in estimating the future cash flows of the Cash Generating Units (CGUs) of the acquired entities. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. Significant accounting judgments and estimates (continued)

(iii) Impairment of goodwill (continued)

Secondly, the cost of capital assigned to each acquired entity and used to discount its future cash flows, can have a significant effect on the entity's valuation. The cost of capital is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned, a premium to reflect the inherent risk of the business being evaluated and foreign exchange rates. These variables are established on the basis of significant management judgement and are subject to uncertainty.

When this exercise demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated fair value. If this results in an estimated recoverable amount that is lower than the carrying value of the CGU, an impairment of goodwill will be recorded, thereby reducing by a corresponding amount the Group's profit for the year.

Note 22 on the consolidated financial statements lists the entities on which goodwill arises. Goodwill impairment testing performed in 2009 indicated that there was no impairment of goodwill as the recoverable amount based on expected cash flows continued to exceed the carrying amount including goodwill of these entities. It is possible that the outcomes within the next financial year in the event of further significant deterioration in the economic and credit conditions beyond the levels already reflected by management in the cash flow forecasts for each CGU, could be different from the assumptions used, resulting in a material adjustment to the carrying amount of goodwill.

(iv) Fair value of investments

The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The Group only uses models with unobservable inputs for the valuation of certain private equity investments which are not significant for the Group. In these cases, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market.

(v) Impairment of available-for-sale investments

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by management. The factors which are evaluated include the expected volatility in share prices. The Group's policy, defines significant as a fall in value of 20% or more below cost and prolonged as a period of 12 months or more. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The Group's policy in place requires that a review for potential impairment is carried out for individual debt securities when their fair value at the balance sheet date falls below 90% of the instrument's amortised cost. Such impairment review takes into account a number of factors such as the financial condition of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation, which involves a high degree of judgement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. Significant accounting judgments and estimates (continued)

(vi) Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates as well as future pension increases where necessary. The Group sets these assumptions based on market expectations at the balance sheet date using its best-estimates for each parameter covering the period over which the obligations are to be settled. In determining the appropriate discount rate, management considers the yield curve of high quality corporate bonds. In determining other assumptions a certain degree of judgement is required. Future salary increases are based on expected future inflation rates for the specific country plus a margin to reflect the best possible estimate to reflect parameters such as productivity, workforce maturity and promotions. Expected return on plan assets is based on the composition of each fund's plan assets estimating a different rate of return for each asset class. Estimates of future inflation rates on salaries and expected rates of return of plan assets represent management's best estimates for these variables. These estimates were derived after consultation with its advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are inherently uncertain.

(vii) General insurance business

For general insurance contracts, an increase in liabilities arising from claims is made for both the estimated cost of claims notified but not settled and claims incurred but not notified at the balance sheet date. It can take a significant amount of time before the ultimate claims cost can be established with certainty. Estimates regarding the increases in liabilities are based on past experience and industry practices. The historical claims development is analysed by accident year, by insurance/claim type and by geographical area. Claims projection techniques are used which extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

(viii) Life insurance business

The liability for life insurance contracts is based on actuarial assumptions relating to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The mortality and morbidity tables are based on standard industry mortality tables adjusted where appropriate to reflect the Group's unique risk exposure, product characteristics and own mortality experience. Estimates are also made for the value of in-force business and the future investment income arising from the assets backing life insurance contracts. Estimates for future expense are based on current expense levels adjusted for expected expense inflation. All estimates are based on current values as well as expectations about future economic and financial developments.

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

(ix) Taxation

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

(x) Consolidation of special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) for various purposes including asset securitisation, which may or may not be directly or indirectly owned subsidiaries. The Group consolidates those SPEs that it controls. In determining whether the Group controls an SPE, judgements are made about the Group's exposure to the risks and rewards related to the SPE and about its ability to make operational decisions for the SPE in question. The Group's involvement with SPEs is detailed in Note 45.

5. Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries (including special purpose entities that the Group consolidates) are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

All intra-group balances and transactions are eliminated on consolidation.

Bank of Cyprus Group

Summary of Significant Accounting Policies

5. Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating strategies of an entity so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, respectively.

The Group sponsors the formation of special purpose entities (SPEs), primarily for the purpose of asset securitisation transactions and to accomplish certain narrow and well defined objectives. The Group consolidates these SPEs if the substance of its relationship with them indicates that it has control over them.

Business combinations are accounted for using the purchase method. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated balance sheet. Where the Group's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity separately from the Company owners' equity.

On the acquisition of a non-controlling interest of a subsidiary, the difference between the cost of acquisition and the acquired non-controlling interest's share in the net assets of the subsidiary is reflected as goodwill or gains ('negative goodwill'), as stated above.

Upon the change in ownership of a subsidiary without loss of control by the Group, the difference between the proceeds from disposal and the non-controlling interests' share of the assets and liabilities is treated partly as goodwill and partly as an equity transaction. Specifically, the share of goodwill that corresponds to the percentage of shareholding transferred to the non-controlling interest holders is deducted from goodwill. The share of the cumulative amount of exchange differences relating to the percentage of shareholding transferred to the non-controlling interests is deducted from the 'Foreign currency translation reserve'. The resulting gain or loss is recognised in retained earnings.

Put/call option arrangements on non-controlling interest

As part of business combinations, the Group may enter into arrangements to acquire the shares held by the non-controlling interest in a subsidiary through put/call option arrangements, whereby a non-controlling interest holder can sell its shares to the Group at a predetermined price (put option) and the Group can buy the non-controlling interest at the same predetermined price (call option).

Such a put/call option arrangement is accounted for in the consolidated financial statements as a liability. This results in accounting as if the Group has already acquired the shares subject to such arrangements. Therefore, no non-controlling interest is recognised for reporting purposes in relation to the shares that are subject to such an arrangement. The liability is measured at fair value, using valuation techniques based on best estimates available to management. Any difference between the fair value of the liability and the legal non-controlling interest's share of net assets is recognised as part of goodwill. Subsequent changes to the valuation of the liability, other than foreign currency translation and the time value of money, are recorded as changes to the liability and goodwill, without any direct impact on the consolidated income statement.

6. Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Bank of Cyprus Group

Summary of Significant Accounting Policies

6. Investments in associates (continued)

Using the equity method, the investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate. The Group's share of the results of the associate is included in the consolidated income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The Group recognises its share of any changes in the equity of the associate through the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of the associate are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

7. Interest in joint ventures

The Group recognises its interest in joint ventures using proportionate consolidation. The financial statements of the joint venture entities are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

8. Foreign currency translation

The consolidated financial statements are presented in Euros (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange income' in the consolidated income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in subsidiaries and overseas branches. These differences are recognised directly in equity in the 'Foreign currency translation reserve' until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

(ii) Subsidiary companies and branches

At the reporting date, the assets and liabilities of subsidiaries (including special purpose entities that the Group consolidates) and branches whose functional currency is other than the Group's presentation currency are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated using the average exchange rates for the year. Any goodwill arising on the acquisition of branches and subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the branches and subsidiaries and translated at the exchange rate ruling on the balance sheet date.

Exchange differences arising on translation are recognised directly in the 'Foreign currency translation reserve' in equity. On disposal of a subsidiary or branch, the cumulative amount of the exchange differences previously recognised in equity and relating to that particular overseas operation, is recognised in the consolidated income statement as part of the profit or loss on disposal.

Bank of Cyprus Group

Summary of Significant Accounting Policies

9. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group of persons that allocate resources to and assess the performance of the operating segments. The Group has determined the Senior Group Executive Management as its chief operating decision-maker.

10. Turnover

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

11. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

(ii) Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised in the consolidated income statement using the effective interest rate method.

(iii) Dividend income

Dividend income is recognised in the consolidated income statement when the Group's right to receive payment is established.

(iv) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the income statement in 'Other income'.

(v) Income from the disposal of property held for sale

Income and cost of sales from the disposal of these properties is recognised in the consolidated income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

12. Retirement benefits

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

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

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by a funded plan or qualifying insurance policies. Fair value is based on market price information and in the case of quoted securities it is the published bid price. The value of any plan asset recognised is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Gains or losses on the curtailment of a defined benefit plan are recognised when the curtailment occurs. The gain or loss on a curtailment comprises of any resulting change in the present value of the defined benefit obligation, any resulting change in the fair value of plan assets and any related actuarial gains and losses and past service cost that had not previously been recognised.

Bank of Cyprus Group

Summary of Significant Accounting Policies

12. Retirement benefits *(continued)*

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

13. Share-based payments

The Group grants to its employees options to buy equity securities or other securities of the Company. These are recognised as share-based equity-settled transactions. The cost of equity-settled transactions is measured by reference to the fair value at the date on which the options are granted. The fair value is determined using appropriate valuation models.

The cost of share-based benefits is recognised over the period in which the vesting conditions are fulfilled and ends when the right of the employees to receive the shares is established. The total cost recognised at each reporting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest.

The consolidated income statement charge or credit for a period is included in 'Staff costs' and represents the movement in the cumulative cost recognised as at the beginning and end of that period, with a corresponding debit or credit in 'Retained earnings' in equity.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

No cost is recognised for benefits which do not ultimately vest.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 13).

14. Taxation

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

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

15. Financial instruments

(i) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis. 'Balances with Central banks', 'Obligations to central banks and amounts due to banks', 'Customer deposits', 'Placements with banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers.

(ii) Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Revaluations of trading derivatives are included in the consolidated income statement in 'Foreign exchange income' in the case of currency derivatives and in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the case of all other derivatives. Interest income and expense are included in the corresponding captions in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with revaluation recognised in the consolidated income statement. The embedded derivatives separated from the host are carried at fair value, with revaluations recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the consolidated balance sheet at fair value. Revaluations are recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement. Interest income and expense are included in the corresponding captions in the consolidated income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

(v) Other financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting, as well as unlisted equities which are managed on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the consolidated balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement. Interest income and expense are included in the corresponding captions according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

Bank of Cyprus Group

Summary of Significant Accounting Policies

15. Financial instruments (continued)

(vi) Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

(vii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading Investments', 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the balance sheet captions 'Placements with banks', 'Reverse repurchase agreements', 'Loans and advances to customers' and 'Investments classified as loans and receivables'. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances' in the case of loans and advances to customers and in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the case of investments classified as loans and receivables.

(viii) Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve of available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments'.

(ix) Subordinated loan stock and debt securities in issue

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

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

Interest on subordinated loan stock and debt securities in issue is included in 'Interest expense' in the consolidated income statement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

15. Financial instruments *(continued)*

(x) Convertible bonds

On issuance of compound financial instruments that contain both liability and equity elements, these are accounted for separately, as financial liabilities and equity respectively.

When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. No gain or loss arises from initially recognising the components of the instrument separately.

The liability component is subsequently measured at amortised cost using the effective interest rate method in order to amortise the difference between the nominal value and the carrying value at inception until it is extinguished on conversion or redemption. The equity component is not subsequently remeasured.

16. Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Group has transferred its rights to receive cash flows from the asset or (c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

17. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults.

(i) Loans and advances to customers

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

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

There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due according to the original contract terms.

Bank of Cyprus Group

Summary of Significant Accounting Policies

17. Impairment of financial assets (continued)

(i) Loans and advances to customers (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Loans are monitored continuously and are reviewed for impairment every six months. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the consolidated income statement.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, geographic location, past-due days and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Investments classified as held-to-maturity and loans and receivables

For held-to-maturity investments and loans and receivables investments, the Group assesses at each balance sheet date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

(iii) Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each balance sheet date.

In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is deducted from the 'Revaluation reserve of available-for-sale investments' and recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement. Impairment losses on equity securities are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised in the 'Revaluation reserve of available-for-sale investments' in equity.

Bank of Cyprus Group

Summary of Significant Accounting Policies

17. Impairment of financial assets (continued)

(iii) Available-for-sale investments (continued)

In the case of debt securities classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

18. Hedge accounting

The Group uses derivative financial instruments and in the case of a hedge of a net investment, non-derivative financial liabilities to hedge exposures to interest rate and foreign exchange risks. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness of the hedging relationship also forms part of the Group's documentation.

At inception of the hedging relationship, a formal assessment is also undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

(i) Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

(ii) Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on sale, revaluation and impairment of investments and derivative financial instruments' in the consolidated income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the consolidated income statement.

(iii) Hedge of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while gains or losses relating to the ineffective portion are recognised in 'Foreign exchange income' in the consolidated income statement.

On disposal of an overseas branch or subsidiary, the cumulative gains or losses recognised directly in equity are recognised in 'Foreign exchange income' in the consolidated income statement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

19. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

20. Cash and cash equivalents

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

21. Insurance business

The Group undertakes both life insurance and general insurance business and issues insurance and investment contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Investment contracts are those contracts that transfer financial risk.

Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

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

(i) Life insurance business

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

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

(ii) In-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the balance sheet date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

(iii) General insurance business

Premiums are recognised in the consolidated income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the balance sheet date are deferred to subsequent reporting periods.

An increase in liabilities arising from claims is made for the estimated cost of claims notified but not settled and claims incurred but not notified at the balance sheet date. The increase in liabilities for the cost of claims notified but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the increase in liabilities for claims incurred but not notified at the balance sheet date.

Bank of Cyprus Group

Summary of Significant Accounting Policies

21. Insurance business (continued)

(iv) Investment contracts

The Group offers deposits administration funds which provide a guaranteed investment return on members' contributions. Policies are written to employees of companies, which define the benefits to be received. Any shortfalls are covered by the companies of which staff is insured. The Group has no liability for any actuarial deficit.

(v) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the consolidated income statement.

22. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specific future date ('repos') are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised on the consolidated balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Repos outstanding at the balance sheet date relate to agreements with banks.

Securities purchased under agreements to resell ('reverse repos') at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. Reverse repos outstanding at the balance sheet date relate to agreements with banks.

23. Finance leases – The Group as lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the consolidated income statement.

24. Operating leases – The Group as lessee

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term in 'Other operating expenses'.

25. Property and equipment

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

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers on the basis of current market values. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Useful lives are in the range of 30 to 67 years. On disposal of freehold land and buildings, the relevant 'Revaluation reserve' balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 3 to 5 years or over the period of the lease if this does not exceed 5 years.

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

At the balance sheet date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

Bank of Cyprus Group

Summary of Significant Accounting Policies

26. Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment properties'.

The Group in its normal course of business, acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties. These properties are recognised in the Group's consolidated financial statements as investment properties, reflecting the substance of these transactions.

27. Stock of property held for sale

Stock of property held for sale is measured at the lower of cost or net realisable value.

28. Goodwill and other intangible assets

Goodwill represents the excess of the cost of the acquisition over the net fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment annually as at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Other intangible assets include computer software, licence fees, brands, acquired insurance portfolio customer lists and customer relationships acquired as part of business combinations. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for licence fees, 3 years for acquired insurance portfolio customer lists, 7 to 10 years for customer relationships, 8 years for brands and 3 to 5 years for computer software.

Other intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

29. Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

30. Provisions for pending litigation or claims

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

31. Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Bank of Cyprus Group

Summary of Significant Accounting Policies

31. Financial guarantees *(continued)*

Any increase in the liability relating to financial guarantees is recognised in the consolidated income statement in 'Provisions for impairment of loans and advances'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the consolidated income statement when the guarantee is fulfilled, cancelled or expires.

32. Comparative information

Further to the retrospective restatement of information in the financial statements referred to in Note 46, reclassifications were made to comparative information to conform to changes in the presentation in the current year. Such reclassifications relate to the presentation of outstanding claims from life insurance contract liabilities which are now included in insurance liabilities instead of being presented net in other assets. These reclassifications had no impact on profit after tax or equity of the Group.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2009 were authorised for issue by a resolution of the Board of Directors on 24 February 2010.

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

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

2. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit and has the following reportable operating segments: Cyprus, Greece and Russia. The Group's activities in the United Kingdom, Channel Islands, Australia, Romania and Ukraine are separate operating segments for which information is provided to management but, due to their size, have been aggregated for disclosure purposes into one segment, namely 'Other countries'.

The Group's activities in Cyprus include the provision of banking, financial and insurance services and property and hotel business. The Group's activities in Greece include the provision of banking, financial and insurance services. The Group's activities in other countries include the provision of banking services.

Group management monitors the operating results of each business segment separately for the purposes of performance assessment and resource allocation. Segment performance is evaluated based on profit after tax and non-controlling interests. Inter-segment transactions and balances are eliminated on consolidation and are made on an arm's length basis.

Operating segment disclosures are provided as presented to the Group's Senior Executive Management, where by each segment's capital is on the same basis as a percentage of the segment's risk weighted assets, as calculated for capital adequacy purposes in accordance with the relevant regulations of the Central Bank of Cyprus. As a result, subsidiaries or branches with capital in excess of the predefined level are charged with additional interest expense using current market interest rates, whereas subsidiaries or branches with lower capital than the predefined level benefit accordingly. The Group's total profit as presented in the consolidated income statement is not affected.

The loans and advances to customers, the customer deposits and the related income and expense are included in the segment where the business is originated, instead of the segment where the transaction is recorded.

Revenue includes net interest income, net fee and commission income, foreign exchange income, net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments, insurance income net of insurance claims and other income.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

2. Segmental analysis (continued)

	Cyprus	Greece	Russia	Other countries	Total
2009	€000	€000	€000	€000	€000
Net interest income	427.915	262.885	71.809	85.221	847.830
Net fee and commission income	122.959	54.763	55.345	10.305	243.372
Foreign exchange income	10.847	1.983	14.698	1.061	28.589
Net gains on sale, revaluation and impairment of investments and derivative financial instruments	76.262	7.859	2.609	381	87.111
Insurance income net of insurance claims	52.450	10.385	-	-	62.835
Other income	7.961	2.235	6.086	479	16.761
	698.394	340.110	150.547	97.447	1.286.498
Staff costs	(224.426)	(109.633)	(55.271)	(24.603)	(413.933)
Depreciation and amortisation	(12.985)	(14.789)	(12.891)	(3.590)	(44.255)
Other operating expenses	(83.805)	(70.755)	(41.608)	(19.896)	(216.064)
Profit before provisions	377.178	144.933	40.777	49.358	612.246
Provisions for impairment of loans and advances	(78.201)	(120.230)	(27.587)	(21.917)	(247.935)
Share of profit of associate	910	-	-	-	910
Profit before tax	299.887	24.703	13.190	27.441	365.221
Taxation	(13.394)	(21.641)	(1.675)	(6.517)	(43.227)
Profit after tax	286.493	3.062	11.515	20.924	321.994
Non-controlling interests	(4.512)	-	(4.338)	-	(8.850)
Profit after tax and non-controlling interests	281.981	3.062	7.177	20.924	313.144

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

2. Segmental analysis (continued)

	Cyprus	Greece	Russia	Other countries	Total
2008	€000	€000	€000	€000	€000
Net interest income	425.059	272.349	34.448	60.295	792.151
Net fee and commission income	132.301	58.160	15.828	11.517	217.806
Foreign exchange income	141.928	3.322	10.133	3.407	158.790
Net losses on sale, revaluation and impairment of investments and derivative financial instruments	(37.066)	(17.255)	(4.783)	(615)	(59.719)
Insurance income net of insurance claims	51.415	9.705	-	-	61.120
Other income	32.374	1.212	971	547	35.104
	746.011	327.493	56.597	75.151	1.205.252
Staff costs	(185.365)	(105.134)	(19.522)	(20.967)	(330.988)
Depreciation and amortisation	(13.635)	(13.785)	(2.563)	(2.189)	(32.172)
Other operating expenses	(82.983)	(65.520)	(21.334)	(18.622)	(188.459)
Profit before provisions	464.028	143.054	13.178	33.373	653.633
Provisions for impairment of loans and advances	(12.343)	(65.217)	(1.694)	(12.347)	(91.601)
Share of loss of associate	(10.418)	-	-	-	(10.418)
Profit before tax	441.267	77.837	11.484	21.026	551.614
Taxation	(63.684)	(3.984)	(3.652)	(1.611)	(72.931)
Profit after tax	377.583	73.853	7.832	19.415	478.683
Non-controlling interests	23.706	-	-	(1)	23.705
Profit after tax and non-controlling interests	401.289	73.853	7.832	19.414	502.388

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

2. Segmental analysis (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, foreign exchange income, net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments, insurance income net of insurance claims and other income.

The total revenue by segment and inter-segment revenue is analysed below:

	Cyprus	Greece	Russia	Other countries	Total
2009	€000	€000	€000	€000	€000
<i>Total revenue:</i>					
Banking and financial services	666.336	285.978	152.996	112.175	1.217.485
Insurance services	55.255	10.844	-	-	66.099
Property and hotel business	2.914	-	-	-	2.914
Total revenue with third parties	724.505	296.822	152.996	112.175	1.286.498
Inter-segment (expense)/revenue	(26.111)	43.288	(2.449)	(14.728)	-
Total revenue	698.394	340.110	150.547	97.447	1.286.498

2008					
<i>Total revenue:</i>					
Banking and financial services	716.822	255.269	58.427	90.915	1.121.433
Insurance services	55.127	9.975	-	-	65.102
Property and hotel business	18.717	-	-	-	18.717
Total revenue with third parties	790.666	265.244	58.427	90.915	1.205.252
Inter-segment (expense)/revenue	(44.655)	62.249	(1.830)	(15.764)	-
Total revenue	746.011	327.493	56.597	75.151	1.205.252

Analysis of assets

	Cyprus	Greece	Russia	Other countries	Total
2009	€000	€000	€000	€000	€000
Assets	24.994.001	16.383.209	2.024.939	3.265.300	46.667.449
Inter-segment assets					(7.256.048)
Total assets					39.411.401

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

2. Segmental analysis (continued)

Analysis of assets (continued)

	Cyprus	Greece	Russia	Other countries	Total
2008	€000	€000	€000	€000	€000
Assets	21.535.605	14.415.926	1.749.410	2.958.274	40.659.215
Inter-segment assets					(4.528.642)
Total assets					36.130.573

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 25 and 39 respectively.

3. Interest income

	2009	2008
	€000	€000
Loans and advances to customers	1.598.724	1.541.843
Placements with banks and central banks, including reverse repurchase agreements	49.588	189.132
Investments available-for-sale	140.985	160.119
Investments held-to-maturity	21.752	2.372
Investments classified as loans and receivables	10.129	1.953
	1.821.178	1.895.419
Trading investments	5.355	7.812
Derivative financial instruments	162.813	187.107
Other investments at fair value through profit or loss	7.688	7.719
	1.997.034	2.098.057

Interest income from loans and advances to customers includes interest from impaired loans and advances of €23.764 thousand (2008: €19.893 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

4. Interest expense

	2009	2008
	€000	€000
Customer deposits	875.723	1.002.814
Obligations to central banks and amounts due to banks, including repurchase agreements	39.866	12.548
Debt securities in issue	16.835	62.407
Subordinated loan stock	46.919	46.723
	979.343	1.124.492
Derivative financial instruments	169.861	181.414
	1.149.204	1.305.906

5. Fee and commission income and expense

Fee and commission income

	2009	2008
	€000	€000
Credit-related fees and commissions	130.885	102.443
Other banking commissions	114.311	108.563
Mutual funds and other management fees	3.843	9.606
Brokerage commissions	7.461	5.958
Other commissions	1.158	644
	257.658	227.214

Mutual funds and other management fees include €3.649 thousand (2008: €6.586 thousand) of income relating to fiduciary activities.

Fee and commission expense

	2009	2008
	€000	€000
Banking commissions	13.936	9.133
Mutual funds and other management fees	87	45
Brokerage commissions	263	230
	14.286	9.408

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

6. Foreign exchange income and net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments

Foreign exchange income

Foreign exchange income comprises the translation of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the year and the revaluation of foreign exchange derivatives.

Foreign exchange income for the year 2009 includes losses of €19 million which were transferred from the foreign currency translation reserve following the reduction of capital of a subsidiary, as described in Note 45.

Foreign exchange income also includes profits of €8 million (2008: €105 million) from transactions relating to the Group's investments in Russia and Ukraine which did not meet the criteria for hedge accounting.

Net gains/(losses) on sale, revaluation and impairment of investments and derivative financial instruments

	<i>2009</i>	<i>2008</i>
	<i>€000</i>	<i>€000</i>
Trading portfolio:		
- equity securities	6.089	(41.767)
- debt securities	6.408	149
- derivative financial instruments	(55.780)	(17.852)
Other investments at fair value through profit or loss:		
- equity securities	(62)	239
- debt securities	2.773	(2.650)
Gains on termination of cash flow hedges	5.280	2.329
Gains on disposal of available-for-sale investments:		
- equity securities	787	1.007
- debt securities	101.335	11.335
Gains on disposal of own debt securities in issue and subordinated loan stock held for trading	10.540	1.504
Reversal of impairment/(impairment) of available-for-sale debt securities	7.807	(8.680)
Reversal of impairment/(impairment) of held-to-maturity debt securities	2.986	(4.336)
Impairment of available-for-sale equity securities	(361)	(545)
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	(11.361)	(30.113)
- hedged items	10.670	29.661
	87.111	(59.719)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

7. Insurance income and claims

	2009		2008	
	Income	Claims	Income	Claims
	€000	€000	€000	€000
Life insurance business	179.795	(145.913)	(12.269)	46.723
General insurance business	47.714	(18.761)	43.859	(17.193)
	227.509	(164.674)	31.590	29.530

	2009		2008	
	Life insurance	General insurance	Life insurance	General insurance
Income	€000	€000	€000	€000
Gross premiums	108.174	71.138	102.908	66.765
Reinsurance premiums	(15.507)	(36.196)	(14.050)	(33.108)
Net premiums	92.667	34.942	88.858	33.657
Change in the liability for unearned premiums	-	(85)	-	(1.501)
Total net earned premiums	92.667	34.857	88.858	32.156
Income and gains/(losses) from life insurance assets attributable to policyholders	73.476	56	(118.021)	61
Commissions from reinsurers and other income	5.275	12.801	6.301	11.642
	171.418	47.714	(22.862)	43.859
Change in value of in-force business before tax (Note 26)	8.377	-	10.593	-
	179.795	47.714	(12.269)	43.859

Claims				
Gross payments to policyholders	(49.755)	(21.639)	(44.027)	(19.065)
Reinsurers' share of payments to policyholders	7.581	6.167	3.336	5.939
Gross change in insurance contract liabilities	(94.638)	(5.241)	98.685	3.160
Reinsurers' share of change in insurance contract liabilities	3.547	4.336	3.104	(3.260)
Commissions paid to agents and other direct selling costs	(12.648)	(2.384)	(14.375)	(3.967)
	(145.913)	(18.761)	46.723	(17.193)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

7. Insurance income and claims (continued)

Other insurance income and expense items

The following insurance income and expense items were recognised in the relevant captions of the consolidated income statement:

	2009		2008	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Income from non-linked insurance business assets	400	1.686	223	2.190
Net gains on sale, revaluation and impairment of financial assets and other non-linked insurance business income	923	255	682	887
Staff costs	(6.165)	(9.243)	(6.314)	(8.501)
Other operating expenses	(3.864)	(3.091)	(4.266)	(3.715)

8. Other income

	2009	2008
	€000	€000
Dividend income	1.659	10.461
Profit on sale of stock of property held for sale	942	2.847
Profit on sale of property and equipment	330	299
Rental income from investment properties	486	311
Gains from revaluation of investment properties	3.393	14.298
Negative goodwill on acquisition of subsidiary	-	325
Other income	9.951	6.563
	16.761	35.104

9. Staff costs

	2009	2008
	€000	€000
Salaries	299.518	272.301
Employer's contributions	55.948	47.016
Retirement benefit plan costs	44.741	6.970
Cost of equity-settled share-based payments	13.726	4.701
	413.933	330.988

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Staff costs (continued)

The number of persons employed by the Group as at 31 December 2009 was 12.127 (2008: 12.127).

Retirement benefit plan costs

	2009	2008
	€000	€000
Defined benefit plans	40.028	2.045
Defined contribution plans	2.920	1.823
Early retirement plans	1.793	3.102
	44.741	6.970

The Group operates retirement benefit plans as outlined below.

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus covers 27% of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 average monthly salaries depending on the length of service. A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. The plans are managed by Administrative Committees which comprise of representatives of both the members/retirees and the employer.

The present value of the defined benefit obligations of the main retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation of the main retirement plan in Cyprus were as follows:

	2009	2008
Discount rate	5,13%	5,75%
Expected rate of return on plan assets	6,19%	6,27%
Future salary increases	6,00%	6,25%

Greece

The Group's employees in Greece (26% of total Group employees) are covered by two defined benefit plans and one defined contribution plan.

All employees are entitled by law to a compensation in case of dismissal or a lump sum payment upon normal retirement, under a defined benefit plan, at rates specified in the Greek legislation. All the benefits paid from statutory retirement indemnities are payable out of the Company's assets because these plans are unfunded.

In addition, a number of employees recruited up to 31 December 2002 (8% of total Group employees) participate in a defined benefit plan which provides for the payment of a lump sum on retirement of up to approximately 50 monthly salaries depending on the length of service.

9. Staff costs (continued)

Retirement benefit plan costs (continued)

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

	2009	2008
Discount rate	5,23%	5,75%
Expected rate of return on plan assets	5,10%	5,90%
Future salary increases	4,50%	4,75%

The third plan applies to employees recruited after 31 December 2002 and is a defined contribution plan.

United Kingdom

The Group's employees in the United Kingdom (1% of total Group employees) are covered by a defined benefit plan and a defined contribution plan.

A number of employees recruited up to 31 March 2003 (1% of total Group employees) participated in a defined benefit plan which provided for the payment of a pension for life, based on the final employee salary prior to retirement and the years of service. With effect from 1 January 2009, the plan was closed to future accrual of benefits for active members. The salary link for these members is broken such that these active members had benefits calculated as though they are leavers from the plan on 31 December 2008.

The present value of the obligations for the defined benefit plan in the United Kingdom is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation were as follows:

	2009	2008
Discount rate	5,70%	6,00%
Expected rate of return on plan assets	7,00%	6,90%
Future salary increases	N/A	4,60%

The second plan applies to all employees and is a defined contribution plan.

Other countries

The Group does not operate any retirement benefit plans in Australia, Romania, Russia and Ukraine.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans

The amounts recognised in the consolidated balance sheet are shown below:

	2009	2008
	€000	€000
Net present value of funded obligations	544.389	479.081
Fair value of plan assets	(443.964)	(302.132)
	100.425	176.949
Net present value of unfunded obligations	7.545	5.869
Unrecognised past service cost	(1.042)	(1.139)
Unrecognised net actuarial losses	(106.186)	(181.549)
Amount not recognised as an asset because of the asset restriction requirement	441	-
Net liability of retirement benefit plans recognised in the consolidated balance sheet	1.183	130

	2009	2008
	€000	€000
Amounts recognised in the consolidated balance sheet		
Liabilities (Note 28)	6.785	5.725
Assets (Note 23)	(5.602)	(5.595)
	1.183	130

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans (continued)

The movement in the net present value of obligations is set out below:

	2009	2008
	€000	€000
1 January	484.950	501.311
Current service cost	24.623	26.237
Interest expense on obligations	27.686	26.051
Actuarial losses/(gains)	32.237	(39.461)
Past service (benefit)/cost	(1.668)	169
Benefits paid from the plans	(18.537)	(13.559)
Benefits paid directly by the Group	(142)	(42)
Contributions by plan participants	255	356
Terminations, curtailments and settlements	61	(4.847)
Exchange differences from overseas plans	2.469	(11.265)
31 December	551.934	484.950

The changes in the fair value of plan assets are set out below:

	2009	2008
	€000	€000
1 January	302.132	702.505
Expected rate of return on plan assets	19.822	50.741
Actuarial gains/(losses)	99.547	(432.072)
Employer's contributions	38.612	6.015
Contributions by plan participants	255	356
Benefits paid from the plans	(18.537)	(13.559)
Exchange differences from overseas plans	2.133	(11.854)
31 December	443.964	302.132

The actual return on plan assets for 2009 was €119.369 thousand (2008: loss of €381.331 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2009	2008
Equity securities	55%	45%
Debt securities	28%	43%
Placements with banks	15%	11%
Other plan assets	2%	1%
	100%	100%

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

	2009	2008
	€000	€000
Equity securities	217.742	112.621
Debt securities	53.445	51.933
	271.187	164.554

The components of the expense recognised in the consolidated income statement in relation to the defined benefit plans are as follows:

	2009	2008
	€000	€000
Current service cost	24.623	26.237
Interest expense on obligations	27.686	26.051
Expected return on plan assets	(19.822)	(50.741)
Amortisation of actuarial losses/(gains)	8.609	(18.192)
Amortisation of past service cost	(1.570)	88
Effect of terminations, curtailments and settlements	61	(3.747)
Effect of change of asset restriction limit	441	(6.646)
Amortisation of cumulative losses in excess of the reduction in economic benefits	-	28.995
	40.028	2.045

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans (continued)

Experience adjustments and their effect on the net present value of obligations and the fair value of plan assets are as follows:

	2009	2008	2007	2006
	€000	€000	€000	€000
Net present value of obligations	(551.934)	(484.950)	(501.311)	(514.210)
Fair value of plan assets	443.964	302.132	702.505	590.956
(Deficit)/surplus	(107.970)	(182.818)	201.194	76.746

Experience adjustments to obligations	181	(16.358)	(3.545)	(7.429)
Experience adjustments to plan assets	99.547	(432.072)	73.378	219.894

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the balance sheet date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 93% of the defined benefit obligations, the Group adopted a full yield curve approach using AA rated corporate bonds data from the iBoxx Euro corporates AA10+ index. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing. For the United Kingdom a yield curve approach was used based on high quality sterling corporate bonds.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its advisers, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the balance sheet date. Adjustments are made annually to the expected rate of return assumption based upon revised expectations of future investment performance of asset classes, changes to local laws that may affect investment strategy as well as changes to the target strategic asset allocation.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

10. Other operating expenses

	2009	2008
	€000	€000
Operating lease rentals for property and equipment	43.034	28.538
Advertising and marketing	28.922	34.114
Repairs and maintenance of property and equipment	19.544	16.374
Other property-related costs	19.861	15.647
Communication expenses	14.620	9.849
Depreciation of property and equipment	29.587	24.719
Amortisation of intangible assets	14.668	7.453
Audit fees	1.474	1.171
Other operating expenses	88.609	82.766
	260.319	220.631

11. Share of profit/(loss) of associate

	2009	2008
	€000	€000
Interfund Investments Plc:		
- share of profit/(loss)	910	(10.418)

12. Taxation

	2009	2008
	€000	€000
Current tax:		
- Cyprus	23.704	61.391
- overseas	25.013	25.244
Cyprus defence contribution	390	1.203
Deferred tax	333	(20.612)
Prior years' tax adjustments	(6.213)	5.705
	43.227	72.931

The Group's share of the tax charge of the associate is €3 thousand (2008: €130 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

12. Taxation (continued)

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

	2009	2008
	€000	€000
Profit before tax	365.221	551.614
Tax at the normal tax rates in Cyprus	36.912	56.364
Tax effect of:		
- expenses not deductible for tax purposes	5.049	16.986
- income not subject to tax	(14.197)	(2.122)
- differences between overseas tax rates and Cyprus tax rates	21.676	(4.002)
	49.440	67.226
Prior years' tax adjustments	(6.213)	5.705
	43.227	72.931

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. For life insurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 10%.

The Group's profits from overseas operations are taxed at the rates prevailing at the respective countries, which for 2009 were: Greece 25% (2008: 25%), United Kingdom 28% (2008: 28%), Australia 30% (2008: 30%), Romania 16% (2008: 16%), Russia 20% (2008: 24%) and Ukraine 25% (2008: 25%).

At 31 December 2009 the accumulated tax losses of subsidiaries and overseas branches amounted to €18.032 thousand (2008: €13.361 thousand), of which €4.400 thousand (2008: €4.652 thousand) can be carried forward indefinitely, €8.962 thousand (2008: Nil) expire within four years and €4.670 thousand (2008: €8.709 thousand) expire within five to ten years. The tax losses of prior years which were utilised during 2009 amounted to €2.194 thousand (2008: €3.212 thousand). It is expected that the remaining tax losses will be utilised against future taxable profits.

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around €2,5 million (2008: €2,6 million) would arise, for which no deferred tax liability has been recognised.

Deferred tax asset

The deferred tax asset comprises of:

	2009	2008
	€000	€000
Difference between capital allowances and depreciation	9.272	(4.524)
Property revaluation	(1.455)	(3.998)
Investment revaluation	106	11.321
Unutilised tax losses carried forward	2.197	1.398
Other temporary differences	3.859	6.927
	13.979	11.124

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

12. Taxation (continued)

Deferred tax liability

The deferred tax liability comprises of:

	2009	2008
	€000	€000
Difference between capital allowances and depreciation	9.129	(4.514)
Property revaluation	17.838	16.228
Investment revaluation	(6.984)	112
Different tax treatment of finance leases	1.568	2.934
Value of in-force life insurance policies	8.855	7.978
Other temporary differences	8.936	13.609
	39.342	36.347

13. Earnings per share

	2009	2008
Basic earnings per share		
Profit after tax attributable to the owners of the Company (€ thousand)	313.144	502.388
Weighted average number of shares in issue during the year, excluding shares of the Company held by subsidiaries and associates (thousand)	591.596	575.496
Basic earnings per share (cent)	52,9	87,3
Diluted earnings per share		
Basic earnings after tax attributable to the owners of the Company (€ thousand)	313.144	502.388
Interest on Convertible Bonds and Convertible Capital Securities (€ thousand)	34.287	13.467
Diluted earnings after tax attributable to the owners of the Company (€ thousand)	347.431	515.855
Weighted average number of shares used for basic earnings per share (thousand)	591.596	575.496
Adjustment for the conversion of Convertible Bonds and Convertible Capital Securities (thousand)	121.679	54.767
Diluted weighted average number of shares during the year (thousand)	713.275	630.263
Diluted earnings per share (cent)	48,7	81,8

The Share Options 2008/2010 (Note 30) do not constitute potentially dilutive ordinary shares, as their conversion into ordinary shares would not reduce earnings per share.

The Convertible Bonds 2013/2018 and the Convertible Capital Securities (Note 29) constitute potentially dilutive ordinary shares.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

13. Earnings per share (continued)

The diluted earnings per share are calculated after adjusting the weighted average number of shares in issue during the year, under the assumption that all potentially dilutive ordinary shares are converted into shares by their holders.

The weighted average number of shares for the year ended 31 December 2008 has been adjusted to reflect the bonus element of the shares issued under the Dividend Reinvestment Plan arising from the dividend payments in June and December 2009.

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

	2009	2008
	€000	€000
Cash	247.625	280.080
Balances with central banks	796.166	736.993
	1.043.791	1.017.073
Placements with banks	5.947.768	4.582.076

Balances with central banks include obligatory deposits for liquidity purposes which amount to €589.081 thousand (2008: €567.448 thousand).

Placements with banks include an amount of €946 million (2008: Nil) which represents the proceeds of financing from the Central Bank of Cyprus through the pledging of special government bonds issued by the Cyprus government for this purpose. These funds can only be used for providing housing loans and loans to small and medium-sized enterprises.

The analysis by rating agency designation of balances with central banks and placements with banks is set out in Note 39.

Placements with banks generally earn interest based on the interbank rate of the relevant term and currency.

15. Investments

	2009	2008
	€000	€000
Investments at fair value through profit or loss	346.127	334.371
Investments available-for-sale	4.168.056	3.050.378
Investments held-to-maturity	93.079	309.851
Investments classified as loans and receivables	320.851	542.768
	4.928.113	4.237.368

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

15. Investments (continued)

Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2009	2008	2009	2008	2009	2008
	€000	€000	€000	€000	€000	€000
Debt securities	136.322	134.756	178.705	176.419	315.027	311.175
Equity securities	27.829	18.049	1.475	3.057	29.304	21.106
Mutual funds	1.796	2.090	-	-	1.796	2.090
	165.947	154.895	180.180	179.476	346.127	334.371
Debt securities						
Cyprus government	133.790	132.283	150.452	149.205	284.242	281.488
Other governments	261	-	1.734	1.869	1.995	1.869
Banks and other corporations	2.271	2.001	26.519	25.345	28.790	27.346
Cyprus local authorities	-	472	-	-	-	472
	136.322	134.756	178.705	176.419	315.027	311.175
Listed on the Cyprus Stock Exchange	134.496	132.879	150.452	149.205	284.948	282.084
Listed on other stock exchanges	1.233	985	28.253	27.214	29.486	28.199
Unlisted certificates of deposit, bank and local authority bonds	593	892	-	-	593	892
	136.322	134.756	178.705	176.419	315.027	311.175
Equity securities						
Listed on the Cyprus Stock Exchange	16.700	6.283	-	-	16.700	6.283
Listed on other stock exchanges	11.129	11.766	-	-	11.129	11.766
Unlisted	-	-	1.475	3.057	1.475	3.057
	27.829	18.049	1.475	3.057	29.304	21.106

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

15. Investments (continued)

Investments at fair value through profit or loss (continued)

Investments at fair value through profit or loss include debt securities pledged as collateral for funding from central banks €279.749 thousand (2008: Nil).

Investments available-for-sale

	2009	2008
	€000	€000
Debt securities	4.088.368	3.029.540
Equity securities	79.688	20.838
	4.168.056	3.050.378
Debt securities		
Cyprus government	445.437	187.211
Other governments	1.079.012	648.704
Local authorities	4.401	2.134
Banks and other corporations	2.559.518	2.191.491
	4.088.368	3.029.540
Listed on the Cyprus Stock Exchange	448.654	187.211
Listed on other stock exchanges	3.464.819	2.837.511
Unlisted certificates of deposit, bank and local authority bonds	174.895	4.818
	4.088.368	3.029.540
<i>Geographic dispersion by country of issuer</i>		
Cyprus	511.300	223.361
Greece	927.318	584.212
United Kingdom and Ireland	660.113	444.963
France	259.635	303.674
Germany	116.642	182.549
Other European countries	804.425	388.097
U.S.A. and Canada	662.027	681.678
Australia	98.587	141.614
Other countries	17.757	16.288
Supranational organisations	30.564	63.104
	4.088.368	3.029.540
Equity securities		
Listed on the Cyprus Stock Exchange	21.063	19.359
Listed on other stock exchanges	57.974	239
Unlisted	651	1.240
	79.688	20.838

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

15. Investments (continued)

Investments available-for-sale (continued)

Available-for-sale investments include €1.999 thousand (2008: €7.737 thousand) of debt securities which have been determined to be individually impaired.

Available-for-sale investments also include €581.926 thousand (2008: €312.356 thousand) of debt securities pledged as collateral under repurchase agreements with banks and €2.629.190 thousand (2008: €516.735 thousand) of debt securities pledged as collateral for funding received from central banks.

Investments held-to-maturity and loans and receivables

	Held-to-maturity		Loans and receivables	
	2009	2008	2009	2008
	€000	€000	€000	€000
Debt securities	93.079	309.851	320.851	542.768
Cyprus government	1.347	2.431	320.851	542.768
Other governments	37.235	284.610	-	-
Local authorities	3.636	4.579	-	-
Banks and other corporations	50.598	17.974	-	-
Cyprus public companies	263	257	-	-
	93.079	309.851	320.851	542.768
Listed on the Cyprus Stock Exchange	1.610	2.688	320.851	542.768
Listed on other stock exchanges	80.473	16.121	-	-
Unlisted certificates of deposit, bank and local authority bonds	10.996	291.042	-	-
	93.079	309.851	320.851	542.768
<i>Geographic dispersion by country of issuer</i>				
Cyprus	1.825	3.761	320.851	542.768
Greece	-	76.520	-	-
United Kingdom and Ireland	-	142.134	-	-
Other European countries	33.637	71.315	-	-
Russia	12.409	16.121	-	-
Other countries	10.781	-	-	-
Supranational organisations	34.427	-	-	-
	93.079	309.851	320.851	542.768

Held-to-maturity investments at 31 December 2008 included €3.855 thousand of debt securities which have been determined to be individually impaired.

The fair value of held-to-maturity investments and loans and receivables investments was €95.796 thousand (2008: €293.467 thousand) and €313.669 thousand (2008: €537.895 thousand) respectively.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

15. Investments (continued)

Reclassification of investments

Reclassification of trading investments

In accordance with the provisions of the Amended IAS 39, in light of the rare circumstances arising as a result of the deterioration of the world's markets in 2008, the Group identified the investments which on 1 July 2008 did not intend to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading to available-for-sale investments. The book value of the reclassified debt securities which is equal to their fair value, is presented below:

	31 December 2009	31 December 2008	1 July 2008
	€000	€000	€000
Investments reclassified from trading to available-for-sale	19.081	15.454	17.385

Had the Group not reclassified the debt securities on 1 July 2008, the income statement would have included gains from the revaluation of these securities of €2.480 thousand (2008: losses €1.845 thousand) which, following the reclassification, were recorded in the revaluation reserve of available-for-sale investments in equity.

As at 1 July 2008, effective interest rates on the reclassified debt securities ranged from 5,3% to 7,4% with expected recoverable cash flows of €30 million.

Reclassification of available-for-sale investments

In accordance with the provisions of the Amended IAS 39, the Group has reclassified certain available-for-sale debt securities to loans and receivables as from 1 October 2008, in view of the fact that there was no active market for these debt securities and the Group did not have the intention to sell these securities in the foreseeable future. The book value and fair value of the reclassified debt securities, is presented below:

	31 December 2009		31 December 2008		1 October 2008
	Book value	Fair value	Book value	Fair value	Book value and fair value
	€000	€000	€000	€000	€000
Investments available-for-sale reclassified to loans and receivables	172.941	170.678	169.768	164.895	169.196

Had the Group not reclassified these debt securities on 1 October 2008, the Group's equity would have included losses from revaluation of these debt securities of €3.395 thousand (2008: €4.158 thousand) that would have been included in the revaluation reserve of available-for-sale investments in equity.

As at 1 October 2008, effective interest rates on the reclassified debt securities ranged from 4,6% to 4,7% with expected recoverable cash flows of €221 million.

16. Derivative financial instruments

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

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

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

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

Interest rate futures are contractual agreements for the purchase or sale of specific financial instruments at a specified price and date in the future in order to fix a forward rate of interest for an agreed period of time, starting at a specified future date. Futures contracts are transacted in standardised amounts on regulated exchanges.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

Commodity swaps are contractual agreements where a fixed-price contract for a commodity is exchanged for a floating (market) price contract at a specified future date.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the balance sheet date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risks.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

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

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

The effective portion of the gains or losses from the revaluation of derivatives designated as cash flow hedges, is recognised in equity and the ineffective portion is recognised in the consolidated income statement.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

16. Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Cash flow hedges

The Group uses interest rate swaps to hedge the future cash flows of floating rate debt securities. The amount included in equity in relation to cash flow hedges is expected to impact the consolidated income statement over the term of the hedging relationship in order to match the cash flows from the hedged items.

The hedged cash flows are expected to affect profit or loss as set out below:

	<i>Within 1 year</i>	<i>Between 1 and 5 years</i>	<i>After 5 years</i>
	€000	€000	€000
2009			
Interest income	1.019	3.934	-
Interest expense	(481)	(4.459)	-
	538	(525)	-
2008			
Interest income	4.175	10.043	670
Interest expense	(2.112)	(4.726)	(341)
	2.063	5.317	329

During the year, as a result of the disposal of debt securities which were designated as hedged items, these cash flow hedges were terminated.

Hedges of net investment

The Group's consolidated balance sheet is affected by exchange differences between the Euro and all non-Euro functional currencies of subsidiaries and overseas branches. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the subsidiaries and the overseas branches. As at 31 December 2009, liabilities amounting to €177.357 thousand (2008: €148.664 thousand) have been designated as hedging instruments and have given rise to a loss of €19.759 thousand (2008: loss of €42.447 thousand) which was recognised in the 'Foreign currency translation reserve' in equity, against the profit or loss from the retranslation of the net assets of the subsidiaries and overseas branches.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

16. Derivative financial instruments (continued)

Hedges of net investment (continued)

The contract amount and fair value of the derivative financial instruments is set out below:

	2009			2008		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
<i>Trading derivatives:</i>						
Forward exchange rate contracts	179.024	2.648	1.560	191.228	8.660	7.649
Currency swaps	2.026.686	14.451	12.733	2.248.118	50.760	68.450
Interest rate swaps	2.290.758	33.132	53.745	3.370.283	63.185	42.157
Currency options	41.938	127	134	4.211	20	20
Commodity swaps	-	-	-	22.409	4.235	4.221
Equity options	108.530	4.564	5.223	62.328	1.567	1.567
Interest rate caps/floors	86.682	497	497	67.269	411	411
	4.733.618	55.419	73.892	5.965.846	128.838	124.475
<i>Derivatives qualifying for hedge accounting:</i>						
Fair value hedges - interest rate swaps	1.349.947	4.953	65.628	982.634	15.547	37.040
Cash flow hedges - interest rate swaps	65.890	367	31	141.752	8.855	-
	1.415.837	5.320	65.659	1.124.386	24.402	37.040
Total	6.149.455	60.739	139.551	7.090.232	153.240	161.515

17. Fair value of financial instruments

The Group uses the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

The Group does not hold any significant derivative products which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss

Available-for-sale financial assets and financial assets at fair value through profit or loss are valued using a valuation technique or pricing models primarily consist of unquoted equity securities and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data.

Observable inputs to the models for the valuation of debt securities and unquoted equities include, where applicable, current and expected future market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The non-observable inputs to the models for the valuation of unquoted equity and debt securities include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Fair value of financial instruments (continued)

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
2009				
Financial assets				
<i>Trading derivatives:</i>				
Forward exchange rate contracts	171	2.477	-	2.648
Currency swaps	-	14.451	-	14.451
Interest rate swaps	110	32.945	77	33.132
Currency options	-	103	24	127
Equity options	-	4.556	8	4.564
Interest rate caps/floors	-	497	-	497
<i>Derivative financial instruments designated as fair value hedges:</i>				
Interest rate swaps	425	4.528	-	4.953
<i>Derivative financial instruments designated as cash flow hedges:</i>				
Interest rate swaps	-	367	-	367
<i>Investments at fair value through profit or loss:</i>				
Trading investments	31.564	134.383	-	165.947
Other investments at fair value through profit or loss	28.253	150.452	1.475	180.180
<i>Investments available-for-sale</i>	3.378.224	789.325	507	4.168.056
	3.438.747	1.134.084	2.091	4.574.922

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Financial liabilities				
<i>Trading derivatives:</i>				
Forward exchange rate contracts	199	1.361	-	1.560
Currency swaps	-	12.733	-	12.733
Interest rate swaps	532	53.208	5	53.745
Currency options	-	103	31	134
Equity options	-	4.556	667	5.223
Interest rate caps/floors	-	497	-	497
<i>Derivative financial instruments designated as fair value hedges:</i>				
Interest rate swaps	-	65.628	-	65.628
<i>Derivative financial instruments designated as cash flow hedges:</i>				
Interest rate swaps	-	31	-	31
	731	138.117	703	139.551

2008 (restated)				
Financial assets				
<i>Investments at fair value through profit or loss:</i>				
Trading investments	22.140	132.755	-	154.895
Other investments at fair value through profit or loss	27.214	149.205	3.057	179.476
<i>Investments available-for-sale</i>	2.705.980	343.891	507	3.050.378
	2.755.334	625.851	3.564	3.384.749

The movement in Level 3 financial instruments which are measured at fair value is presented below:

	Other investments at fair value through profit or loss	Available-for-sale investments	Trading derivatives	
			Assets	Liabilities
			€000	€000
1 January 2009	3.057	507	30	(31)
Unrealised losses recognised in the consolidated income statement	(62)	-	-	-
Realised gains/(losses) recognised in the consolidated income statement	-	-	79	(672)
Disposals	(1.520)	-	-	-
31 December 2009	1.475	507	109	(703)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

17. Fair value of financial instruments (continued)

During 2009 there were no transfers from Level 1 to Level 2. During 2008, as a result of the prevailing global market conditions, quoted prices were not available for a number of debt securities, which have been reclassified from Level 1 to Level 2. During 2009, these debt securities amounting to €65.162 thousand were transferred from Level 2 to Level 1.

18. Loans and advances to customers

	2009	<i>2008 restated</i>
	€000	€000
Loans and advances to customers	24.671.713	23.186.972
Hire purchase and finance lease debtors (Note 19)	1.836.335	1.925.636
Gross loans and advances to customers	26.508.048	25.112.608
Provisions for impairment of loans and advances to customers (Note 39)	(872.268)	(687.914)
	25.635.780	24.424.694

Loans and advances to customers include housing loans of €884 million and finance lease debtors of €611 million which were securitised during 2009 through special purpose entities (Note 45).

At 31 December 2009, loans and advances to customers also include loans of €1.221 million pledged as collateral to the Republic of Cyprus for the issue of €946 million special government bonds, which can in turn be used as collateral for obtaining financing from the Central Bank of Cyprus.

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 39.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

19. Hire purchase and finance lease debtors

	2009	2008
	€000	€000
Gross investment in hire purchase and finance lease contracts	2.268.310	2.515.161
Unearned finance income	(431.975)	(589.525)
Present value of hire purchase and finance lease payments	1.836.335	1.925.636
<i>Repayable:</i>		
- within one year	96.728	342.870
- between one and five years	1.084.073	973.479
- after five years	1.087.509	1.198.812
Gross investment in hire purchase and finance lease contracts	2.268.310	2.515.161
<i>Repayable:</i>		
- within one year	93.642	267.722
- between one and five years	890.516	772.774
- after five years	852.177	885.140
Present value of hire purchase and finance lease payments	1.836.335	1.925.636
<i>Analysis by geographical area:</i>		
- Cyprus	427.762	476.447
- Greece	1.785.894	1.988.476
- Romania	37.555	48.793
- Russia	17.099	1.445
Gross investment in hire purchase and finance lease contracts	2.268.310	2.515.161

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

Under finance lease contracts the item belongs to the Group and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the assets in good condition and to compensate the Group for any damage or loss incurred and (c) upon expiry of the contract, can either return the assets to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the assets.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

20. Life insurance business assets attributable to policyholders

	2009	2008
	€000	€000
Equity securities	233.762	169.670
Debt securities	150.044	146.315
Mutual funds	6.983	4.952
Property	9.510	8.079
Mortgages and other loans	4.317	4.783
Bank deposits	130.455	113.283
	535.071	447.082
Other assets	6.503	597
	541.574	447.679

All assets attributable to policyholders are measured at fair value and match the net life insurance liabilities (Note 26).

21. Property and equipment

	Property	Equipment	Total
2009	€000	€000	€000
Net book value at 1 January (restated) (Note 46)	378.033	43.328	421.361
Additions	15.595	14.370	29.965
Revaluation	(4.047)	-	(4.047)
Transfers to investment properties	(340)	-	(340)
Disposals and write-offs	(1.358)	(266)	(1.624)
Depreciation charge for the year	(13.620)	(15.967)	(29.587)
Exchange adjustments	(8.777)	(679)	(9.456)
Net book value at 31 December	365.486	40.786	406.272

1 January 2009			
Cost or valuation (restated)	459.430	177.844	637.274
Accumulated depreciation	(81.397)	(134.516)	(215.913)
Net book value	378.033	43.328	421.361

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

21. Property and equipment (continued)

	Property	Equipment	Total
31 December 2009	€000	€000	€000
Cost or valuation	460.387	190.819	651.206
Accumulated depreciation	(94.901)	(150.033)	(244.934)
Net book value	365.486	40.786	406.272

2008			
Net book value at 1 January	284.803	34.859	319.662
Acquisition of subsidiaries (restated) (Note 46)	89.822	13.240	103.062
Additions	29.504	13.775	43.279
Revaluation	4.362	-	4.362
Disposals and write-offs	(815)	(1.109)	(1.924)
Depreciation charge for the year	(10.961)	(13.758)	(24.719)
Exchange adjustments	(18.682)	(3.679)	(22.361)
Net book value at 31 December (restated)	378.033	43.328	421.361

1 January 2008			
Cost or valuation	354.696	146.701	501.397
Accumulated depreciation	(69.893)	(111.842)	(181.735)
Net book value	284.803	34.859	319.662

31 December 2008			
Cost or valuation (restated)	459.430	177.844	637.274
Accumulated depreciation	(81.397)	(134.516)	(215.913)
Net book value (restated)	378.033	43.328	421.361

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

	2009	2008
	€000	€000
Freehold property	336.370	348.881
Improvements on leasehold property	29.116	29.152
	365.486	378.033

Property includes land amounting to €105.091 thousand (2008: €105.196 thousand) for which no depreciation is charged. The Group's freehold property of OJSB Bank of Cyprus (previously JSC AvtoZAZbank) and CB Uniastrum Bank LLC was revalued at 31 October 2008 and 31 December 2008 respectively. The remaining freehold property of the Group was revalued at 30 June 2007. These valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and recent market transactions.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2009 would have amounted to €219.986 thousand (2008: €219.231 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

22. Intangible assets

	Computer software	Licence fees	In-force life insurance business	Customer relationships	Brands	Goodwill	Total
2009	€000	€000	€000	€000	€000	€000	€000
Net book value at 1 January (restated) (Note 46)	17.492	2.318	75.078	25.592	28.116	326.615	475.211
Additions	8.023	-	-	-	-	-	8.023
Increase in value of in-force life insurance policies	-	-	8.377	-	-	-	8.377
Amortisation charge for the year	(8.523)	(617)	-	(2.776)	(2.752)	-	(14.668)
Exchange adjustments	45	(6)	-	(5.612)	(5.764)	(12.465)	(23.802)
Net book value at 31 December	17.037	1.695	83.455	17.204	19.600	314.150	453.141

1 January 2009							
Cost (restated)	101.368	6.163	75.078	25.748	28.116	326.615	563.088
Accumulated amortisation	(83.876)	(3.845)	-	(156)	-	-	(87.877)
Net book value	17.492	2.318	75.078	25.592	28.116	326.615	475.211

31 December 2009							
Cost	109.700	6.162	83.455	20.120	22.401	314.150	555.988
Accumulated amortisation	(92.663)	(4.467)	-	(2.916)	(2.801)	-	(102.847)
Net book value	17.037	1.695	83.455	17.204	19.600	314.150	453.141

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

22. Intangible assets (continued)

	Computer software	Licence fees	Insurance portfolio customer list	In-force life insurance business	Customer relationships	Brands	Goodwill	Total
2008	€000	€000	€000	€000	€000	€000	€000	€000
Net book value at 1 January	13.505	2.932	-	64.485	-	-	1.205	82.127
Acquisition of subsidiaries (restated) (Note 46)	2.850	-	-	-	25.821	28.116	401.786	458.573
Additions	8.654	-	-	-	-	-	-	8.654
Disposal and write-offs	(252)	-	-	-	-	-	-	(252)
Increase in value of in-force life insurance policies	-	-	-	10.593	-	-	-	10.593
Amortisation charge for the year	(6.681)	(616)	-	-	(156)	-	-	(7.453)
Exchange adjustments	(584)	2	-	-	(73)	-	(76.376)	(77.031)
Net book value at 31 December	17.492	2.318	-	75.078	25.592	28.116	326.615	475.211

1 January 2008								
Cost	89.989	6.163	923	64.485	-	-	1.205	162.765
Accumulated amortisation	(76.484)	(3.231)	(923)	-	-	-	-	(80.638)
Net book value	13.505	2.932	-	64.485	-	-	1.205	82.127

31 December 2008								
Cost (restated)	101.368	6.163	-	75.078	25.748	28.116	326.615	563.088
Accumulated amortisation	(83.876)	(3.845)	-	-	(156)	-	-	(87.877)
Net book value	17.492	2.318	-	75.078	25.592	28.116	326.615	475.211

Customer relationships and brands arose in 2008 as a result of the acquisition of CB Uniastrum Bank LLC and OJSB Bank of Cyprus (previously JSC AvtoZAZbank).

Goodwill

	2009	<i>2008 restated</i>
	€000	€000
Kyprou Securities SA	1.205	1.205
OJSB Bank of Cyprus (previously JSC AvtoZAZbank)	26.718	27.578
CB Uniastrum Bank LLC	286.227	297.832
	314.150	326.615

22. Intangible assets (continued)

Goodwill (continued)

The Group's policy is to retest goodwill annually or when there are indications that conditions have changed since the last goodwill impairment test such that a different outcome may result.

During 2009 there was no impairment of goodwill (2008: Nil). Impairment testing in respect of goodwill is performed by comparing the recoverable amount of Cash-Generating Units (CGUs) of the acquired entities based on a value in use calculation. That calculation uses cash flow estimates based on management's projections, extrapolated in perpetuity using a nominal long-term growth rate based among others on current market assessment of GDP, inflation and foreign exchange rates as well as specific sector penetration for the countries within which each acquired entity operates. Cash flows are extrapolated in perpetuity in line with the long-term perspective of the Group for these businesses. The terminal growth rate used in extrapolating cash flows in perpetuity for the Russian and Ukrainian entities at 31 December 2009 is 5% (2008: 5%).

The discount rate used is based on the cost of capital the Company allocates to investments in the countries within which each entity operates. The cost of capital assigned to an individual entity and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital is derived from an appropriate Capital Asset Pricing Model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. For the Russian and Ukrainian entities, a sovereign risk premium was also added, representing the difference between the risk-free interest rate (the US Dollar for the Russian entity and the Euro for the Ukrainian entity) and the interest rate of liquid long-term Treasury bonds issued in Russia and Ukraine and denominated in US Dollar and in Euros respectively. These financial and economic variables are established on the basis of management judgment and current market assessment. The discount rate applied in 2009 to the cash flows of the Russian entity which were translated from Russian Rubles into US Dollars using the projected foreign exchange rate is 12,9% (2008: 14,5%). The discount rate applied in 2009 to the cash flows of the Ukrainian entity which were translated from Ukrainian Hryvnia into Euro using the projected foreign exchange rate is 17,6% (2008: 16,5%).

Management judgement is required in estimating the future cash flows of the CGUs of the acquired companies. The valuations are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects.

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance policies relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force policies are:

	2009	2008
Discount rate (after tax)	10,0%	10,0%
Return on investments	5,5%	5,5%
Expense inflation	5,0%	5,0%

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

23. Other assets

	2009	2008
	€000	€000
Debtors	31.703	26.827
Stock of property held for sale	9.945	10.778
Investment properties	53.007	33.293
Taxes refundable	1.150	12.696
Deferred tax asset (Note 12)	13.979	11.124
Retirement benefit plans assets (Note 9)	5.602	5.595
Reinsurers' share of insurance contract liabilities (Note 26)	57.127	48.101
Prepaid expenses	7.739	4.589
Other assets	87.282	93.205
	267.534	246.208

Investment properties

The movement of investment properties is summarised below:

	2009	2008
	€000	€000
1 January	33.293	35.385
Acquisition of subsidiary	-	839
Exchange adjustments	(28)	(280)
Transfer from stock of property held for sale	-	1.711
Transfer from property and equipment	340	-
Additions	16.187	1.450
Disposals	(214)	(20.110)
Gains from revaluation at the initial transfer from property and equipment	36	-
Gains from revaluation	3.393	14.298
31 December	53.007	33.293

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

24. Obligations to central banks and amounts due to banks

	2009	2008
	€000	€000
Obligations to central banks	3.650.000	773.000
Amounts due to banks	1.640.897	2.059.298
	5.290.897	2.832.298

Obligations to central banks in 2009 represent financing obtained from the Central Bank of Cyprus, which the Group has secured through open market operations within the monetary policy framework of the Eurosystem. This financing is fully secured by eligible collateral (Notes 14 and 15) and bears interest at 1% per annum. In 2008 obligations to central banks represented collateralised funding from the Central Bank of Cyprus and unsettled purchases of government securities and bore interest at 2,5%-3,5% per annum .

Amounts due to banks represent interbank takings and generally bear interest based on the interbank rate of the relevant term and currency.

25. Customer deposits

	2009	2008
	€000	€000
<i>By category</i>		
Demand	4.512.915	3.916.475
Savings	2.149.604	1.614.524
Time or notice	21.922.042	22.404.748
	28.584.561	27.935.747
<i>By geographical area</i>		
Cyprus	14.732.426	15.030.099
Greece	10.910.747	10.507.701
Russia	1.021.751	900.893
United Kingdom	1.205.586	1.071.274
Australia	511.118	266.836
Romania	166.795	85.847
Ukraine	36.138	73.097
	28.584.561	27.935.747

Demand and savings deposits are payable on demand and their carrying amount represents their fair value.

The fair value of time or notice deposits that bear a floating rate of interest is equivalent to their carrying amount. The fair value of deposits that bear a fixed rate of interest is based on the present value of their future cash flows, estimated using interest rates on new deposits which have the same remaining period to maturity and is not materially different from their carrying amount. The majority of deposits (77%) mature within three months from the balance sheet date (Note 41).

26. Insurance liabilities

	2009			2008		
	Gross	Reinsurers' share	Net	Gross	Reinsurer's share	Net
	€000	€000	€000	€000	€000	€000
Life insurance	569.698	(21.685)	548.013	470.637	(17.785)	452.852
Liabilities relating to deposit administration funds (Note 28)	(24.444)	-	(24.444)	(20.652)	-	(20.652)
Life insurance contract liabilities	545.254	(21.685)	523.569	449.985	(17.785)	432.200
General insurance						
Equalisation reserve	19	-	19	-	-	-
Liabilities:						
- unearned premiums	32.867	(14.820)	18.047	31.991	(14.030)	17.961
- claims outstanding	39.957	(20.622)	19.335	34.716	(16.286)	18.430
	618.097	(57.127)	560.970	516.692	(48.101)	468.591

Reinsurance balances receivable are included in 'Other assets' (Note 23).

Life insurance contract liabilities

The movement of life insurance contract liabilities during the year is analysed as follows:

	2009			2008		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	449.985	(17.785)	432.200	541.598	(10.988)	530.610
New business	4.970	(1.448)	3.522	8.053	(1.752)	6.301
Changes in existing business	90.299	(2.452)	87.847	(99.666)	(5.045)	(104.711)
31 December	545.254	(21.685)	523.569	449.985	(17.785)	432.200

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

26. Insurance liabilities (continued)

General insurance liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	€000	€000	€000
1 January 2008	29.092	(12.632)	16.460
Premium income	66.765	(33.108)	33.657
Earned premiums	(63.866)	31.710	(32.156)
31 December 2008	31.991	(14.030)	17.961
Premium income	71.138	(36.196)	34.942
Earned premiums	(70.262)	35.406	(34.856)
31 December 2009	32.867	(14.820)	18.047

The liabilities for unearned premiums represent the liability for short-term insurance contracts for which the Group's obligations have not expired at the year end.

	Gross	Reinsurers' share	Net
Claims and loss adjustments	€000	€000	€000
Notified claims	31.344	(14.706)	16.638
Incurred but not notified	6.532	(4.840)	1.692
1 January 2008	37.876	(19.546)	18.330
Amount paid for claims settled in the year	(19.065)	5.939	(13.126)
Increase in liabilities arising from claims	15.905	(2.679)	13.226
31 December 2008	34.716	(16.286)	18.430
Amount paid for claims settled in the year	(21.639)	6.167	(15.472)
Increase in liabilities arising from claims	26.880	(10.503)	16.377
31 December 2009	39.957	(20.622)	19.335

Notified claims	31.079	(14.264)	16.815
Incurred but not notified	3.637	(2.022)	1.615
31 December 2008	34.716	(16.286)	18.430

Notified claims	37.620	(19.913)	17.707
Incurred but not notified	2.337	(709)	1.628
31 December 2009	39.957	(20.622)	19.335

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

27. Debt securities in issue

	Contractual interest rate	2009	2008
Medium term senior debt		€000	€000
€300 million 2006/2009	Three-month Euribor plus 0,33%	-	286.350
€500 million 2007/2010	Three-month Euribor plus 0,20%	450.992	480.130
€30 million 2008/2011	Three-month Euribor plus 0,65%	-	30.349
US\$50 million 2008/2013	Six-month Libor plus 0,50%	-	36.275
SEK 50 million 2009/2012	OMX Stockholm 30 index	4.852	-
RUB 1.000 million 2009	11%	-	2.073
RUB 1.500 million 2010	16%	2.303	1.651
		458.147	836.828
Short term commercial paper			
- Euro	-	29.495	74.933
- US Dollars	-	13.527	20.092
		43.022	95.025
Other debt securities in issue			
RUB Certificates of Deposit and Promissory Notes	11%	17.450	26.824
Interest-free loan from the European Development Bank	-	492	492
		519.111	959.169

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Group.

The fair value of the Group's debt securities in issue at 31 December 2009 was €514.612 thousand (2008: €921.523 thousand).

The Group holds debt securities in issue for trading purposes, the nominal amount of which was:

	2009	2008
	€000	€000
€500 million 2007/2010	48.900	19.750
€300 million 2006/2009	-	13.900

27. Debt securities in issue *(continued)*

In May 2009 the Group completed the securitisation of mortgage loans, as a result of which €1.000 million residential mortgage backed notes were issued. In September 2009, the Group completed the securitisation of finance lease receivables, as a result of which €689 million notes were issued.

The liability arising from the issue of these notes is not included in the consolidated balance sheet of the Group as all notes issued are held by the Group.

Medium term senior debt

In 2003 the Company established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2008: €4.000 million).

Under the EMTN Programme, the Company issued in May 2009, SEK50 million 2009/2012 bonds, the redemption amount of which is linked to the return of the OMX Stockholm 30 Index.

The €300 million 2006/2009 bonds issued in June 2006, matured in June 2009 and were redeemed at par.

In addition, the holders of the US\$50 million 2008/2013 bonds, issued in July 2008, and the holders of the €30 million 2008/2011 bonds, issued in April 2008, exercised their put option in January and April 2009 respectively and the bonds were redeemed at par.

The RUB1.000 million 2009 and RUB1.500 million 2010 bonds were issued at par by CB Uniastrum Bank LLC in February 2006 and April 2007 and mature in February 2009 and April 2010, respectively. During 2009, the issuer has redeemed the RUB 1.000 million 2009 bond at par.

The €500 million 2007/2010 bonds are listed on the Luxembourg Stock Exchange. The RUB1.500 million 2010 bond is listed on the Moscow Interbank Currency Exchange (MICEX).

The three-month Euribor fluctuated during 2009 between 0,7% and 2,9% (2008: 2,9%-5,4%) per annum.

Short term commercial paper

In 2006 the Company established a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (31 December 2008: €1.000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted.

Other debt securities in issue

The RUB Certificates of Deposits and Promissory Notes were issued by CB Uniastrum Bank LLC at par, are unlisted and have maturities up to one year.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

28. Other liabilities

	2009	2008
	€000	€000
Income tax payable	13.755	55.144
Special defence contribution payable	9.386	8.935
Deferred tax liability (Note 12)	39.342	36.347
Liability of retirement benefit plans (Note 9)	6.785	5.725
Provision for pending litigation or claims	9.156	3.244
Amount payable under put/call option arrangements	-	71.242
Financial guarantees	5.098	4.838
Liabilities relating to deposit administration funds (Note 26)	24.444	20.652
Other accrued expenses	29.683	28.955
Deferred income	5.223	8.841
Other liabilities	189.165	185.777
	332.037	429.700

Provision for pending litigation or claims

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

	2009	2008
	€000	€000
1 January	3.244	3.330
Increase/(decrease) of provision in the year	5.912	(86)
31 December	9.156	3.244

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

29. Subordinated loan stock

	Contractual interest rate	2009	2008
		€000	€000
Subordinated Bonds 2011/2016 (€200 million)	Three-month Euribor plus 0,60%	142.618	187.748
Capital Securities Series B (€51 million)	Base rate plus 1,00%	-	50.713
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	123.773	124.034
Convertible Bonds 2013/2018 (€573 million)	7,50% until 30 June 2009 and six-month Euribor plus 1,00% thereafter	41.090	563.726
Convertible Capital Securities (€645 million)	5,50%	633.304	-
Subordinated Bonds in Ukrainian Hryvnia 12/2016	12,00%	-	1.806
Subordinated Bonds in US Dollars 2013/2014/2015	2,50%	6.058	6.058
		946.843	934.085

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

The fair value of the Group's subordinated loan stock at 31 December 2009 was €933.340 thousand (2008: €829.547 thousand).

The Group holds subordinated loan stock for trading purposes, the nominal amount of which was:

	2009	2008
	€000	€000
Subordinated Bonds 2011/2016	57.550	13.550
Capital Securities Series B	-	796
Capital Securities 12/2007	2.680	2.498
Convertible Bonds 2013/2018	3.689	1.003

Subordinated Bonds

In 2003 the Company established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (31 December 2008: €4.000 million). Under the EMTN Programme, the Company issued in May 2006, €200 million 2011/2016 bonds maturing in May 2016. The Company has the option to call the bonds in whole during or after May 2011. The interest rate of the bonds was set at the three-month Euribor plus 0,60% until May 2011, increasing to plus 1,60% thereafter. The bonds are listed on the Luxembourg Stock Exchange.

The Subordinated Bonds in Ukrainian Hryvnia maturing on 31 December 2016 were issued by OJSB Bank of Cyprus in Ukraine in May 2008 and were redeemed at par in January 2009.

29. Subordinated loan stock (continued)

Subordinated Bonds (continued)

The Subordinated Bonds in US Dollars 2013/2014/2015 were issued by CB Uniastrum Bank LLC and mature as follows: US\$2 million on 31 December 2013, US\$2,5 million on 31 December 2014 and US\$2 million on 31 December 2015. Interest can be changed unilaterally by the issuer at any time until maturity.

Convertible Bonds

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with nominal value of €573 million, maturing in June 2018. The Convertible Bonds carried a fixed interest rate of 7,50% per annum until 30 June 2009 and floating interest rate thereafter, set at the six-month Euribor plus 1,00% until June 2013 and plus 3,00% thereafter.

The Bonds can be converted to shares at the price of €10,50 per share. The conversion periods are between 15-30 September of years 2010-2012 and 15-31 March of years 2011-2013. The Convertible Bonds may be redeemed at the option of the Company on or after September 2013, subject to the prior consent of the Central Bank of Cyprus. The Convertible Bonds 2013/2018 are listed on the Cyprus Stock Exchange.

On 6 June 2009 Convertible Bonds 2013/2018 of nominal value €527 million were exchanged for Convertible Capital Securities of an equal nominal value.

Convertible Capital Securities

On 6 June 2009, the Company issued €645 million Convertible Capital Securities. The Convertible Capital Securities were offered to eligible shareholders of the Company (in the ratio of Convertible Capital Securities with nominal value of €11 for every 10 shares held). The issue proceeds were received through the exchange of Convertible Bonds 2013/2018 with nominal value of €527 million and the remaining €118 million was received in cash.

The Convertible Capital Securities bear a fixed interest rate of 5,50% per annum for the first five years and a floating interest rate of the 6-month Euribor plus 3,00% per annum thereafter. The Convertible Capital Securities may be converted into ordinary shares of the Company at the option of the holders at the conversion price of €5,50 per share. The conversion periods are between 15-30 September of years 2010-2013 and 15-31 March of years 2011-2014.

The Convertible Capital Securities are perpetual, but may be redeemed at the option of the Company, at par together with any accrued interest, on 30 June 2014 or on any other interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus.

The Convertible Capital Securities are listed on the Cyprus Stock Exchange and the Athens Exchange.

Capital Securities

The €51 million Capital Securities Series B and the €126 million Capital Securities 12/2007 were issued in Cyprus Pounds in March 2004 and in December 2007 respectively. The Capital Securities are perpetual, but may be redeemed in whole, at the option of the Company, at par together with any accrued interest, five years after their issue date or on any interest payment date thereafter, subject to the prior consent of the Central Bank of Cyprus. In May 2009, the Company exercised its option to redeem the Capital Securities Series B at par.

Capital Securities Series B bore a floating interest rate, which was equal to the base rate at the beginning of each three-month period plus 1,00%. The interest rate of Capital Securities 12/2007 was fixed at 6,00% per annum for the first six months and floating thereafter, equal to the three-month Euribor plus 1,25% per annum. The Capital Securities are listed on the Cyprus Stock Exchange.

The base rate during 2009 fluctuated between 1,0% and 2,5% (2008: 2,5%-4,0%) per annum. The three-month Euribor during 2009 fluctuated between 0,7% and 2,9% (2008: 2,9%-5,4%) per annum.

30. Share capital

	2009		2008	
	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €1,00 each	750.000	750.000	750.000	750.000
<i>Issued and fully paid</i>				
1 January	586.662	586.662	566.223	483.726
Capitalisation of share premium due to change in the nominal value of shares from C£0,50 to €1,00 each	-	-	-	82.497
Dividend reinvestment	11.535	11.535	20.439	20.439
31 December	598.197	598.197	586.662	586.662

The Company has in force a Dividend Reinvestment Plan under which all shareholders have the option to reinvest all or part of their dividend in shares of the Company at a discount on the market value of the shares. For the dividend paid in December 2008 the discount was set at 15%. For all other dividends, the discount has been set at 10%. The reinvestment price for the dividend paid on 8 December 2009 was set at €4,25 per share, for the dividend paid on 10 June 2009 was set at €3,93 per share, for the dividend paid on 9 December 2008 was set at €2,71 per share and for the dividend paid on 10 June 2008 was set at €7,74 per share.

As a result of the dividend reinvestment during 2009, 11.534.686 (2008: 20.438.573) shares were issued and the Company's share capital and share premium increased by €11.535 thousand and €35.221 thousand respectively (2008: €20.439 thousand and €71.097 thousand respectively).

Shares of the Company held by subsidiaries and associates are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of such shares. The number of these shares at 31 December 2009 was 1.228 thousand (2008: 1.438 thousand). The cost of acquisition of these shares was €13.346 thousand (31 December 2008: €15.721 thousand).

In addition, the life insurance subsidiary of the Group held, as at 31 December 2009, a total of 4.521 thousand (2008: 3.656 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €20.304 thousand (31 December 2008: €17.934 thousand).

All issued ordinary shares carry the same rights.

The share premium is not available for distribution to equity holders.

Share-based payments – Share Options

On 14 May 2008, the Annual General Meeting of the Company's shareholders approved the granting of share options to Group employees, without these shares being first offered to existing shareholders and authorised the Board of Directors to issue up to 15 million shares of the Company.

In the context of the above decision, on 28 May 2008 the Board of Directors authorised the granting of 12,5 million share options to Group employees in Cyprus and Greece who were in service on 28 May 2008 ('Share Options 2008/2010'). The Extraordinary General Meeting of the shareholders of the Company on 23 June 2009 approved the amendment of the terms of the Share Options 2008/2010, modifying their exercise price and exercise period.

On 9 July 2009, the Board of Directors, authorised the granting of up to 2,5 million additional Share Options 2008/2010 to Group employees who were in service on 30 June 2009.

30. Share capital (continued)

Share-based payments – Share Options (continued)

Each Share Option 2008/2010 gives its holder the right to purchase one share of the Company at the price of €5,50 per share (previously €9,41 per share). On 31 December 2009, 2/3 of the Share Options 2008/2010 granted had vested to the beneficiaries; the remaining 1/3 of the share options will vest on 31 December 2010. The Share Options 2008/2010 can be exercised by their holders from 1 January to 31 March of 2011, 2012 and 2013 (previously 2011-2012) and from 1 November to 31 December 2012 and 2013 (previously 2012). The Share Options 2008/2010 are not transferable and are unlisted.

The fair value of the 12,5 million Share Options 2008/2010 issued on 28 May 2008 was measured at the grant date using the trinomial valuation model and amounted to €1,17 per share option. The main variables taken into account by the model are the share price (€8,56 on 28 May 2008), the exercise price (€9,41), the dividend yield (8,1%), the risk free interest rate (4,2%), the duration of the share options and the expected volatility of the share price (31,3% on an annual basis calculated using the historic volatility of the share).

As a result of the modification of their terms, the Share Options 2008/2010 were revalued using the same model as the initial valuation. The additional cost amounted to €0,42 per option.

The fair value of the additional 2.362 thousand Share Options 2008/2010 issued on 9 July 2009 was measured at the grant date using the trinomial valuation model and amounted to €0,87 per share option. The main variables taken into account by the model are the share price (€4,10 on 9 July 2009), the exercise price (€5,50), the dividend yield (6,9%), the risk free interest rate (2,7%), the duration of the share options and the expected volatility of the share price (23,6% on an annual basis calculated using the historic volatility of the share).

The movement in the number of Share Options 2008/2010 is summarised below:

	2009	2008
	000	000
1 January	12.500	-
Share options granted	2.362	12.500
Share options forfeited	(142)	-
31 December	14.720	12.500

31. Dividends

	2009	2008
	€000	€000
Declared and paid during the year:		
Final dividend for 2008: €0,12 (2007: €0,25) per share	70.399	141.556
Interim dividend for 2009: €0,08 (2008: €0,15) per share	47.500	86.011
	117.899	227.567
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2009: €0,08 (2008: €0,12) per share	47.856	70.399

31. Dividends *(continued)*

The final dividend will be paid out of retained earnings as at 31 December 2009 (2008: 31 December 2008).

The proposed ex-dividend date is 2 June 2010, that is buy transactions that take place before market close of the Cyprus Stock Exchange and the Athens Exchange on 1 June 2010 will be eligible to the dividend, which will be paid on 17 June 2010.

Out of the total dividend paid during 2009 of €117.899 thousand, dividend amounting to €188 thousand (2008: €376 thousand) relates to the Company's shares held by subsidiaries and associates.

32. Retained earnings

Retained earnings is the only distributable reserve.

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

33. Fiduciary transactions

The Group offers fund management services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management at 31 December 2009 amounted to €803 million (2008: €783 million).

34. Analysis of assets and liabilities by expected maturity

	2009			2008		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash and balances with central banks	506.214	537.577	1.043.791	481.723	535.350	1.017.073
Placements with banks	5.947.580	188	5.947.768	4.577.926	4.150	4.582.076
Reverse repurchase agreements	-	120.137	120.137	-	120.000	120.000
Investments	676.110	4.252.003	4.928.113	1.400.693	2.836.675	4.237.368
Derivative financial instruments	47.296	13.443	60.739	71.750	81.490	153.240
Life insurance business assets attributable to policyholders	42.871	498.703	541.574	263.121	184.558	447.679
Loans and advances to customers	5.520.057	20.115.723	25.635.780	4.664.307	19.760.387	24.424.694
Property, equipment and intangible assets	-	859.413	859.413	-	896.572	896.572
Other assets	148.287	119.247	267.534	142.463	103.745	246.208
Investment in associate	-	6.552	6.552	-	5.663	5.663
	12.888.415	26.522.986	39.411.401	11.601.983	24.528.590	36.130.573
Liabilities						
Obligations to central banks and amounts due to banks	4.851.884	439.013	5.290.897	2.586.066	246.232	2.832.298
Repurchase agreements	188.316	306.490	494.806	-	305.000	305.000
Derivative financial instruments	65.138	74.413	139.551	91.672	69.843	161.515
Customer deposits	15.979.771	12.604.790	28.584.561	18.009.935	9.925.812	27.935.747
Insurance liabilities	98.605	519.492	618.097	86.018	430.674	516.692
Debt securities in issue	513.568	5.543	519.111	445.158	514.011	959.169
Other liabilities	267.119	64.918	332.037	236.498	193.202	429.700
Subordinated loan stock	303	946.540	946.843	53.879	880.206	934.085
	21.964.704	14.961.199	36.925.903	21.509.226	12.564.980	34.074.206

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:

Loans and advances to customers and customer deposits in Cyprus are classified based on historic behavioural data. In Greece, the United Kingdom and Australia they are classified on the same basis as that used for regulatory purposes and in Russia, Romania and Ukraine they are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year column.

34. Analysis of assets and liabilities by expected maturity *(continued)*

The expected maturity of all other assets and liabilities is the same as their contractual maturity.

The Group expects that a significant portion of its deposits which are shown in the table above as maturing within one year will be renewed and will therefore not generate a cash outflow on their maturity.

35. Contingent liabilities and commitments

To meet the financial needs of its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group (Note 39).

Capital commitments

Capital commitments for the acquisition of property and equipment as at 31 December 2009 amount to €11.469 thousand (2008: €14.337 thousand).

Litigation

The Group's provision for pending litigation or claims is set out in Note 28. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.

In September 2006, the Trustees of the AremisSoft Corporation Liquidating Trust filed a civil action against the Company in the USA for at least US\$50 million (€35 million), their main claim being that the Company, in breach of its obligations to AremisSoft, permitted the principal owner of AremisSoft to execute transactions leading to the appropriation by him of significant sums belonging to AremisSoft. In August 2007, a US federal judge granted the Company's motion to dismiss the civil action and held that the appropriate forum for trial are the courts of the Republic of Cyprus. On 29 August 2007, the Trustees filed an application for reconsideration of the judgement issued by the court, which was denied on 31 March 2009. On 14 April 2009, the Trustees filed a further application for reconsideration of the court's denial of the application which was also denied on 7 August 2009. On 29 April 2009 the Trustees filed a notice of appeal against the judgement of August 2007 and on 28 August 2009 this appeal was dismissed by the Court of Appeals. As a result, all proceedings before the American courts have now come to an end. The Group does not expect to have any material financial impact as a result of this action.

The US Attorney for the Southern District of New York, pursuant to a coordination agreement with the Trustees of the AremisSoft Corporation Liquidating Trust, filed on 15 October 2007 a civil action against the Company based on very similar allegations as the ones set out in the Trustees of the AremisSoft Corporation Liquidating Trust's civil action already dismissed by the federal judge. Despite the fact that the Company did not engage in any conduct in the United States, the US Attorney's civil action claims that the Company violated US Law by enabling the principal owner of AremisSoft to transfer US\$162 million (€112 million) of proceeds, emanating from his own fraudulent conduct, through accounts maintained with the Company. On 31 March 2009, a judgement was issued dismissing this civil action. On 14 April 2009, the US Attorney filed a motion to amend the judgement, reinstate the action and grant it leave to file an amended complaint. The motion to amend the judgement, reinstate the action and grant it leave to file an amended complaint was denied on 5 August 2009. Furthermore, on 1 June 2009, the US Attorney filed a notice of appeal against the judgement of 31 March 2009 which was withdrawn on 27 October 2009. As a result all proceedings before the American courts have now come to an end. The Group does not expect to have any material financial impact as a result of this action.

35. Contingent liabilities and commitments *(continued)*

Litigation *(continued)*

In September 2009, an action was filed against the Company in Cyprus by the Trustees of the AremisSoft Corporation Liquidating Trust, which is similar in substance to the one filed in New York, in 2006. No detailed statement of claim has been filed to date. In the generally endorsed writ, the Trustees, on behalf of the investors of AremisSoft, claim the amount of US\$350 million (€243 million), in damages, which according to their allegations, have resulted from, inter alia, an alleged conspiracy between the Company and two of the major shareholders of AremisSoft, alleged fraudulent transactions through bank accounts held with the Company in Cyprus and in the United Kingdom, alleged breach of contract and alleged negligence. The Group does not expect to have any material financial impact as a result of this action.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

36. Net cash flow from/(used in) operating activities

	2009	2008
	€000	€000
Profit before tax	365.221	551.614
<i>Adjustments for:</i>		
Provisions for impairment of loans and advances	247.935	91.601
Depreciation of property and equipment	29.587	24.719
Amortisation of intangible assets	14.668	7.453
Cost of share-based payments	13.726	4.701
Amortisation of discounts/premiums	2.282	(4.417)
Profit on disposal of property and equipment	(330)	(299)
Interest on debt securities	(185.909)	(179.975)
Dividend income	(1.659)	(10.461)
Profit on sale of investments in equity securities	(787)	(1.007)
Profit on sale of investments in debt securities	(101.335)	(11.335)
Share of (profit)/loss of associate	(910)	10.418
Negative goodwill arising on acquisition	-	(325)
Loss transferred from the foreign currency translation reserve to the income statement following reduction of capital in a subsidiary	18.732	-
Losses from revaluation of debt securities designated as fair value hedges	(3.878)	6.449
Impairment of investments	(10.432)	13.561
Interest on subordinated loan stock	46.919	46.723
Change in present value of future income from in-force life insurance business	(8.377)	(10.593)
	425.453	538.827
<i>Change in:</i>		
Placements with banks	(1.968)	(62.751)
Obligations to central banks and amounts due to banks	2.458.599	1.530.494
Obligatory balances with central banks	(21.631)	(31.574)
Customer deposits	648.814	1.508.715
Life insurance business assets and liabilities	7.510	(16.293)
Loans and advances to customers	(1.458.844)	(4.329.048)
Other assets	81.956	(103.771)
Prepayments and accrued income	(3.150)	(813)
Other liabilities	(15.455)	26.379
Accruals and deferred income	(2.890)	(1.928)
Investments at fair value through profit or loss	45.011	232.414
Repurchase agreements	189.806	(130.140)
Reverse repurchase agreements	(137)	(120.000)
Debt securities in issue	(61.376)	(97.684)
Subordinated loan stock held for trading	(50.217)	(16.602)
	2.241.481	(1.073.775)
Tax paid	(72.563)	(65.412)
Net cash flow from/(used in) operating activities	2.168.918	(1.139.187)

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

36. Net cash flow from/(used in) operating activities (continued)

Operational cash flow from interest and dividends

	2009	2008
	€000	€000
Interest paid	(1.190.369)	(1.233.616)
Interest received	1.987.541	2.125.193
Dividends received	1.659	10.461
	798.831	902.038

37. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2009	2008
	€000	€000
Cash and non-obligatory balances with central banks	454.708	449.625
Placements with banks with original maturity less than three months	5.701.948	4.338.226
	6.156.656	4.787.851
Cash and non-obligatory balances with central banks	454.708	449.625
Obligatory balances with central banks	589.083	567.448
Total cash and balances with central banks (Note 14)	1.043.791	1.017.073
Placements with banks with original maturity less than three months	5.701.948	4.338.226
Other placements with banks	245.820	243.850
Total placements with banks (Note 14)	5.947.768	4.582.076

Placements with banks with original maturity less than three months include €946 million (2008: Nil) which represents the proceeds of financing from the Central Bank of Cyprus through the collateralisation of special government bonds issued for that purpose (Note 14). These funds can only be used for the granting of housing loans and loans to small and medium-sized enterprises.

38. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December are stated below:

	2009	<i>2008</i>
	€000	<i>€000</i>
Within one year	22.962	14.053
Between one and five years	40.231	33.451
After five years	31.313	21.867
	94.506	69.371

The above mainly relate to property leases for the Group's branches and offices.

39. Risk management – Credit risk

The Group is exposed to credit risk in its ordinary course of business, which is monitored through various control mechanisms in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that one party to a financial instrument causes a financial loss to the other party by failing to discharge an obligation.

The Group Credit Risk Management unit defines the Group's credit disbursement policies and monitors compliance with the relevant credit sanctioning procedures and controls applicable to each business line (consumer, business and corporate) as well as to each geographical area where the Group operates. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The Group Credit Risk Management unit sets targets and limits for the composition and quality of the loans and advances portfolio and monitors compliance with them. The assessment of the quality of the portfolio is carried out using credit rating and credit scoring systems in order to assess the creditworthiness of customers.

The loan portfolio is assessed on the basis of creditworthiness of customers, sector of the economy and country of operation and is regularly audited by a specialist unit of the Group Internal Audit.

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

The Group's policy regarding the definition of impaired loans and advances and the determination of the level of provisions for impairment is described in the summary of significant accounting policies.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

39. Risk management – Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held and other credit enhancements.

	2009	2008
	€000	€000
Balances with central banks (Note 14)	796.166	736.993
Placements with banks	5.947.768	4.582.076
Reverse repurchase agreements	120.137	120.000
Trading investments - debt securities	136.322	134.756
Debt securities at fair value through profit or loss	178.705	176.419
Debt securities classified as available-for-sale, held-to-maturity and loans and receivables	4.502.298	3.882.159
Derivative financial instruments	60.739	153.240
Loans and advances to customers	25.635.780	24.424.694
Debtors (Note 23)	31.703	26.827
Reinsurers' share of insurance contract liabilities (Note 23)	57.127	48.101
Other financial assets	87.282	93.205
On-balance sheet total	37.554.027	34.378.470
<i>Contingent liabilities</i>		
Acceptances and endorsements	55.339	42.387
Guarantees	1.923.973	1.919.963
<i>Commitments</i>		
Documentary credits	46.192	42.718
Undrawn formal standby facilities, credit lines and other commitments to lend	4.170.277	4.206.909
Off-balance sheet total	6.195.781	6.211.977
Total credit risk exposure	43.749.808	40.590.447

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as those of loans and advances and are monitored by the same control processes and policies.

39. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group's maximum exposure to credit risk is also analysed by geographic area:

	2009	2008
On-balance sheet	€000	€000
Cyprus	22.807.629	20.258.290
Greece	10.285.190	10.165.333
Russia	1.545.119	1.385.584
United Kingdom	1.206.045	1.220.373
Australia	782.151	494.541
Romania	729.164	613.134
Ukraine	198.729	241.215
	37.554.027	34.378.470

Off-balance sheet		
Cyprus	3.212.817	3.290.588
Greece	2.660.141	2.680.000
Russia	185.893	114.720
United Kingdom	50.157	59.056
Australia	75.207	54.625
Romania	11.502	5.634
Ukraine	64	7.354
	6.195.781	6.211.977

Credit risk concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group. In addition, total lending to customer groups whose borrowings exceed 10% of the Group's capital base, should not in aggregate exceed eight times its capital base. The Group is in compliance with both regulations.

In addition to the above, the Group's overseas subsidiaries must comply with large exposure guidelines set by the regulatory authorities of the countries in which they operate.

The Group's exposure to credit risk arising from customers whose credit facilities amounted to more than 10% of the Group's capital base as at 31 December 2009 was €1.293.693 thousand (2008: €939.445 thousand).

39. Risk management – Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

The Group Credit Risk Management unit determines the amount and type of collateral and other credit enhancements required.

The main types of collateral obtained by the Group include real estate mortgages on properties, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government guaranteed.

The Group has chosen the ISDA Master Agreement for documenting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In some cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in the open positions.

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in cash or securities. Daily settlement limits are established for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

39. Risk management – Credit risk (continued)

Concentrations of loans and advances

	2009	2008
By economic activity	€000	€000
Trade	3.333.762	3.483.250
Manufacturing	1.545.488	1.583.127
Hotels and catering	2.121.902	1.977.281
Construction	2.462.311	2.678.265
Real estate	3.331.556	3.029.948
Private individuals	8.787.667	7.541.962
Professional and other services	3.076.706	3.411.377
Other sectors	1.848.656	1.407.398
	26.508.048	25.112.608
By geographical area		
Cyprus	12.753.230	11.969.118
Greece	9.780.263	9.660.974
Russia	1.409.405	1.174.298
United Kingdom	1.063.252	1.110.568
Australia	618.420	411.213
Romania	677.591	578.449
Ukraine	205.887	207.988
	26.508.048	25.112.608
By customer sector		
Corporate	10.766.195	9.830.540
Small and medium-sized enterprises (SMEs)	7.123.908	6.957.468
Retail		
- housing	4.990.559	4.693.518
- credit cards	346.715	301.758
- consumer and other	3.280.671	3.329.324
	26.508.048	25.112.608

39. Risk management – Credit risk (continued)

Analysis of loans and advances to customers

	2009	2008
	€000	€000
Neither past due nor impaired	22.371.566	21.715.060
Past due but not impaired	2.990.665	2.615.179
Impaired	1.145.817	782.369
	26.508.048	25.112.608

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired is managed by the Group using internal credit ratings. The table below shows the credit quality of loans and advances to customers that were neither past due nor impaired, based on the Group's credit rating system.

	Neither past due nor impaired			
	Grade 1	Grade 2	Grade 3	Total
2009	€000	€000	€000	€000
Cyprus	8.973.196	1.203.151	890.962	11.067.309
Greece	5.608.145	255.526	2.070.397	7.934.068
Russia	861.050	282.120	80.599	1.223.769
United Kingdom	753.845	108.741	60.009	922.595
Australia	120.525	188.141	222.894	531.560
Romania	548.790	39.542	-	588.332
Ukraine	91.249	9.513	3.171	103.933
	16.956.800	2.086.734	3.328.032	22.371.566

2008				
Cyprus	7.384.995	1.458.173	1.721.268	10.564.436
Greece	5.461.343	341.420	2.327.582	8.130.345
Russia	937.172	34.194	1.634	973.000
United Kingdom	816.176	76.900	65.981	959.057
Australia	135.438	226.644	10.185	372.267
Romania	491.353	39.743	-	531.096
Ukraine	180.427	253	4.179	184.859
	15.406.904	2.177.327	4.130.829	21.715.060

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months are classified as Grade 1. Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year, or for up to 15 consecutive days during the second half of the year are classified as Grade 2. Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of year or for more than 15 consecutive days during the second half of the year are classified as Grade 3.

39. Risk management – Credit risk (continued)

Loans and advances to customers that are past due but not impaired

	2009	2008
<i>Past due:</i>	€000	€000
- up to 30 days	1.026.088	1.318.320
- 31-90 days	869.177	783.961
- 91-180 days	405.570	185.448
- 181-365 days	362.893	118.454
- over one year	326.937	208.996
	2.990.665	2.615.179

The fair value of collateral that the Group holds in respect of loans and advances to customers that are past due but not impaired as at 31 December 2009 amounts to €2.257.963 thousand (2008: €2.079.049 thousand).

Impaired loans and advances to customers on an individual basis

	2009		2008	
	<i>Loans and advances</i>	<i>Fair value of collateral</i>	<i>Loans and advances</i>	<i>Fair value of collateral</i>
	€000	€000	€000	€000
Cyprus	529.158	253.578	382.133	157.076
Greece	408.539	101.206	283.019	118.030
Russia	97.976	77.418	81.370	51.852
United Kingdom	44.306	29.512	24.227	9.022
Romania	24.497	23.531	2.163	29
Ukraine	41.341	30.047	9.457	7.514
	1.145.817	515.292	782.369	343.523

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

39. Risk management – Credit risk (continued)

Impaired loans and advances to customers (continued)

The movement of the provision for impairment for loans and advances to customers is shown in the table below:

	Cyprus	Greece	Russia	Other countries	Total
2009	€000	€000	€000	€000	€000
1 January	392.202	225.910	48.773	21.029	687.914
Exchange differences	348	-	(1.128)	603	(177)
Applied in writing off impaired loans and advances	(19.534)	(29.470)	(2.842)	(722)	(52.568)
Interest accrued on impaired loans and advances	(11.646)	(10.220)	-	(1.898)	(23.764)
Collection of loans and advances previously written off	12.928	-	-	-	12.928
Charge for the year	78.201	120.230	27.587	21.917	247.935
31 December	452.499	306.450	72.390	40.929	872.268
Individual impairment	321.383	258.284	27.689	32.114	639.470
Collective impairment	131.116	48.166	44.701	8.815	232.798

	Cyprus	Greece	Russia	Other countries	Total
2008	€000	€000	€000	€000	€000
1 January	387.629	181.036	-	10.342	579.007
Acquisition of subsidiaries	-	-	56.558	3.396	59.954
Exchange differences	-	1.400	(9.479)	(4.307)	(12.386)
Applied in writing off impaired loans and advances	(20.673)	(12.640)	-	(286)	(33.599)
Interest accrued on impaired loans and advances	(10.327)	(9.103)	-	(463)	(19.893)
Collection of loans and advances previously written off	23.230	-	-	-	23.230
Charge for the year	12.343	65.217	1.694	12.347	91.601
31 December	392.202	225.910	48.773	21.029	687.914
Individual impairment	256.175	168.202	12.190	15.396	451.963
Collective impairment	136.027	57.708	36.583	5.633	235.951

Renegotiated loans

Loans renegotiated in 2009 that would otherwise be past due or impaired at 31 December 2009 amounted to €376.136 thousand (2008: €45.886 thousand). Such loans are subject to the Group's assessment for impairment of loans and advances to customers.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

39. Risk management – Credit risk (continued)

Collateral and other credit enhancements obtained

The carrying amount of assets obtained during the year by taking possession of collateral held as security was as follows:

	2009	2008
	€000	€000
Residential property	2.909	2.325
Commercial and other property	20.577	17.227
	23.486	19.552

The majority of the repossessed assets are subsequently disposed and the net proceeds are used to recover the original funds advanced to the customer. Any excess proceeds are either returned to the customer or are credited to the income statement, depending on the underlying agreement.

Analysis by rating agency designation

Balances with central banks and placements with banks are analysed by Moody's rating as follows:

	2009	2008
	€000	€000
Aaa – Aa3	3.820.678	4.535.103
A1 – A3	2.414.446	486.747
Baa1 – Baa3	147.872	159.878
Unrated	300.271	64.930
Other receivables from banks	60.667	72.411
	6.743.934	5.319.069

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

39. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

Debt securities are analysed by Moody's rating as follows:

	2009	2008
	€000	€000
<i>Analysis by Moody's rating:</i>		
Aaa – Aa3	3.140.181	3.179.063
A1 – A3	1.459.672	891.290
Baa1 – Baa3	181.611	101.731
Unrated	35.861	21.250
	4.817.325	4.193.334
<i>Issued by:</i>		
- Cyprus government	1.051.877	1.013.898
- other governments	1.118.242	935.183
- banks and other corporations	2.638.906	2.236.811
- local authorities	8.037	7.185
- Cyprus public companies	263	257
	4.817.325	4.193.334
<i>Classified as:</i>		
- trading investments	136.322	134.756
- investments at fair value through profit or loss	178.705	176.419
- available-for-sale investments	4.088.368	3.029.540
- held-to-maturity investments	93.079	309.851
- loans and receivables investments	320.851	542.768
	4.817.325	4.193.334

40. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Group Market Risk Management unit is responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to find the annual impact on net interest of any changes in interest rates for the next twelve months for each currency.

In order to manage interest rate risk, there are maximum loss limits from interest rate mis-matches for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. Maximum loss limits apply for each of the first three years. These limits are set as a percentage of Group capital (1,5%) and as a percentage of net interest income (5%) and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions have been approved for periods of more than three years.

Interest rate risk (continued)

Sensitivity analysis

The table below indicates the effect on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euros	US Dollars	British Pounds	Other Currencies	Total
2009	€000	€000	€000	€000	€000
<i>Change in interest rates</i>					
+0,5% for all currencies	12.257	2.468	1.453	894	16.392
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(4.231)	1.146	(559)	(705)	(4.398)
2008					
<i>Change in interest rates</i>					
+0,5% for all currencies	12.004	2.115	495	(321)	12.270
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(13.599)	(1.145)	(528)	210	(13.851)

40. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

The total change in net interest income differs from the sum of the changes for each individual currency as it has been calculated using the actual correlation coefficients between the interest rates of the various currencies.

In addition to the above fluctuations in net interest income, the results of the Group are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

Furthermore, the equity of the Group is also affected by changes in market interest rates. The changes in the Group's equity arise from changes in the fair value of fixed rate debt securities classified as 'available-for-sale' (unless impaired) as well as from changes in the fair value of derivative financial instruments which are hedging instruments in effective cash flow hedge relationships.

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below shows the change in profit before tax and equity of the Group as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on profit before tax	Impact on equity
2009	€000	€000
<i>Change in interest rates</i>		
+0,5% for all currencies	4.540	(21.510)
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(5.378)	10.869
2008		
<i>Change in interest rates</i>		
+0,5% for all currencies	3.401	(20.657)
-0,25% for US Dollars, Euro, Sterling, Japanese Yen, Swiss Franc and -0,5% for all other currencies	(5.499)	18.943

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for each currency or group of currencies and total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are monitored daily by market risk officers in all banking units of the Group. A report indicating the overnight foreign currency position of each unit is sent to Group Market Risk Management daily.

The Group does not maintain a currency trading book.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

40. Risk management – Market risk (continued)

Currency risk (continued)

The table below sets out the Group's foreign exchange risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on past price fluctuations.

	Change in exchange rate	Impact on profit before tax	Impact on equity
2009	%	€000	€000
US Dollar	+8	2.171	-
Russian Ruble	+8	2.878	39.990
Romanian Lei	+8	(468)	4.434
Ukrainian Hryvnia	+5	15	4.049
Swiss Franc	+8	2.646	-
Other currencies	+8	1.115	-

US Dollar	-8	(2.171)	-
Russian Ruble	-8	(2.878)	(35.409)
Romanian Lei	-8	468	(4.434)
Ukrainian Hryvnia	-20	(60)	(16.197)
Swiss Franc	-8	(2.646)	-
Other currencies	-8	(1.115)	-

2008			
US Dollar	+6	1.468	-
Russian Ruble	+8	(14.043)	48.195
Romanian Lei	+8	(457)	590
Ukrainian Hryvnia	+8	36	6.544
Swiss Franc	+8	3.261	-
Other currencies	+8	2.890	-

US Dollar	-6	(1.468)	-
Russian Ruble	-15	26.330	(90.365)
Romanian Lei	-8	457	(590)
Ukrainian Hryvnia	-15	(67)	(12.271)
Swiss Franc	-8	(3.261)	-
Other currencies	-8	(2.890)	-

40. Risk management – Market risk (continued)

Price risk

Equity securities price risk

The risk of loss from changes in the price of equity shares, arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

In order to control the risk of loss from changes in the price of equities, there are maximum limits for the amounts that can be invested in equity shares in the trading book and other restrictions, like maximum amount invested in a specific issuer, specific industry, etc.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the profit of the Group, whereas changes in the value of equity securities classified as 'available-for-sale' affect the equity of the Group (if not impaired). The table below indicates how the profit before tax and equity of the Group will be affected from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on profit before tax	Impact on equity
2009	%	€000	€000
Cyprus Stock Exchange	+25	3.178	5.259
Athens Exchange	+15	1.198	113
Moscow Interbank Currency Exchange (MICEX)	+25	-	222
Bucharest Stock Exchange	+30	-	15.966

Cyprus Stock Exchange	-25	(3.178)	(5.259)
Athens Exchange	-15	(1.198)	(113)
Moscow Interbank Currency Exchange (MICEX)	-25	-	(222)
Bucharest Stock Exchange	-30	-	(15.966)

2008			
Cyprus Stock Exchange	+25	2.643	5.555
Athens Exchange	+15	629	-
Moscow Interbank Currency Exchange (MICEX)	+25	-	127
Cyprus Stock Exchange	-25	(2.643)	(5.555)
Athens Exchange	-15	(629)	-
Moscow Interbank Currency Exchange (MICEX)	-25	-	(127)

40. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers change. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2009 was Aa3 (2008: Aa3).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit of the Group, whereas changes in the value of debt securities classified as 'available-for-sale' affect the equity of the Group (if not impaired). The table below indicates how the profit before tax and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

	Impact on profit before tax	Impact on equity
2009	€000	€000
<i>Change in market prices</i>		
+2,5%	7.633	100.703
-2,5%	(7.633)	(100.703)
2008		
<i>Change in market prices</i>		
+3,0%	9.027	87.495
-4,0%	(12.030)	(116.661)

41. Risk management – Liquidity risk

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

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position.

Deposits are the main funding source of the Group. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the Group monitors the percentage of fixed deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels. The Group relies almost exclusively on stable funding sources in order to finance illiquid assets.

Liquidity is monitored daily by Group Market Risk Management. The responsibility for the management of liquidity rests with the treasury units at each location, in cooperation with Group Treasury.

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

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Liquidity risk (continued)

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market crisis.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Moreover the ratio of liquid assets to total liabilities falling due in the next twelve months is monitored at Group level with the minimum acceptable ratio set at 25%. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities.

The liquidity ratio was as follows:

	2009	2008
	%	%
31 December	26,31	26,80
Average ratio	26,57	29,87
Highest ratio	27,47	34,74
Lowest ratio	25,21	25,96

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is presented in the table below. The analysis is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets

Financial assets are presented on the same basis as that of the liquidity reports provided to Group ALCO as this presentation is considered to be the most appropriate presentation of the Group's liquidity. The analysis of financial information does not include any interest receivable cash flows. Financial assets have much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts and overdrafts are included within the first time band which reflects their contractual maturity. All other loans and advances are analysed according to their repayment schedule.

Placements with banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date.

Investments in debt securities and other financial assets, which are considered by the Central Bank of Cyprus to be eligible as collateral and highly liquid financial assets that can be accepted as collateral by other banks for repo transactions have been classified in the first time band after adjusting for the appropriate discount determined by the Central Bank of Cyprus. All other investments have been placed in the relevant time bands according to the number of days remaining from 31 December until their contractual maturity date.

Financial liabilities

All financial liabilities for the repayment of which notice is required have been placed in the relevant time bands, as if notice has been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date.

41. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial liabilities (continued)

The amounts presented in this table are not equal to the balance sheet amounts since the table below presents all cash flows (including interest) on an undiscounted basis.

Derivative financial instruments

Derivative financial instruments have been classified according to whether they settle net or gross.

For net settled derivatives, the fair value of the derivative has been indicated in financial assets (when positive) or in financial liabilities (when negative) in the time period corresponding to the remaining maturity of the derivative.

Gross settle derivatives, or net settle derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the cash flows are classified according to the number of days until their receipt or payment.

Commitments and contingencies

The limits of loans and receivables are commitments to customers. The limits are granted for certain period and can be cancelled by the Group after notice to the customer. Usually the customers do not use the maximum of the limits granted to them.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2009	€000	€000	€000	€000	€000	€000
Financial assets						
Cash and balances at central banks	911.839	62.703	59.891	7.241	2.117	1.043.791
Placements with banks	5.486.234	211.516	249.831	-	187	5.947.768
Reverse repurchase assets	-	-	-	120.137	-	120.137
Investments at fair value through profit or loss	337.493	18	-	-	171	337.682
Loans and advances to customers	5.120.738	805.401	3.371.324	7.297.503	9.040.814	25.635.780
Fair value of net settled derivative assets	611	2.605	7.146	2.370	4.325	17.057
Non trading investments	2.069.242	403.558	1.500.142	203.611	2.114	4.178.667
Other assets	39.813	5.401	14.132	6.328	4.063	69.737
Total undiscounted financial assets	13.965.970	1.491.202	5.202.466	7.637.190	9.053.791	37.350.619
Financial liabilities						
Obligations to central banks and amounts due to banks	712.008	447.291	3.725.340	325.283	159.427	5.369.349
Repurchase agreements	188.353	-	-	324.602	-	512.955
Customer deposits	16.141.441	6.087.162	6.066.029	567.828	45.338	28.907.798
Debt securities in issue	38.426	17.450	463.181	5.349	197	524.603
Fair value of net settled derivative liabilities	5.419	1.532	5.743	60.095	15.436	88.225
Subordinated loan stock	303	1.464	6.127	1.127.658	4.230	1.139.782
Other liabilities	194.031	9.495	2.001	11.808	2	217.337
Total undiscounted financial liabilities	17.279.981	6.564.394	10.268.421	2.422.623	224.630	36.760.049

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2009	€000	€000	€000	€000	€000	€000
Gross settled derivatives						
<i>Financial assets</i>						
- Contractual amounts receivable	658.088	78.420	626.837	8.449	-	1.371.794
- Contractual amounts payable	(674.190)	(79.824)	(633.794)	(8.589)	-	(1.396.397)
	(16.102)	(1.404)	(6.957)	(140)	-	(24.603)
<i>Financial liabilities</i>						
- Contractual amounts receivable	475.678	302.479	212.257	3.006	-	993.420
- Contractual amounts payable	(472.861)	(297.644)	(204.836)	(3.045)	-	(978.386)
	2.817	4.835	7.421	(39)	-	15.034

2009	€000	€000	€000	€000	€000	€000
<i>Contingent liabilities</i>						
Acceptances and endorsement	25.756	11.565	17.591	427	-	55.339
Guarantees	29.168	88.703	224.990	774.904	806.208	1.923.973
<i>Commitments</i>						
Documentary credits	-	24.930	13.454	7.758	50	46.192
Undrawn formal standby facilities, credit lines and other commitments to lend	-	3.665.710	427.603	52.609	24.355	4.170.277
	54.924	3.790.908	683.638	835.698	830.613	6.195.781

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

41. Risk management – Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2008	€000	€000	€000	€000	€000	€000
Financial liabilities						
Obligations to central banks and amounts due to banks	1.748.995	266.833	586.983	233.787	64.589	2.901.187
Repurchase agreements	-	-	-	336.083	-	336.083
Customer deposits	15.030.226	6.014.104	6.916.690	400.085	7.705	28.368.810
Debt securities in issue	54.321	33.792	381.178	521.037	296	990.624
Derivatives – amounts payable	680.516	334.669	232.907	116.407	64.688	1.429.187
Derivatives – amounts receivable	(656.286)	(304.053)	(199.228)	(63.446)	(47.119)	(1.270.132)
Subordinated loan stock	3.416	54.822	37.375	992.096	14.061	1.101.770
Other liabilities	188.895	8.076	3.039	136.458	20.020	356.488
Total undiscounted financial liabilities	17.050.083	6.408.243	7.958.944	2.672.507	124.240	34.214.017

	In one year	Over one year	Total
2008	€000	€000	€000
<i>Contingent liabilities</i>			
Acceptances and endorsement	41.639	748	42.387
Guarantees	1.126.805	793.158	1.919.963
<i>Commitments</i>			
Documentary credits	42.718	-	42.718
Undrawn formal standby facilities, credit lines and other commitments to lend	4.057.628	149.281	4.206.909
	5.268.790	943.187	6.211.977

42. Risk management – Other risks

Operational risk

Operational risk is the inherent risk arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events.

The Group recognises that the control of operational risk is concerned fundamentally with good management practices. To that effect, the overall Group strategy is geared towards risk prevention rather than relying on the adequacy of capital charges. The Group's operational risk policy aims primarily at managing operational risk in an effective and proactive manner and secondly at assessing and quantify this risk.

The operational risk management framework adopted by the Group is based on three lines of defence, governance and risk ownership structure through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management. The second line of defence comprises the risk management function whose role is to provide risk oversight and independent and objective challenge to the first line of defence. The third line of defence comprises the internal audit function and the Audit Committee of the Board of Directors which provide independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

The Group aims to apply various methodologies and tools as per industry best practices to effectively identify measure and assess operational risk.

Loss events are classified and recorded in the Group's Internal Loss Database to enable risk identification, corrective action and statistical analysis. During 2009, 554 loss events with potential loss over €1.000 were recorded.

The Group uses risk self assessment methods and key risk indicators to identify and assess operational risk and has escalation procedures in place for the timely internal reporting of risks and incidents.

The internal audit and compliance functions of the Group also provide assurance in relation to group wide operational risk management and the effectiveness of the group's internal control system through continuous monitoring of activities and reporting.

Finally, the Group aims to increase awareness on how to manage operational risk by its employees through continuous training.

The Group also uses insurance policies to transfer unexpected operational losses through a number of insurers and reinsurers.

Business Continuity Plans and Disaster Recovery Plans are being developed for all markets in which the Group operates to ensure continuity and timely recovery after a catastrophic event.

Regulatory risk

The Group's operations in Cyprus and overseas, are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework as well as closely observing and monitoring ongoing developments and emerging risks and appropriately adjusting its monitoring and regulatory procedures and operations. The subsidiaries and overseas branches of the Group are similarly supervised by the corresponding monetary authorities in the countries where they operate. The continuing and increasing regulatory obligations imposed on the Group may have both positive as well as adverse impact on its operations.

The operations of the Cyprus insurance companies are supervised by the Registrar of Insurance Companies. Legal and regulatory changes may be introduced in the future by the European Union or by the Registrar of Insurance Companies which may have a significant effect on the operations and financial position of the Group's insurance companies.

42. Risk management – Other risks (continued)

Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The accession of Cyprus to the European Union and the introduction of the Euro in 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

In Greece, the Group mainly competes with Greek banks, which control the largest share of the banking system's assets. It also competes with branches of foreign (mainly European) banks and with co-operative banks.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 35) and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

Political risk

External factors which are beyond the control of the Group, such as political developments in Cyprus and overseas, may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union, European Central Bank and Central Bank of Cyprus policies, political instability or military conflict which affects Europe and/or other overseas areas and social developments in the countries in which the Group operates.

Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

42. Risk management – Other risks (continued)

Insurance risk (continued)

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength and credit rating.

43. Capital management

The adequacy of the Group's capital is monitored by reference to the rules established by the Basel Committee on Banking Supervision, as adopted by the Central Bank of Cyprus through its Directive for the calculation of the capital requirements and large exposures of banks of 2006 and 2007.

Capital management

The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and adjusts it in light of changes in economic conditions and the risk profile of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, or it can issue subordinated debt (under its EMTN Programme), capital securities (hybrid capital) or other forms of capital (such as convertible debts). In addition, the Group may opt for equity increases through a rights issue or an issue of warrants, or through the issue of share options.

The Central Bank of Cyprus requires each bank to maintain a minimum ratio of capital to risk weighted assets of 8%. The Central Bank of Cyprus may impose additional capital requirements for risks not covered by Pillar I.

During 2009 and 2008 the Group had complied with all externally imposed capital requirements.

	As provided to management	As reported to regulators	
	2009	2009	2008
<i>Regulatory capital</i>	€000	€000	€000
Original own funds	2.534.498	2.115.637	1.540.566
Additional own funds	270.890	689.751	838.877
Total capital	2.805.388	2.805.388	2.379.443
Risk weighted assets – credit risk	21.522.351	21.522.351	18.847.418
Risk weighted assets – market risk	94.125	94.125	136.675
Risk weighted assets – operational risk	2.448.425	2.448.425	2.194.888
	24.064.901	24.064.901	21.178.981

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

43. Capital management (continued)

Capital management (continued)

	As provided to Senior Management	As provided to regulatory authorities	
	2009	2009	2008
	%	%	%
Tier 1 ratio	10,6	8,8	7,2
Tier 2 ratio	1,1	2,9	4,0
Total capital ratio	11,7	11,7	11,2

The Group's management monitors capital adequacy by reference to the revised European Central Bank Directive on Capital Adequacy, according to which the original own funds ratio is calculated on the basis of a maximum percentage of 35% of hybrid capital.

The information submitted to the regulatory authorities is computed in accordance with the Central Bank of Cyprus Directive for the calculation of the Capital Requirements and large exposures of Banks of 2006 and 2007.

There are also local regulatory capital requirements for banking subsidiaries operating overseas. These subsidiaries comply with the regulatory capital requirements of their host regulator.

The increase of regulatory capital during 2009 is mainly attributable to current year profit (net of dividends paid and proposed), the increase of equity through dividend reinvestment and from revaluation gains of available-for-sale investments. The increase in risk weighted assets reflects the growth of balance sheet assets due to business growth during the year.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

44. Related party transactions

	2009	2008	2009	2008
	Number of directors		€000	€000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Group's net assets per director	3	3	187.737	196.079
- less than 1% of the Group's net assets per director	12	13	23.454	24.569
	15	16	211.191	220.648
Loans and advances to key management personnel and connected persons			2.581	2.657
Total loans and advances			213.772	223.305
Loans and advances:				
- members of the Board of Directors and key management personnel			8.576	7.321
- connected persons			205.196	215.984
			213.772	223.305
Interest income			9.551	11.806
Deposits:				
- members of the Board of Directors and key management personnel			82.906	78.287
- connected persons			42.787	66.218
			125.693	144.505
Interest expense on deposits			6.274	6.992
Debt securities in issue and subordinated loan stock:				
- members of the Board of Directors and key management personnel			17.508	13.800
- connected persons			3.615	1.569
			21.123	15.369
Interest expense on debt securities in issue and subordinated loan stock			1.094	442

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €58.094 thousand (2008: €49.689 thousand). Of these, €55.473 thousand (2008: €44.283 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to Group key management personnel and their connected persons amounting to €512 thousand (2008: €378 thousand). Using forced-sales values, the total unsecured amount of the loans and advances and contingent liabilities and commitments in respect of related parties at 31 December 2009 amounted to €27.086 thousand (31 December 2008 €55.520 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

44. Related party transactions (continued)

During 2009 the Group also had the following transactions with connected persons: reinsurance premiums amounting to €303 thousand (2008: €920 thousand) to companies of the Commercial General Insurance Group in which Mr Andreas Artemis holds an indirect interest; purchases of equipment and services amounting to €400 thousand (2008: €699 thousand) from Pylones SA Hellas and Unicars Ltd in which Mrs Anna Diogenous holds an indirect interest; purchases of equipment amounting to €324 thousand (2008: €439 thousand) from Mellon Cyprus Ltd which is significantly influenced by a person connected to Mrs Anna Diogenous; and insurance commissions amounting to €144 thousand (2008: €147 thousand) to D. Severis and Sons Ltd which is owned by Mr Costas Z. Severis.

Connected persons include spouses, minor children and companies in which directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as directors or exercise control of the entities in any way.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

Fees and emoluments of members of the Board of Directors and key management personnel

	2009	2008
	€000	€000
Director emoluments		
<i>Executives</i>		
Salaries and other short term benefits	1.543	1.065
Ex-gratia payment	-	678
Employer's contributions	57	54
Retirement benefit plan costs	182	157
	1.782	1.954
Share options	1.944	752
<i>Non-executives</i>		
Fees	822	700
Emoluments of a non-executive director who is also an employee of the Company	142	118
Total director emoluments	4.690	3.524
Key management personnel emoluments		
Salaries and other short term benefits	1.218	881
Employer's contributions	59	63
Retirement benefit plan costs	153	140
Share options	972	376
Total key management personnel emoluments	2.402	1.460
Total	7.092	4.984

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

44. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and key management personnel (continued)

Fees and emoluments of non-executive directors

	2009	2008
	€000	€000
Theodoros Aristodemou	171	117
Andreas Artemis	85	85
Vassilis G. Rologis	58	26
Costas Z. Severis	58	56
Christakis G. Christofides	48	40
Evdokimos Xenophontos	42	29
Anna Diogenous	56	44
George M. Georgiades	68	38
Andreas J. Jacovides	44	42
Christos Mouskis	61	32
Manthos Mavrommatis	59	33
Costas Hadjipapas	39	22
Nikolas P. Tsakos	33	14
Eleftherios P. Ioannou	-	63
Christos S. Pantzaris	-	29
Andreas Pittas	-	30
	822	700

Mr Costas Hadjipapas, a non-executive director, had emoluments during 2009 amounting to €142 thousand (2008: €118 thousand), which includes €12 thousand (2008: €5 thousand) relating to 12 thousand Share Options 2008/2010 which were granted to him in 2008 in his capacity as employee of the Company.

The fees of the non executive directors include fees as members of the Board of Directors of the Company, the committees of the Board and the Boards of subsidiary companies.

44. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and key management personnel (continued)

Fees and emoluments of executive directors

The salaries and other short term benefits of executive directors amounting to €1.543 thousand (2008: €1.065 thousand) relate to Mr Andreas Eliades €980 thousand (2008: €509 thousand), Mr Yiannis Kypri €563 thousand (2008: €335 thousand) and Mr Charilaos Stavrakis nil (2008: €221 thousand). The ex-gratia payment in 2008 amounting to €678 thousand relates to Mr Charilaos Stavrakis, who left the Group.

The salaries and other short term benefits of executive directors include a bonus which is based on the performance of the Group with regards to the achievement of its targets and profitability. The bonus for 2009 amounting to €327 thousand for Mr Andreas Eliades and €187 thousand for Mr Yiannis Kypri will be paid as follows: 50% in cash and 50% in shares of the Company in the name of the executive directors, which the directors will not be allowed to sell for a period of 3 years. During 2008, although the financial performance of the Group justified the payment of bonuses to the executive directors in accordance with their employment contracts, in light of the conditions prevailing in the global economy, both the Group Chief Executive Officer and the Group Chief General Manager waived their entitlement to bonuses.

The retirement benefit plan costs amounting to €182 thousand (2008: €157 thousand) relate to Mr Andreas Eliades €118 thousand (2008: €93 thousand), Mr Yiannis Kypri €64 thousand (2008: €53 thousand) and Mr Charilaos Stavrakis nil (2008: €11 thousand).

In the context of the Share Options 2008/2010 granted by the Company on 28 May 2008 to the Group's employees, 1.500 thousand share options were granted to Mr Andreas Eliades and 500 thousand options were granted to Mr Yiannis Kypri. The cost of share options granted to Messrs Andreas Eliades and Yiannis Kypri amounted to €1.458 thousand (2008: €564 thousand) and €486 thousand (2008: €188 thousand) respectively. Each Share Option 2008/2010 gives its holders the right to purchase one share of the Company at €5,50 per share (previously €9,41 per share). The theoretical fair value of the Share Options 2008/2010 granted on 28 May 2008 was measured at the grant date and amounted to €1,17 per option. As a result of the amendment of the terms of the Share Options 2008/2010 on 23 June 2009, the Share Options were revalued and the additional cost amounted to €0,42 per option. The Company's share price at 31 December 2009 was significant lower than the exercise price of the options. Additional information on share options is presented in Note 30.

The executive directors participate in the main retirement benefit plan for the Group's permanent employees in Cyprus, which is a defined benefit plan. The total retirement benefits of the two executive directors increased during 2009 by €771 thousand (2008: €517 thousand).

Fees and emoluments of key management personnel

The fees and emoluments of key management personnel comprise the amounts of the Senior Group General Manager and the three Group General Managers.

In the context of the Share Options 2008/2010 granted by the Company to Group employees on 28 May 2008, 1.000 thousand options were granted to Group key management personnel the total cost of which amounted to €972 thousand (2008: €376 thousand).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Group companies

The companies and branches included in the consolidated financial statements of the Group, their activities (by country of incorporation) and the percentage hold by the Company (directly or indirectly) are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
Mortgage Bank of Cyprus Ltd	Cyprus	Commercial bank	100,0
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking	100,0
General Insurance of Cyprus Ltd	Cyprus	General insurance	100,0
EuroLife Ltd	Cyprus	Life insurance	100,0
Kermia Ltd	Cyprus	Property trading and development	100,0
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100,0
Kermia Hotels Ltd	Cyprus	Hotel business	100,0
BOC Ventures Ltd	Cyprus	Management of venture capital investments	100,0
Tefkros Investments Ltd	Cyprus	Investment fund	100,0
Bank of Cyprus Mutual Funds Ltd	Cyprus	Inactive	100,0
JCC Payment Systems Ltd	Cyprus	Credit card transactions processing	45,0
Cytrustees Investment Public Company Ltd	Cyprus	Closed - end investment company	49,9
Diners Club (Cyprus) Ltd	Cyprus	Diners Club credit card facilities	100,0
BOC Russia (Holdings) Ltd	Cyprus	Intermediate holding company	80,0
Otherland Properties Ltd	Cyprus	Intermediate holding company	100,0
Bank of Cyprus Public Company Ltd (branch)	Greece	Commercial bank	N/A
Kyprou Leasing SA	Greece	Leasing	100,0
Kyprou Commercial SA	Greece	Financing of motor vehicles and other consumer products	100,0
Kyprou Securities SA	Greece	Investment banking	100,0
Kyprou Mutual Fund Management Company (AEDAK)	Greece	Management of mutual funds	100,0
Kyprou Properties SA	Greece	Property management	100,0
Kyprou Insurance Services Ltd	Greece	General insurance brokers	100,0
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	100,0
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	100,0
Bank of Cyprus United Kingdom (branch)	United Kingdom	Commercial bank	N/A
Katoikia I Mortgage Finance Plc	United Kingdom	Special purpose entity	-
Katoikia I Holdings Ltd	United Kingdom	Special purpose entity	-
Misthosis Funding Plc	United Kingdom	Special purpose entity	-
Misthosis Funding (Holding) Ltd	United Kingdom	Special purpose entity	-
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100,0
Tefkros Investments (CI) Ltd	Channel Islands	Investment fund	100,0

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Group companies (continued)

Company	Country	Activities	%
Bank of Cyprus Australia Ltd	Australia	Commercial bank	100,0
Bank of Cyprus Romania (branch)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100,0
Otherland Properties Dorobanti SRL	Romania	Property investment	100,0
LLC CB Bank of Cyprus	Russia	Commercial bank	100,0
CB Uniastrum Bank LLC	Russia	Commercial bank	80,0
Leasing Company Uniastrum Leasing	Russia	Leasing	100,0
OJSB Bank of Cyprus (previously JSC AvtoZAZbank)	Ukraine	Commercial bank	99,7
Kyprou Finance (NL) B.V.	Netherlands	Financing company	100,0

On 26 May 2008 the Company completed the acquisition of the Ukrainian bank JSC AvtoZAZbank which was renamed on 1 January 2009 to OJSB Bank of Cyprus (Note 46). The Company initially acquired 97,2% of the company's share capital. In December 2008, the Group's shareholding in OJSB Bank of Cyprus increased to 99,7% following the injection of additional capital by the Company.

On 31 October 2008, the Company acquired (through BOC Russia (Holdings) Ltd) 80% of the share capital of CB Uniastrum Bank LLC and Uniastrum Leasing LLC in Russia (Note 46). The two founding shareholders who lead the management of CB Uniastrum Bank LLC and Uniastrum Leasing LLC maintain, through BOC Russia (Holdings) Ltd, a 10% interest each.

Until 27 July 2009, this residual shareholding in CB Uniastrum Bank LLC was subject to a put/call option arrangement over a three year period, payable in cash, depending on the financial performance of the two companies during this period. This arrangement was accounted for in the consolidated financial statements as a liability. This resulted in accounting as if the Group had already acquired the shares subject to this arrangement. Therefore, no non-controlling interest was recognised for reporting purposes in relation to the shares that were subject to this arrangement. On 27 July 2009 the Company signed a new five year owner agreement with the two founding shareholders of CB Uniastrum Bank LLC, by which they will maintain their management roles as well as continue to hold a residual 10% interest in Uniastrum each.

The signing of the above agreement resulted in a change in the accounting treatment of CB Uniastrum Bank LLC in the consolidated financial statements of the Group. Pursuant to the signing of the agreements and the cancellation of the put/call option arrangement and extinguishment of the related liability, CB Uniastrum Bank LLC is included in the consolidated financial statements of the Group as an 80% subsidiary with the corresponding recognition of a 20% non-controlling interest. Upon this change in ownership, the difference between the extinguished liability and the share of assets and liabilities attributable to the non-controlling interests was treated as a transaction between owners. As a result, non-controlling interests increased by €32.191 thousand and an amount of €38.264 thousand was recognised in retained earnings. An amount of €26.685 thousand representing the portion of exchange differences attributable to the reduction in ownership was transferred from the foreign currency reserve to retained earnings.

On 1 September 2009 Cyprus Leasing LLC and Uniastrum Leasing LLC merged to form Leasing Company Uniastrum Leasing which provides finance lease services in Russia and is 100% owned by the Group.

During 2009 the Group proceeded with a reduction in the share capital of the subsidiary company LLC CB Bank of Cyprus, which was renamed to Leadbank LLC on 26 January 2010. On 4 February 2010 the Group signed an agreement to sell 100% of the share capital of Leadbank LLC (Note 48).

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Group companies (continued)

During 2009, Katoikia I Mortgage Finance Plc, Katoikia I Holdings Ltd, Misthosis Funding Plc and Misthosis Funding (Holding) Ltd were incorporated as special purpose entities for the securitisation of housing loans and finance lease receivables. The securitisations aim at further enhancing the prudential liquidity ratios of the Group.

All Group companies are accounted for as subsidiaries using the consolidation method, except for JCC Payment Systems Ltd for which proportional consolidation is used and Interfund Investments Plc for which the equity method is used.

The Group's share in the key financial figures of the jointly controlled entity JCC Payment Systems Ltd is:

	2009	2008
	€000	€000
Gross income	10.762	10.207
Profit before tax	4.490	3.798
Net assets	21.105	19.866
Total assets	28.728	27.607

46. Acquisition of subsidiary companies during 2008

(i) CB Uniastrum Bank LLC

On 31 October 2008, the Group completed the acquisition of 80% of the share capital of CB Uniastrum Bank LLC in Russia. On the same date the Group also acquired 80% of the share capital of Uniastrum Leasing LLC Russia.

The consolidated financial statements of the Group include the results of the acquired companies since the date of acquisition.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Acquisition of subsidiary companies during 2008 (continued)

(i) CB Uniastrum Bank LLC (continued)

The fair values of the identifiable assets and liabilities of CB Uniastrum Bank LLC as at the date of acquisition were:

	Fair value restated	Provisional fair value recognised on acquisition
	€000	€000
Cash and balances at central banks	113.311	113.311
Placements with banks	39.752	39.752
Loans and advances to customers	1.169.471	1.194.093
Investments	31.315	34.666
Property, equipment and intangible assets	96.720	94.754
Intangible assets as per the purchase price allocation	51.350	-
Other assets	22.473	16.120
	1.524.392	1.492.696
Customer deposits	1.121.841	1.121.841
Subordinated loan stock	6.198	6.198
Amounts due to banks	46.653	46.653
Debt securities	99.253	99.253
Other liabilities	70.395	57.605
	1.344.340	1.331.550
Net assets acquired	180.052	161.146
Goodwill (Note 46 (iii))	360.043	
Total consideration	540.095	
Cost of acquisition paid in cash	455.795	
Fair value of the put/call option	84.300	
	540.095	
Net cash and cash equivalents acquired with the subsidiaries	128.077	
Net cash outflow	327.718	
Cost of the acquisition paid in cash	455.795	

46. Acquisition of subsidiary companies during 2008 (continued)

(i) CB Uniastrum Bank LLC (continued)

The accounting treatment in the consolidated financial statements of 2008 was based on a provisional assessment of the fair value as the purchase price allocation was still in progress.

During 2009 the Company completed the determination of the fair value and the purchase price allocation of CB Uniastrum Bank LLC. The comparative figures for 2008 have been restated accordingly. The restatements primarily relate to the fair value of 'Loans and advances to customers', 'Property and equipment' and 'Investments'. As a result, the acquired assets decreased by €26.658 thousand and the related deferred tax amounted to €6.538 thousand. Furthermore, intangible assets amounting to €51.350 thousand (Note 22) were recognised and the related deferred tax amounted to €12.324 thousand. The above adjustments did not have any significant effect on the 2008 consolidated income statement.

The goodwill recognised is attributed to the benefits that are expected to accrue to the Group from operating in the Russian market.

The total acquisition cost comprised of a cash payment of €449.835 thousand and costs of €5.960 thousand directly attributable to the acquisition.

From the date of acquisition and up to 31 December 2008, CB Uniastrum Bank LLC has contributed €5.095 thousand to Group profit after tax and non-controlling interests. If the combination had taken place at the beginning of year 2008, the contribution to Group profit after tax would have been €16.385 thousand.

As part of the acquisition agreement, the sellers have placed funds in escrow accounts to cover losses which may occur on specific loans as well as certain other warranties. The balance of these escrow accounts on 31 December 2009 amounted to €47 million (2008: €132 million).

(ii) OJSB Bank of Cyprus

On 26 May 2008 the Group acquired 97,2% of the share capital of the Ukrainian bank OJSB Bank of Cyprus. The acquisition has been accounted for using the purchase method of accounting.

The Group's consolidated financial statements include the results of OJSB Bank of Cyprus since the date of acquisition.

The fair values of the identifiable assets and liabilities of OJSB Bank of Cyprus as at the date of acquisition and their carrying value immediately before the acquisition were:

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Acquisition of subsidiary companies during 2008 (continued)

(ii) OJSB Bank of Cyprus (continued)

	<i>Fair value</i>	<i>Carrying value before the acquisition</i>
	€000	€000
Placements with banks and central bank	46.906	46.906
Loans and advances to customers	109.241	109.241
Property and equipment	9.192	9.192
Purchase price allocation intangibles	2.587	-
Other assets	2.906	2.906
	170.832	168.245
Customer deposits	126.225	126.225
Subordinated loan stock	2.762	2.762
Amounts due to banks	21.814	21.814
Other liabilities	1.549	1.549
	152.350	152.350
Net assets	18.482	15.895
Non-controlling interest	(521)	
Net assets acquired	17.961	
Goodwill (Note 46 (iii))	41.743	
Cost of acquisition paid in cash	59.704	
Net cash and cash equivalents acquired with the subsidiary	44.841	
Net cash outflow	14.863	
Cost of the acquisition paid in cash	59.704	

In December 2008 the Group's shareholding in OJSB Bank of Cyprus increased to 99,7% following the injection of additional capital by the Company.

The goodwill recognised is attributed to the benefits that are expected to accrue to the Group from operating in the Ukrainian market.

The total acquisition cost of €59.704 thousand comprised of a cash payment of €57.882 thousand and costs of €1.822 thousand directly attributable to the acquisition.

From the date of acquisition and up to 31 December 2008, OJSB Bank of Cyprus has contributed €446 thousand to Group profit after tax and non-controlling interests. If the combination had taken place at the beginning of year 2008, the contribution to Group profit after tax would have been €1.656 thousand.

As part of the acquisition agreement, the Group has received a letter of guarantee from the seller amounting at 31 December 2009 to €1,3 million (2008: €2,3 million) covering specific losses which may occur in the future relating to the period prior to the acquisition.

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

46. Acquisition of subsidiary companies during 2008 (continued)

(iii) Goodwill arising from 2008 acquisitions

	2008
	€000
Goodwill which arose on acquisition of OJSB Bank of Cyprus	41.743
Goodwill which arose on acquisition of CB Uniastrum Bank LLC (restated)	360.043
Total (Note 22)	401.786

47. Investment in associate

The Company has a 22,83% interest in Interfund Investments Plc, which is a closed-end investment company listed on the Cyprus Stock Exchange. The holding was acquired on 21 May 2007.

The Group's interest in Interfund Investments Plc is as follows:

	2009	2008
	€000	€000
Total assets	6.696	5.808
Liabilities	(144)	(145)
Net assets	6.552	5.663
Carrying amount of the investment	6.552	5.663
Market value of the investment on the Cyprus Stock Exchange	4.967	3.137
Share of associate's:		
Operating income/(loss)	1.004	(10.249)
Profit/(loss) after tax	907	(10.548)

48. Events after the balance sheet date

On 26 January 2010, LLC CB Bank of Cyprus was renamed to Leadbank LLC. On 4 February 2010 the Group signed an agreement to sell 100% of the share capital of Leadbank LLC. The sale will be at a premium to the net asset value of Leadbank LLC. The transaction is subject to the satisfaction of certain conditions, including approval by the Central Bank of Russia. The transaction will not have any significant financial or operational impact on the Group.

Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company, the 'Group') on pages 9 to 122, which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the Directors' Report on pages 3 to 8 is consistent with the consolidated financial statements.

Pursuant to the requirements of Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of Directive DI190-2007-04, which forms a specific part of the Report of the Directors' Report.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young Cyprus Ltd

Certified Public Accountants and Registered Auditors

Nicosia

24 February 2010