



Bank of Cyprus Group

Consolidated Financial Statements

for the year ended 31 December 2008

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Bank of Cyprus Group

Directors and Executives

Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)	<p>Theodoros Aristodemou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <div> <div> Vassilis G. Rologis Costas Z. Severis Christakis G. Christofides Evdokimos Xenophontos Anna Diogenous George M. Georgiades Andreas J. Jacovides </div> <div> Christos Mouskis Manthos Mavrommatis Andreas Eliades Yiannis Kypri Costas Hadjipapas Nikolas P. Tsakos </div> </div>
Group Executive Management	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri GROUP CHIEF GENERAL MANAGER</p>
Group General Managers	<p>Antonis Jacouris GENERAL MANAGER INTERNATIONAL BUSINESS AND OPERATIONS</p> <p>Vassos Shiarly GENERAL MANAGER DOMESTIC BANKING</p> <p>Christis Hadjimitsis GENERAL MANAGER FINANCE AND STRATEGY</p> <p>Nicolas Karydas GENERAL MANAGER RISK MANAGEMENT</p>
Secretary	<p>Yiannis Kypri</p>
Legal Advisers	<p>Chryssafinis & Polyviou</p>
Independent Auditors	<p>Ernst & Young Cyprus Ltd</p>
Registered Office	<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 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 2008, confirm that, to the best of our knowledge,

- (a) the consolidated financial statements on pages 7 to 112
 - (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

25 February 2009

Bank of Cyprus Public Company Ltd

Directors' Report

The Board of Directors submit to the shareholders their Report together with the audited consolidated financial statements for the year ended 31 December 2008.

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 and financial services, insurance business and property and hotel business.

During 2008 the Group further expanded its international operations by acquiring the Ukrainian bank JSC AvtoZAZbank, the Russian bank CB Uniastrum Bank LLC and Uniastrum Leasing LLC which provides leasing services in Russia.

All Group companies and branches are set out in Note 44 of the financial statements.

Financial results

Profit attributable to the Company's shareholders for 2008 amounted to €502 million (2007: €485 million), recording an increase of 4% compared to 2007. During 2008 the Group maintained high levels of profitability despite the negative international environment. The Group return on equity in 2008 amounted to 25,1% and its cost to income ratio was 44,9%.

Group Financial Highlights			
	<i>Change</i>	<i>2008</i>	<i>2007</i>
		€000	€000
Profit before tax	-5%	551.614	582.362
Profit after tax and minority interest	+4%	502.388	485.168
Earnings per share	+1,3 p.p.*	87,6 cent	86,3 cent
Cost/income	+1,3 p.p.*	44,9%	43,8%
Return on equity	-2,5 p.p.*	25,1%	27,6%

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

Group Financial Footings			
	<i>Change</i>	<i>2008</i>	<i>2007</i>
		€000	€000
Loans	+29%	24.449.316	18.920.921
Deposits	+11%	27.935.747	25.178.966
Equity	+3%	2.056.367	2.005.190

The results for the year reflect the following:

- Increase of business volumes (29% in loans and 11% in deposits).
- Increase of income (significant foreign exchange income, increase of net interest income by 5% and net fee and commission income by 10%).
- Containment of cost growth at rates that are lower than those of the growth of business volumes.
- Positive contribution from the new markets (Russia, Romania and Ukraine).

Bank of Cyprus Public Company Ltd

Directors' Report

Dividends

The Board of Directors proposes the payment of a final dividend of €0,12 per share. An interim dividend of €0,15 per share amounting to €86.011 thousand, was paid in December 2008. The total dividend for year 2008 amounts to €0,27 (2007: €0,44) per share.

Future Developments

The Group has set its strategic priorities for 2009 which aim to create shareholder value on a sustainable basis. The Group's performance for 2008 reaffirms its successful planning processes and the emphasis placed by the Group in addressing the economic crisis. The Group monitors very closely the developments in the international credit markets and the macroeconomic environment in Cyprus, Greece and the wider region and takes measures to mitigate and shield itself from any adverse consequences.

The strategic priorities of the Group for year 2009 focus on maintaining the Group's strong liquidity position, improving capital adequacy, increasing efficiency and containing costs, in parallel with the disciplined growth of its operations and the effective management of risks.

The Group aims to safeguard its liquidity position in Cyprus and Greece, minimising any adverse impact on its profitability. Emphasis will be given on the review of pricing of both existing and new loans, so that the price better reflects the liquidity conditions of the market. Emphasis will also be placed on customer service and product offering to further strengthen the bonds between the Group and its customers.

The Group expanded to the Russian market in August 2007 through the establishment of a banking subsidiary which initially focused on the corporate and SME sector, capitalising on the Group's existing customer relationships. The Group's strategic goals provided for the funding of the loans from liquidity attracted from the local market. For the attainment of this goal, expansion of a retail network was essential. In this direction, the Group completed the acquisition of an 80% interest in CB Uniastrum Bank LLC in Russia in October 2008. Founded in 1994 and headquartered in Moscow, CB Uniastrum Bank LLC has the 9th largest distribution network in Russia, consisting of over 210 outlets. CB Uniastrum Bank LLC has a strong presence in Moscow and in another 42 regions of Russia and has a good mix of retail and small business portfolio. CB Uniastrum Bank LLC is self-funded through its own growing deposit base which is supported by high brand awareness. At the beginning of 2009, the Group decided to operationally merge its two Russian banking units. The merger aims at achieving synergies between the two units and at the same time reducing the costs and improving systems and procedures. The operational merger is expected to be fully completed in the first half of 2009.

The Group entered the Romanian market in 2007 and offers banking and leasing services. The Group aims to selectively expand its client base in Romania, always through careful risk management and monitoring.

In May 2008, the Group completed the acquisition of the Ukrainian bank JSC AvtoZAZbank. Through this acquisition, the Group aims to provide full banking services in Ukraine, leveraging on its significant number of client relationships established via the international banking sector in Cyprus with businesses operating in this country. The current Ukrainian economic conditions are particularly demanding and the Group's priority is the careful selection of customers.

The Group's objective in expanding into new markets is the long-term diversification of its assets and income streams. Countries that have been targeted are those in which the Group has existing client relationships, which have significant population, low banking sector penetration and higher than European Union (EU) average economic growth rates. Interest rate spreads in these countries are markedly higher than the EU average spreads and therefore, combined with careful risk management and gradual building of economies of scale, can lead to higher profitability margins in the medium term.

Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 47 of the financial statements.

Bank of Cyprus Public Company Ltd

Directors' Report

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 38 to 41 of the financial statements.

Share capital

During the year, the issued share capital of the Company increased by €20.439 thousand as a result of dividend reinvestment as described in Note 28 of the financial statements.

As from 1 January 2008, the nominal value of the share capital of the Company was increased to €1,00 each. Share premium amounting to €82.497 thousand was applied for the increase in the nominal value of the shares, so that the number of issued shares remained the same, but their nominal value is €1,00 each instead of C£0,50 each.

Implementation and compliance to the Code of Corporate Governance

The Group recognises the importance of implementing sound corporate governance policies, practices and procedures. As a company listed on the Cyprus Stock Exchange (CSE), the Company has adopted CSE's Corporate Governance Code and applies its principles.

As from 15 January 2009 and as at the date of this Report, the Group complies with all the provisions of the revised Code.

The Group complies with the provisions of the revised CSE Corporate Governance Code except for provision A.2.3 relating to the introduction of a new criterion in the definition of independent directors. According to this criterion, a director with 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, are independent non executive directors. The CSE has granted the Company an extension until December 2009 to comply with this provision.

In addition, as a company listed on the Athens Exchange, the Company follows the provisions of the corporate governance of listed companies as laid out in law L3016/2002 of the Hellenic Republic.

Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2008 and 18 February 2009, 7,3% of the share capital of the Company was held by pension/retirement plans funded in Cyprus by the Group and 6,0% was held by investment funds managed by Lone Pine Capital LLC. There are no other shareholders holding more than 5% of the issued share capital of the Company.

Board of Directors

The members of the Board of Directors of the Company are listed on page 1. On 14 May 2008, the Company's Board of Directors elected Mr Theodoros Aristodemou as Chairman in replacement of Mr Eleftherios P. Ioannou who had reached 75 years of age and retired, in accordance with the Company's Articles of Association. All Directors were members of the Board throughout the year 2008 and up to the date of this Report, except Mr Nikolas P. Tsakos who was appointed on 14 May 2008. Also, Mr Michalis Sarris (who was appointed on 14 May 2008) and Messrs Charilaos G. Stavrakis, Andreas Pittas and Christos S. Pantzaris resigned from the Board on 26 May 2008, 29 February 2008, 11 September 2008 and 15 January 2009, respectively.

In accordance with the Company's Articles of Association, Messrs Andreas Artemis, Andreas J. Jacovides, Christos Mouskis, Andreas Eliades and Yiannis Kypri 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

Board of Directors (continued)

The members of the Board of Directors express their gratitude to the retired Chairman Mr Eleftherios P. Ioannou for his valuable contribution as Chairman of the Board of Directors and to Mr Charilaos G. Stavrakis, former Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer, for his long-standing contribution to the Group. They also express their gratitude to Messrs Christos S. Pantzaris and Andreas Pittas for their valuable contribution on the Board of Directors of the Company.

Directors' interest in the share capital of the Company

The beneficial interest in shares of the Company's directors, their spouses, minor children and companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2008 and 18 February 2009, is set out below:

	31 December 2008	18 February 2009
	%	%
<i>Non executives</i>		
Theodoros Aristodemou	0,517	0,690
Andreas Artemis	0,340	0,340
Christos S. Pantzaris	0,097	n/a
Vassilis G. Rologis	0,001	0,001
Costas Z. Severis	0,428	0,428
Christakis G. Christofides	0,069	0,069
Evdokimos Xenophontos	-	-
Anna Diogenous	0,166	0,166
George M. Georgiades	0,035	0,035
Andreas J. Jacovides	0,020	0,020
Christos Mouskis	0,029	0,029
Manthos Mavrommatis	0,032	0,032
Costas Hadjipapas	0,001	0,001
Nikolas P. Tsakos	-	-
<i>Executives</i>		
Andreas Eliades	0,004	0,004
Yiannis Kypri	0,005	0,005
	1,744	1,820

During 2008, 2.000.000 Share Options 2008/2010 were granted to the executive directors and 12.000 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

25 February 2009

Bank of Cyprus Group
Consolidated Income Statement
for the year ended 31 December 2008

		2008	2007
	Notes	€000	€000
Turnover	2	2.690.380	2.170.650
Interest income	3	2.098.057	1.728.818
Interest expense	4	(1.305.906)	(976.439)
Net interest income		792.151	752.379
Fee and commission income	5	227.214	210.504
Fee and commission expense	5	(9.408)	(12.381)
Foreign exchange income	6	158.790	46.711
Net (losses)/gains on sale, change in fair value and impairment of financial instruments	6	(59.719)	29.050
Insurance income	7	31.590	174.826
Insurance claims	7	29.530	(118.376)
Other income	8	35.104	32.372
		1.205.252	1.115.085
Staff costs	9	(330.988)	(295.597)
Other operating expenses		(220.631)	(190.397)
Profit before provisions		653.633	629.091
Provisions for impairment of loans and advances	38	(91.601)	(55.877)
Profit before share of profit of associates		562.032	573.214
Share of (loss)/profit of associates	10	(10.418)	9.148
Profit before tax	11	551.614	582.362
Taxation	12	(72.931)	(91.843)
Profit after tax		478.683	490.519
Attributable to:			
Minority interest (loss)/(profit)		23.705	(5.351)
Shareholders of the Company		502.388	485.168
Basic earnings per share (cent)	13	87,6	86,3
Diluted earnings per share (cent)	13	82,1	86,3

Bank of Cyprus Group

Consolidated Balance Sheet

as at 31 December 2008

		2008	2007
	Notes	€000	€000
Assets			
Cash and balances with central banks	14	1.017.073	1.325.191
Placements with banks	14	4.582.076	6.158.367
Reverse repurchase agreements		120.000	-
Investments	15	4.240.719	4.131.148
Life insurance business assets attributable to policyholders	16	447.679	530.610
Loans and advances to customers	17	24.449.316	18.920.921
Property and equipment	19	419.395	319.662
Intangible assets	20	442.445	82.127
Other assets	21	382.850	277.846
Investment in associate	46	5.663	17.318
Total assets		36.107.216	31.763.190
Liabilities			
Amounts due to banks	22	2.832.298	1.233.337
Repurchase agreements		305.000	435.140
Customer deposits	23	27.935.747	25.178.966
Insurance liabilities	24	506.447	608.566
Debt securities in issue	25	959.169	1.253.690
Other liabilities	26	578.103	379.553
Subordinated loan stock	27	934.085	668.748
Total liabilities		34.050.849	29.758.000
Equity			
Share capital	28	586.662	483.726
Share premium		676.949	688.349
Revaluation and other reserves	30	(99.759)	186.325
Retained earnings		877.225	607.668
Equity attributable to shareholders of the Company		2.041.077	1.966.068
Minority interest		15.290	39.122
Total equity		2.056.367	2.005.190
Total liabilities and equity		36.107.216	31.763.190
Contingent liabilities and commitments			
Contingent liabilities	33	1.962.350	1.751.677
Commitments	33	4.249.627	3.417.512

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 2008

	Attributable to the shareholders of the Company					Minority Interest	Total equity
	Share capital	Share premium	Revaluation and other reserves (Note 30)	Retained earnings (Note 30)	Total		
	€000	€000	€000	€000	€000	€000	€000
At 1 January 2008	483.726	688.349	186.325	607.668	1.966.068	39.122	2.005.190
Losses from change in fair value of available-for-sale investments:							
- treasury bills and debt securities	-	-	(110.947)	-	(110.947)	-	(110.947)
- equity securities	-	-	(52.251)	-	(52.251)	-	(52.251)
Gains from change in fair value of financial instruments designated as cash flow hedges	-	-	7.858	-	7.858	-	7.858
Property revaluation	-	-	4.362	-	4.362	-	4.362
Deferred tax	-	-	(3.096)	1.159	(1.937)	-	(1.937)
Exchange adjustments	-	-	(149.186)	-	(149.186)	-	(149.186)
Increase in value of in-force life insurance policies (Note 20)	-	-	10.593	(10.593)	-	-	-
Transfer to the income statement on impairment of available-for-sale investments	-	-	9.225	-	9.225	-	9.225
Transfer of realised profit on disposal of property	-	-	(118)	118	-	-	-
Transfer to the income statement on redemption/sale of available-for-sale investments and termination of financial instruments designated as cash flow hedges	-	-	(9.310)	-	(9.310)	-	(9.310)
Net losses recognised directly in equity	-	-	(292.870)	(9.316)	(302.186)	-	(302.186)
Profit after tax for the year	-	-	-	502.388	502.388	(23.705)	478.683
Total profits/(losses) for the year	-	-	(292.870)	493.072	200.202	(23.705)	176.497
Capitalisation of share premium due to change in the nominal value of shares from C£0,50 each to €1,00 each (Note 28)	82.497	(82.497)	-	-	-	-	-
Dividend paid (Note 29) and dividend reinvested (Note 28)	20.439	71.097	-	(227.191)	(135.655)	-	(135.655)
Shares of the Company held by subsidiaries and associates:							
- acquisitions	-	-	(1.361)	-	(1.361)	-	(1.361)
- disposals	-	-	2.974	(1.025)	1.949	-	1.949
Equity component of convertible bonds	-	-	5.173	-	5.173	-	5.173
Cost of share-based payments (Note 9)	-	-	-	4.701	4.701	-	4.701
Dividend paid by subsidiaries following reinvestment	-	-	-	-	-	(368)	(368)
Change in minority interest and acquisition of subsidiary	-	-	-	-	-	241	241
At 31 December 2008	586.662	676.949	(99.759)	877.225	2.041.077	15.290	2.056.367

Bank of Cyprus Group

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Attributable to the shareholders of the Company					Minority Interest	Total equity
	Share capital	Share premium	Revaluation and other reserves (Note 30)	Retained earnings (Note 30)	Total		
	€000	€000	€000	€000	€000	€000	€000
At 1 January 2007	473.144	583.257	164.721	324.515	1.545.637	-	1.545.637
Gains/(losses) from change in fair value of available-for-sale investments:							
- treasury bills and debt securities	-	-	(28.629)	-	(28.629)	-	(28.629)
- equity securities	-	-	18.021	-	18.021	-	18.021
Gains from change in fair value of financial instruments designated as cash flow hedges	-	-	1.931	-	1.931	-	1.931
Property revaluation	-	-	48.064	-	48.064	-	48.064
Deferred tax	-	-	(8.427)	1.541	(6.886)	-	(6.886)
Exchange adjustments	-	-	1.140	-	1.140	-	1.140
Increase in value of in-force life insurance policies (Note 20)	-	-	11.707	(11.707)	-	-	-
Reversal of revaluation of investment upon becoming an associate	-	-	(73)	(778)	(851)	-	(851)
Transfer of realised profit on disposal of property	-	-	(2.171)	2.171	-	-	-
Transfer to the income statement on impairment of debt securities	-	-	8.625	-	8.625	-	8.625
Transfer to the income statement on redemption/sale of available-for-sale investments and termination of financial instruments designated as cash flow hedges	-	-	(7.520)	-	(7.520)	-	(7.520)
Transfer of capital reserve	-	-	(3.730)	3.730	-	-	-
Net profit/(losses) recognised directly in equity	-	-	38.938	(5.043)	33.895	-	33.895
Profit after tax for the year	-	-	-	485.168	485.168	5.351	490.519
Total profit for the year	-	-	38.938	480.125	519.063	5.351	524.414
Dividend paid (Note 29) and dividend reinvested (Note 28)	6.322	78.414	-	(200.702)	(115.966)	-	(115.966)
Dividend paid by subsidiaries net of reinvestment		-	-	-	-	(812)	(812)
Exercise of share options (Note 28)	4.260	26.678	-	-	30.938	-	30.938
Cost of share-based payments (Note 9)	-	-	-	3.730	3.730	-	3.730
Shares of the Company held by subsidiaries and associates	-	-	(17.334)	-	(17.334)	-	(17.334)
Acquisition of subsidiary	-	-	-	-	-	34.583	34.583
At 31 December 2007	483.726	688.349	186.325	607.668	1.966.068	39.122	2.005.190

Bank of Cyprus Group Consolidated Cash Flow Statement for the year ended 31 December 2008		2008	2007
	Notes	€000	€000
Net cash flow (used in)/from operating activities	35	(1.435.599)	1.780.695
Cash flow from investing activities			
Purchases of investments:			
- treasury bills		(373.000)	-
- debt securities		(1.603.706)	(1.165.555)
- equity securities		(4.417)	(6.906)
Proceeds on disposal/redemption of investments:			
- treasury bills		-	71.015
- debt securities		1.583.472	1.144.237
- equity securities		8.484	18.289
Interest on treasury bills		-	1.083
Interest on debt securities		123.208	193.436
Dividend income from equity shares		10.461	4.620
Acquisition of associates less dividends received		1.237	(30.263)
Acquisition of subsidiaries net of cash acquired		(343.593)	(14.685)
Purchase of property and equipment		(43.279)	(35.686)
Proceeds on disposal of property and equipment		2.223	2.636
Purchase of intangible assets		(8.654)	(7.631)
Proceeds on disposal of intangible assets		252	-
Purchase of investment properties		(1.450)	(941)
Proceeds on disposal of investment properties		20.110	10.059
Net cash flow (used in)/from investing activities		(628.652)	183.708
Cash flow from financing activities			
Issue of share capital (exercise of share options)		-	30.938
Issue of subordinated loan stock		576.083	126.437
Redemption of subordinated loan stock		(299.463)	-
Dividend payment net of reinvestment		(135.655)	(115.966)
Dividend paid by subsidiaries to minority shareholders		(368)	(812)
Interest on subordinated loan stock		(46.723)	(24.705)
Acquisition of own shares		(1.361)	-
Disposal of own shares		1.949	-
Net cash flow from financing activities		94.462	15.892
Net (decrease)/increase in cash and cash equivalents for the year		(1.969.789)	1.980.295
Cash and cash equivalents			
At 1 January		6.793.636	4.812.201
Exchange adjustments		(35.996)	1.140
Net (decrease)/increase in cash and cash equivalents for the year		(1.969.789)	1.980.295
At 31 December	36	4.787.851	6.793.636

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 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.

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), the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Laws and Regulations.

2. Functional and presentation currency

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

On 1 January 2008, date of the introduction of the Euro as the new official currency of the Republic of Cyprus, the functional currency of the Company and its subsidiaries in Cyprus as well as the presentation currency of the Group financial statements (including comparative amounts) changed from Cyprus Pounds to the Euro. As a result of this change, as from 1 January 2008 all assets and liabilities of the Company and its subsidiaries in Cyprus have been converted using the fixed conversion rate of €1=C£0,585274. The comparative amounts presented in these financial statements have been converted into Euro using the above rate.

3. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as detailed below.

The Group has adopted the following new and amended IFRSs and IFRIC Interpretations during the year:

Amendments to IAS 39 and IFRS 7	'Reclassification of Financial Instruments'
IFRIC 14	'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The principal effects of these changes are set out below:

Amendments to IAS 39 and IFRS 7 'Reclassification of Financial Instruments'

An amendment to IAS 39, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The Amendments to IFRS 7 require additional disclosures in the financial statements of entities which adopt the Amendments of IAS 39. These disclosures are set out in Note 15 of the financial statements.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. It also explains how this limit, also referred to as the 'asset ceiling test', may be influenced by a minimum funding requirement and aims to standardise current practice. The adoption of IFRIC 14 did not have any impact on the financial statements of the Group.

In addition to the above, the Group adopted an accounting policy for recording convertible bonds, as stated in Section 16 (x) below, as the Group had no such instruments in issue in the previous year.

Bank of Cyprus Group

Summary of Significant Accounting Policies

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

Up to the date of approval of the 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

IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of its operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group has assessed the impact of this Standard on its financial statements and will provide the relevant disclosures in its 2009 financial statements.

Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 January 2009)

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 are to be applied prospectively. These amendments will not have any impact on the Group's financial statements.

IFRS 2 'Share-based Payment' (Revised) (effective for annual periods beginning on or after 1 January 2009). The amendments to IFRS 2 clarify the definition of a vesting condition and prescribe the treatment for an award that is effectively cancelled. These amendments will not have any impact on the Group's financial statements.

IAS 1 'Presentation of Financial Statements' (Revised) (effective for annual periods beginning on or after 1 January 2009)

The main revisions to IAS 1 are the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with other comprehensive income and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make the necessary changes to the presentation of its financial statements in 2009.

IAS 23 'Borrowing Costs' (Revised) (effective for annual periods beginning on or after 1 January 2009)

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 current standard to expense borrowing costs to the income statement in case of a qualifying asset has been eliminated. In accordance with the transitional requirements of the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' (effective for annual periods beginning on or after 1 January 2009)

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

Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009)

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. IASB has separated the 34 amendments of this edition in two Parts: Part I deals with amendments resulting in accounting changes, and Part II deals with editorial or terminology amendments with minimal impact. There are separate transitional provisions for each standard. The Group is currently assessing their impact on its financial statements.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. 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)

IFRIC 13 'Customer Loyalty Programmes' (effective for annual periods beginning on or after 1 July 2008)

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, however it does not expect that its adoption will have a material impact on its financial statements.

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

Revised IFRS 3 'Business Combinations' and Amended IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009)

IFRS 3 (revised) introduces a number of changes in the accounting for business combinations occurring after this date that 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 an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor they will 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 changes of the revised IFRS 3 and amended IAS 27 will affect future acquisitions or loss of control and transactions with minority interests.

Revised IFRS 1 'First-time Adoption of International Financial Reporting Standards' (effective for annual periods beginning on or after 1 January 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 January 2009. There is no impact on the financial statements of any Group entity as a result of this revision.

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 financial statements.

IFRIC 15 'Agreement for the Construction of Real Estate' (effective for annual periods beginning on or after 1 January 2009)

The Interpretation is to be applied retrospectively. It 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'. The Group does not expect that this Interpretation will have a material impact on its financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective for annual periods beginning on or after 1 October 2008)

IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such, it 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 amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Interpretation is to be applied prospectively. The Group is currently assessing which accounting policy to adopt for the recycling on disposal of the net investment.

Bank of Cyprus Group

Summary of Significant Accounting Policies

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

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

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 shareholders 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, excluding transactions under common control. The Group does not expect that this Interpretation will have any impact on its financial statements.

IFRIC 18 'Transfer of Assets from Customers' (effective for annual periods beginning on or after 1 July 2009)

IFRIC 18 applies to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such items. The asset must then be used to provide ongoing access to a supply of goods, services or both. The Interpretation provides guidance on how and when an entity should recognise such assets and related revenue. The Interpretation is not relevant to the Group's operations.

5. Significant accounting judgments and estimates

The preparation of the financial statements requires the Group's management to make judgments and estimates that can have a material impact on the amounts recognised in the 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) 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 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.

(ii) 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.

5. Significant accounting judgments and estimates (continued)

(ii) Impairment of goodwill (continued)

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.

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 20 on the financial statements lists the entities on which goodwill arises. Goodwill impairment testing performed in 2008 and 2007 indicated that there was no impairment of goodwill. It is possible that the outcomes within the next financial year could be different from the assumptions used, resulting in a material adjustment to the carrying amount of goodwill.

As a result of the deterioration in the economic and credit conditions in Russia and Ukraine goodwill with regard to the two acquired entities was tested for impairment as at 31 December 2008. Notwithstanding these conditions, the recoverable amount based on expected cash flows continued to exceed the carrying amount including goodwill of these entities, and therefore no goodwill impairment has occurred. However, 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, a further special review will be carried out. If this review indicates that the deterioration in current conditions and future outlook is sufficiently severe, this could result in a material adjustment to the carrying amount of goodwill.

(iii) 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.

5. Significant accounting judgments and estimates (continued)

(iv) 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 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. 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.

(v) Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases where necessary. The Group sets these assumptions based on market expectations at the balance sheet date using best-estimates for each parameter covering the period over which obligations are to be settled. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective AAA or AA rating as well as the corporate bond indices for these ratings. The selection of the appropriate discount rate requires a certain degree of judgement. Future salary increases are based on expected future inflation rates for the specific country. Expected return on plan assets is based on the composition of each funded plan assets estimating a different rate of return for each asset class. Estimates of future inflation rates and expected rates of return of plan assets represent management's best estimates for these variables arrived at following consultation with its advisors, and involve a degree of judgement. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

(vi) General insurance business

For general insurance contracts, a provision is made for both the estimated cost of claims notified but not settled and claims incurred but not reported 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 provisions for claims 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.

(vii) 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.

(viii) 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.

Bank of Cyprus Group

Summary of Significant Accounting Policies

6. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries 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.

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.

Business combinations are accounted for using the purchase method. An excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill on the balance sheet. Where 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 income statement in the year of acquisition.

Minority interest represents the portion of profit or loss and net assets not held by the Group and is presented separately in the consolidated income statement and within equity separately from the Company shareholders' equity.

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

Put/call option arrangements on minority interest

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

This 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 minority 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 minority 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.

7. 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.

Using the equity method, the investment in an associate is carried in the 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 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 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 associates are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

Bank of Cyprus Group

Summary of Significant Accounting Policies

8. 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.

9. 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 as from 1 January 2008, as described in section 2 above. 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 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 'Exchange adjustments reserve' until the disposal of the net investment, at which time they are recognised in the 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 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 'Exchange adjustments 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 income statement as part of the profit or loss on disposal.

10. Segmental reporting

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

11. 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.

12. 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.

Bank of Cyprus Group

Summary of Significant Accounting Policies

12. Revenue recognition (continued)

(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 income statement using the effective interest rate method.

(iii) Dividend income

Dividend income is recognised in the 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 income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

13. 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.

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

14. 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 which 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 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.

Bank of Cyprus Group

Summary of Significant Accounting Policies

14. Share-based payments (continued)

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

The above are applicable to benefits granted after 7 November 2002 and which had not vested by 1 January 2005, which is the date of adoption of IFRS 2 'Share-based payment' by the Group.

15. 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.

16. 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', '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. Changes in the fair value of derivatives held for trading are included in the income statement in 'Foreign exchange income' in the case of currency derivatives and in 'Net gains on sale, change in fair value and impairment of financial instruments' for all other derivatives. Interest income and expense are included in the corresponding captions in the 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 fair value changes recognised in the income statement. The embedded derivatives separated from the host are carried at fair value, with changes in fair value recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

16. Financial instruments (continued)

(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 balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions in the 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 balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the 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.

(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 income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the 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 'Investments held for trading', '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 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, change in fair value and impairment of 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, debt securities and treasury bills.

16. Financial instruments (continued)

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

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'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains on sale, change in fair value and impairment of 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 and treasury bills is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the 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 income statement in 'Net gains on sale, change in fair value and impairment of 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 income statement.

(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.

17. 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 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.

18. 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, unless such loans are secured or other factors exist whereby the Group expects that all amounts due will be collected.

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 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 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.

18. Impairment of financial assets (continued)

(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, change in fair value and impairment of financial instruments' in the 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, change in fair value and impairment of financial instruments' in the 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 income statement – is deducted from the 'Revaluation reserve' and recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Impairment losses on equity securities are not reversed through the income statement. Increases in their fair value after impairment are recognised in the 'Revaluation reserve' in equity.

In the case of debt securities and treasury bills 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, change in fair value and impairment of financial instruments' in the income statement.

19. 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 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 income statement in 'Net gains on sale, change in fair value and impairment of 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 income statement in 'Net gains on sale, change in fair value and impairment of financial instruments'.

Bank of Cyprus Group

Summary of Significant Accounting Policies

19. Hedge accounting (continued)

(i) Fair value hedges (continued)

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 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, change in fair value and impairment of financial instruments' in the 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 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 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 income statement.

20. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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.

21. Cash and cash equivalents

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

22. 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.

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

22. Insurance business (continued)

(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 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.

Provision is made for the estimated cost of claims reported but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims reported but not settled is made on a case by case basis after taking into consideration all known facts, 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 provision for claims incurred but not reported at the balance sheet date.

(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 income statement.

23. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specific future date ('repos') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the 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.

Bank of Cyprus Group

Summary of Significant Accounting Policies

24. 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 income statement.

25. Operating leases – The Group as lessee

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

26. 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.

27. 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 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 financial statements as investment properties, reflecting the substance of these transactions.

28. Stock of property held for sale

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

29. 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, 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, 8 to 10 years for customer relationships 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.

30. 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.

31. 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.

32. 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 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 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.

Any increase in the liability relating to financial guarantees is recognised in the 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 income statement when the guarantee is fulfilled, cancelled or expires.

33. Comparative information

Reclassifications to comparative information were made to conform to changes in the presentation in the current year. Such reclassifications relate to the presentation of accrued interest on investments which is now presented as part of the carrying value of the investment rather than separately within 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 2008 were authorised for issue by a resolution of the Board of Directors on 25 February 2009.

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

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 has three principal business segments: (a) banking and financial services, (b) life and general insurance business, and (c) property and hotel business.

The Group's business is conducted in the following geographic segments: (a) Cyprus, (b) Greece, and (c) other countries, principally the United Kingdom, Australia, Russia, Romania and Ukraine.

This share of profit of associates is included in the banking and financial services segment in Cyprus.

Generally, pricing between the different segments is based on market rates. The analysis by geographic segment is based on the location of the entity recording the transaction.

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

The primary reporting format is by business segment.

Business segments

	Banking and financial services	Insurance business	Property and hotel business	Total
2008	€000	€000	€000	€000
Turnover	2,515,924	171,918	5,768	2,693,610
Inter-segment turnover	(546)	(2,245)	(439)	(3,230)
Turnover with third parties	2,515,378	169,673	5,329	2,690,380
Profit before tax	491,997	42,306	17,311	551,614
Assets	35,406,567	685,962	62,999	36,155,528
Inter-segment assets				(48,312)
Total assets				36,107,216
Liabilities	33,491,543	561,757	16,232	34,069,532
Inter-segment liabilities				(18,683)
Total liabilities				34,050,849
Capital expenditure	50,343	1,057	533	51,933
Depreciation and amortisation	30,774	1,070	328	32,172

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

2. Segmental analysis (continued)

Business segments (continued)

	Banking and financial services	Insurance business	Property and hotel business	Total
2007	€000	€000	€000	€000
Turnover	2.000.985	152.949	19.324	2.173.258
Inter-segment turnover	(413)	(1.493)	(702)	(2.608)
Turnover with third parties	2.000.572	151.456	18.622	2.170.650
Profit before tax	522.864	45.320	14.178	582.362
Assets	30.991.204	760.705	55.557	31.807.466
Inter-segment assets				(44.276)
Total assets				31.763.190
Liabilities	29.116.106	639.781	15.010	29.770.897
Inter-segment liabilities				(12.897)
Total liabilities				29.758.000
Capital expenditure	42.016	1.162	139	43.317
Depreciation and amortisation	29.415	1.283	298	30.996

Geographic segments

	Cyprus	Greece	Other countries	Total
2008	€000	€000	€000	€000
Turnover	1.718.757	894.032	298.975	2.911.764
Inter-segment turnover	(51.803)	(153.965)	(15.616)	(221.384)
Turnover with third parties	1.666.954	740.067	283.359	2.690.380
Assets	22.365.087	14.415.926	3.854.845	40.635.858
Inter-segment assets				(4.528.642)
Total assets				36.107.216
Capital expenditure	13.407	22.910	15.616	51.933

2007				
Turnover	1.416.460	698.715	183.386	2.298.561
Inter-segment turnover	(19.444)	(89.163)	(19.304)	(127.911)
Turnover with third parties	1.397.016	609.552	164.082	2.170.650
Assets	19.240.733	12.259.641	2.488.209	33.988.583
Inter-segment assets				(2.225.393)
Total assets				31.763.190
Capital expenditure	11.362	25.827	6.128	43.317

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3. Interest income

	2008	2007
	€000	€000
Loans and advances to customers	1.541.843	1.152.028
Placements with banks and central banks, including reverse repurchase agreements	189.132	284.607
Investments available-for-sale	160.119	169.093
Investments held-to-maturity	2.372	6.396
Investments classified as loans and receivables	1.953	-
	1.895.419	1.612.124
Trading investments	7.812	11.615
Derivatives	187.107	97.664
Other investments at fair value through profit or loss	7.719	7.415
	2.098.057	1.728.818

Interest income from loans and advances to customers includes €19.893 thousand (2007: €29.808 thousand) of interest income accrued on impaired loans and advances.

4. Interest expense

	2008	2007
	€000	€000
Customer deposits	1.002.814	805.490
Amounts due to banks, including repurchase agreements	12.548	6.395
Debt securities in issue	62.407	56.134
Subordinated loan stock	46.723	24.705
	1.124.492	892.724
Derivatives	181.414	83.715
	1.305.906	976.439

5. Fee and commission income and expense

Fee and commission income

	2008	2007
	€000	€000
Credit-related fees and commissions	102.443	92.506
Other banking commissions	108.563	98.229
Mutual funds and other management fees	9.606	9.860
Brokerage commissions	5.958	9.285
Other commissions	644	624
	227.214	210.504

Mutual funds and other management fees include €6.586 thousand (2007: €9.023 thousand) of income relating to fiduciary activities.

Fee and commission expense

	2008	2007
	€000	€000
Banking commissions	9.133	11.896
Mutual funds and other management fees	45	253
Brokerage commissions	230	232
	9.408	12.381

6. Foreign exchange income and net (losses)/gains on sale, change in fair value and impairment of financial instruments

Foreign exchange income

Foreign exchange income comprises the translation of monetary assets and liabilities denominated in foreign currency at the balance sheet date, realised exchange gains/losses from transactions in foreign currency which have been settled during the year and changes in the fair value of foreign exchange derivatives.

Foreign exchange income includes an amount of €105 million for transactions relating to the Group's investments in Russia and Ukraine which did not meet the criteria for hedge accounting.

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

	2008	2007
	€000	€000
Trading portfolio:		
- equity securities	(41.767)	8.188
- debt securities	149	(3.313)
- derivatives	(15.523)	13.685
Other investments at fair value through profit or loss:		
- equity securities	239	2.665
- debt securities	(2.650)	(3.007)
Disposal gains from available-for-sale investments:		
- equity securities	1.007	14.808
- debt securities	11.335	4.224
Disposal gains from trading of own debt securities in issue and subordinated loan stock	1.504	-
Impairment of available-for-sale debt securities	(8.680)	(8.625)
Impairment of held-to-maturity debt securities	(4.336)	-
Impairment of available-for-sale equity securities	(545)	-
Change in fair value of financial instruments designated as fair value hedges:		
- hedging instruments	(30.113)	16.223
- hedged items	29.661	(15.798)
	(59.719)	29.050

7. Insurance income and claims

	2008		2007	
	Income	Claims	Income	Claims
	€000	€000	€000	€000
Life insurance business	(12.269)	46.723	136.622	(101.836)
General insurance business	43.859	(17.193)	38.204	(16.540)
	31.590	29.530	174.826	(118.376)

	2008		2007	
	Life insurance	General insurance	Life insurance	General insurance
Income	€000	€000	€000	€000
Gross premiums	102.908	66.765	91.312	60.144
Reinsurance premiums	(14.050)	(33.108)	(11.249)	(30.127)
Net premiums	88.858	33.657	80.063	30.017
Change in the provision for unearned premiums	-	(1.501)	-	(1.751)
Total net earned premiums	88.858	32.156	80.063	28.266
(Expenses)/income and (losses)/ gains from life insurance assets attributable to policyholders	(118.021)	61	39.799	37
Commissions from reinsurers and other income	6.301	11.642	5.053	9.901
	(22.862)	43.859	124.915	38.204
Change in value of in-force business before tax (Note 20)	10.593	-	11.707	-
	(12.269)	43.859	136.622	38.204

7. Insurance income and claims (continued)

	2008		2007	
	Life insurance	General insurance	Life insurance	General insurance
Claims	€000	€000	€000	€000
Gross payments to policyholders	(44.027)	(19.065)	(53.717)	(16.493)
Reinsurers' share of payments to policyholders	3.336	5.939	4.172	5.298
Gross change in insurance contract liabilities	98.685	3.160	(40.304)	(2.276)
Reinsurers' share of change in insurance contract liabilities	3.104	(3.260)	1.516	477
Commissions paid to agents and other direct selling costs	(14.375)	(3.967)	(13.503)	(3.546)
	46.723	(17.193)	(101.836)	(16.540)

Other insurance income and expense items

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

	2008		2007	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Income from assets of the general insurance business and non-linked life insurance business	223	2.190	193	1.731
Net gains on sale and change in fair value of financial assets and other income of the general insurance business and non-linked life insurance business	682	887	4.429	4.183
Staff costs	(6.314)	(8.501)	(6.170)	(8.066)
Other operating expenses	(4.266)	(3.715)	(4.101)	(3.303)

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8. Other income

	2008	2007
	€000	€000
Dividend income from equity securities	10.461	4.620
Profit on disposal of stock of property held for sale	2.847	13.635
Profit on disposal of property and equipment and write-off of intangible assets	299	214
Rental income from investment properties	311	318
Gains from change in fair value of investment properties	14.298	6.199
Negative goodwill on acquisition of subsidiary (Note 45)	325	3.320
Other income	6.563	4.066
	35.104	32.372

9. Staff costs

	2008	2007
	€000	€000
Salaries	272.301	230.364
Employer's contributions	47.016	38.620
Retirement benefit plan costs	6.970	22.883
Cost of equity-settled share-based payments (Note 28)	4.701	3.730
	330.988	295.597

The number of persons employed by the Group as at 31 December 2008 was 12.127 (2007: 6.909). The increase from 2007 is mainly attributable to the acquisition of subsidiaries made by the Group during the year.

Retirement benefit plan costs

	2008	2007
	€000	€000
Defined benefit plans	2.045	18.030
Defined contribution plans	1.823	1.690
Early retirement plans	3.102	3.163
	6.970	22.883

The Group operates retirement benefit plans in Cyprus, Greece and the United Kingdom, as outlined below.

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus covers 27,4% 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 final 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 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:

	2008	2007
Discount rate	5,75%	5,25%
Expected rate of return on plan assets	6,27%	7,29%
Future salary increases	6,25%	6,50%

Greece

The Group's employees in Greece (26,2% of total Group employees) are covered by two defined benefit plans and a 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 legislation. All the benefits paid from statutory retirement indemnities are payable from the Company's assets because these plans are unfunded.

In addition, a number of employees recruited up to 31 December 2002 (8,2% 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.

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:

	2008	2007
Discount rate	5,75%	5,25%
Expected rate of return on plan assets	5,90%	6,20%
Future salary increases	4,75%	5,00%

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

9. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom

The Group's employees in the United Kingdom (1,6% 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 (0,9% of total Group employees) participate in a defined benefit plan which provides 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 closed to future accrual of benefits for active members. The salary link for these members is broken such that these active members will have benefits calculated as though they are leavers from the plan on 31 December 2008.

The present value of the defined benefit 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:

	2008	2007
Discount rate	6,00%	5,75%
Expected rate of return on plan assets	6,90%	7,60%
Future salary increases	4,60%	5,00%

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 Romania, Russia and Ukraine.

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

The amounts recognised in the balance sheet are shown below:

	2008	2007
	€000	€000
Net present value of funded obligations	479.081	495.898
Fair value of plan assets	(302.132)	(702.505)
	176.949	(206.607)
Net present value of unfunded obligations	5.869	5.413
Unrecognised past service cost	(1.139)	(1.059)
Unrecognised net actuarial (losses)/gains	(181.549)	199.303
Amount not recognised as an asset because of the asset restriction requirement	-	6.646
Net liability of retirement benefit plans recognised in the balance sheet	130	3.696

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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)

	2008	2007
	€000	€000
Amounts recognised in balance sheet		
Liabilities (Note 26)	5.725	6.081
Assets (Note 21)	(5.595)	(2.385)
	130	3.696

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

	2008	2007
	€000	€000
At 1 January	501.311	514.210
Current service cost	26.237	26.676
Interest expense on obligations	26.051	24.621
Actuarial gains	(39.461)	(48.184)
Past service cost	169	1.140
Benefits paid from the plans	(13.559)	(13.278)
Benefits paid directly by the Group	(42)	(323)
Contributions by plan participants	356	352
Terminations, curtailments and settlements	(4.847)	234
Exchange differences from overseas plans	(11.265)	(4.137)
At 31 December	484.950	501.311

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

	2008	2007
	€000	€000
At 1 January	702.505	590.956
Expected rate of return on plan assets	50.741	35.255
Actuarial (losses)/gains	(432.072)	73.378
Employer's contributions	6.015	19.473
Contributions by plan participants	356	352
Benefits paid from the plans	(13.559)	(13.278)
Exchange differences from overseas plans	(11.854)	(3.631)
At 31 December	302.132	702.505

The actual return on plan assets for 2008 was a loss of €381.331 thousand (2007: gain of €108.633 thousand).

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

	2008	2007
Equity securities	45%	75%
Debt securities	43%	17%
Placements with banks	11%	6%
Other plan assets	1%	2%
	100%	100%

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

	2008	2007
	€000	€000
Equity securities	112.621	482.422
Debt securities	51.933	40.019
	164.554	522.441

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

	2008	2007
	€000	€000
Current service cost	26.237	26.676
Interest expense on obligations	26.051	24.621
Expected return on plan assets	(50.741)	(35.255)
Amortisation of actuarial gains	(18.192)	(4.979)
Amortisation of past service cost	88	87
Effect of terminations, curtailments and settlements	(3.747)	234
Effect of change of asset restriction limit	(6.646)	6.646
Amortisation of cumulative losses in excess of reduction in economic benefits	28.995	-
	2.045	18.030

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

	2008	2007	2006	2005
	€000	€000	€000	€000
Net present value of obligations	(484.950)	(501.311)	(514.210)	(452.260)
Fair value of plan assets	302.132	702.505	590.956	330.833
(Deficit)/surplus	(182.818)	201.194	76.746	(121.427)

Experience adjustments to obligations	(16.358)	(3.545)	(7.429)	3.615
Experience adjustments to plan assets	(432.072)	73.378	219.894	72.402

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 94% of the defined benefit obligations, the Group considered the international index iBoxx Euro Corporates AAA 10+ Bond Index with an adjustment for the longer duration of liabilities. For the United Kingdom, a yield curve approach was adopted.

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9. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

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.

Medical plan costs

The main medical plans offered by the Group cover all of its active employees in Cyprus, Greece and the United Kingdom.

10. Share of (loss)/profit of associates

	2008	2007
	€000	€000
Interfund Investments Plc:		
- share of (loss)/profit	(10.418)	3.911
- negative goodwill on acquisition	-	1.082
Cytrustees Investment Public Company Ltd:		
- share of profit	-	423
- negative goodwill on acquisition	-	3.732
	(10.418)	9.148

Cytrustees Investment Public Company Ltd became a subsidiary in April 2007 (Note 45).

11. Profit before tax

Profit before tax is stated after charging the following:

	2008	2007
	€000	€000
Operating lease rentals for land and buildings	28.538	19.001
Depreciation of property and equipment	24.719	23.481
Impairment of property and equipment	-	1.112
Amortisation of intangible assets	7.453	7.515
Auditors' remuneration	1.171	1.034

All of the above are included in 'Other operating expenses'.

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12. Taxation

	2008	2007
	€000	€000
Current tax:		
- Cyprus	61.391	47.649
- overseas	25.244	25.405
Cyprus defence contribution	1.203	234
Deferred tax	(20.612)	14.928
Prior years' tax adjustments	5.705	3.627
	72.931	91.843

The Group's share of the tax charge of the associated Company is €130 thousand (2007: Nil).

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

	2008	2007
	€000	€000
Profit before tax	551.614	582.362
Tax at the normal tax rates in Cyprus	56.364	58.470
Tax effect of:		
- expenses not deductible for tax purposes	16.986	9.134
- income not subject to tax	(2.122)	(4.477)
- differences between overseas tax rates and Cyprus tax rates	(4.002)	25.089
	67.226	88.216
Prior years' tax adjustments	5.705	3.627
	72.931	91.843

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 profits of the Group's overseas operations are taxed at the rates prevailing at the respective countries, which for 2008 were: Greece 25% (2007: 25%), United Kingdom 28% (2007: 30%), Australia 30% (2007: 30%), Romania 16% (2007: 16%), Russia 24% (2007: 24%) and Ukraine 25%.

At 31 December 2008 the accumulated tax losses of subsidiaries and overseas branches amounted to €13.361 thousand (2007: €10.510 thousand), of which €4.652 thousand can be carried forward indefinitely and €8.709 thousand expire within five to ten years. The tax losses as at 31 December 2007 were partly utilised against the taxable profits of year 2008. It is expected that the remaining tax losses will be utilised against future taxable profits.

12. Taxation (continued)

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around €2,6 million (2007: €2,6 million) would arise, for which no deferred tax liability has been recognised.

Deferred tax asset

The deferred tax asset comprises of:

	2008	2007
	€000	€000
Difference between capital allowances and depreciation	(4.524)	-
Property revaluation	(3.998)	-
Investment revaluation	11.321	-
Different tax treatment of finance leases	-	690
Unutilised tax losses carried forward	1.398	718
Other temporary differences	574	1.379
	4.771	2.787

Deferred tax liability

The deferred tax liability comprises of:

	2008	2007
	€000	€000
Difference between capital allowances and depreciation	3.240	8.218
Property revaluation	15.870	18.321
Investment revaluation	286	(2.185)
Different tax treatment of finance leases	2.934	-
Value of in-force life insurance policies	7.978	6.819
Other temporary differences	841	14.271
	31.149	45.444

13. Earnings per share

	2008	2007
Basic earnings per share		
Profit after tax attributable to the shareholders of the Company (€ thousand)	502.388	485.168
Weighted average number of shares in issue during the year, excluding shares of the Company held by subsidiaries and associates (thousand)	573.432	562.183
Basic earnings per share (cent)	87,6	86,3

Diluted earnings per share		
Profit after tax attributable to the shareholder of the Company, adjusted for the convertible bonds (€ thousand)	515.855	485.168
Weighted average number of shares, adjusted for the conversion of convertible bonds and excluding shares of the Company held by subsidiaries and associates (thousand)	628.003	562.183
Diluted earnings per share (cent)	82,1	86,3

The Group issues share options to its employees, which constitute potentially dilutive ordinary shares.

The Share Options 2008/2010 (Note 28) do not constitute potentially dilutive ordinary shares, as their conversion into ordinary shares would not reduce earnings per share.

The Convertible Bonds 2013/2018 issued in Euro with a nominal value of €573 million constitute potentially dilutive ordinary shares (Note 27).

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 2007 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 2008.

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

	2008	2007
	€000	€000
Cash	280.080	448.453
Balances with central banks	736.993	876.738
	1.017.073	1.325.191
Placements with banks	4.582.076	6.158.367

Balances with central banks include obligatory deposits for liquidity purposes which amount to €567.448 thousand (2007: €516.966 thousand).

The analysis by rating agency designation of balances with central banks and placements with banks is set out in Note 38. Placements with banks generally earn interest which is based on the interbank rate of the relevant term and currency.

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Notes to the Consolidated Financial Statements

15. Investments

	2008	2007
	€000	€000
Investments at fair value through profit or loss	334.371	528.379
Investments available-for-sale	3.053.729	3.477.143
Investments held-to-maturity	309.851	125.626
Investments classified as loans and receivables	542.768	-
	4.240.719	4.131.148

Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2008	2007	2008	2007	2008	2007
	€000	€000	€000	€000	€000	€000
Debt securities	134.756	276.516	176.419	185.662	311.175	462.178
Equity securities	18.049	60.787	3.057	2.819	21.106	63.606
Mutual funds	2.090	2.595	-	-	2.090	2.595
	154.895	339.898	179.476	188.481	334.371	528.379
Valuation method						
Quoted market price	22.140	86.717	27.214	29.952	49.354	116.669
Valuation techniques – market observable	132.755	253.181	149.205	155.710	281.960	408.891
Valuation techniques – non-market observable	-	-	3.057	2.819	3.057	2.819
	154.895	339.898	179.476	188.481	334.371	528.379
Debt securities						
Cyprus government	132.283	256.783	149.205	158.206	281.488	414.989
Other governments	-	-	1.869	3.034	1.869	3.034
Banks and other corporations	2.001	19.260	25.345	24.422	27.346	43.682
Cyprus local authorities	472	473	-	-	472	473
	134.756	276.516	176.419	185.662	311.175	462.178
Listed on the Cyprus Stock Exchange	132.879	256.783	149.205	158.206	282.084	414.989
Listed on other stock exchanges	985	18.912	27.214	27.456	28.199	46.368
Unlisted certificates of deposit, bank and local authority bonds	892	821	-	-	892	821
	134.756	276.516	176.419	185.662	311.175	462.178
Equity securities						
Listed on the Cyprus Stock Exchange	6.283	25.508	-	-	6.283	25.508
Listed on other stock exchanges	11.766	35.272	-	-	11.766	35.272
Unlisted	-	7	3.057	2.819	3.057	2.826
	18.049	60.787	3.057	2.819	21.106	63.606

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15. Investments (continued)

Investments at fair value through profit or loss (continued)

On 9 February 2007, the Group completed the sale of its shares in Universal Life Insurance Public Co. Ltd (amounting to 22% of the share capital of that company) for €10,4 million. The book value of the above shares at the date of disposal and at 31 December 2006 amounted to €10,4 million.

Included in investments at fair value through profit or loss in 2007 were €345.544 thousand of debt securities pledged as collateral under repurchase agreements with central banks.

Investments available-for-sale

	2008	2007
	€000	€000
Debt securities	3.029.540	3.400.189
Equity securities	24.189	76.954
	3.053.729	3.477.143
Valuation method		
Quoted market price	2.709.331	3.037.061
Valuation techniques – market observable	344.398	440.082
	3.053.729	3.477.143
Debt securities		
Cyprus government	187.211	444.016
Other governments	648.704	879.851
Local authorities	2.134	1.317
Banks and other corporations	2.191.491	2.075.005
	3.029.540	3.400.189
Listed on the Cyprus Stock Exchange	187.211	445.566
Listed on other stock exchanges	2.837.511	2.760.842
Unlisted certificates of deposit, bank and local authority bonds	4.818	193.781
	3.029.540	3.400.189
<i>Geographical dispersion by country of issuer</i>		
Cyprus	223.361	447.392
Greece	584.212	514.854
United Kingdom and Ireland	444.963	475.696
France	303.674	316.196
Germany	182.549	205.014
Other European countries	388.097	596.269
U.S.A. and Canada	681.678	598.749
Australia	141.614	153.878
Other countries	16.288	13.760
Supranational organisations	63.104	78.381
	3.029.540	3.400.189
Equity securities		
Listed on the Cyprus Stock Exchange	19.359	73.408
Listed on other stock exchanges	3.590	1.907
Unlisted	1.240	1.639
	24.189	76.954

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15. Investments (continued)

Investments available-for-sale (continued)

Included in available-for-sale investments are €7.737 thousand (2007: €117.039 thousand) of debt securities which have been determined to be individually impaired, €312.356 thousand (2007: €183.106 thousand) of debt securities pledged as collateral under repurchase agreements with banks and €516.735 thousand (2007: Nil) of debt securities pledged as collateral under funding received from central banks (Note 22).

Investments held-to-maturity and loans and receivables

	Held-to-maturity		Loans and receivables		Total	
	2008	2007	2008	2007	2008	2007
	€000	€000	€000	€000	€000	€000
Treasury bills	-	-	373.000	-	373.000	-
Debt securities	309.851	125.626	169.768	-	479.619	125.626
	309.851	125.626	542.768	-	852.619	125.626
Treasury bills						
Cyprus government	-	-	373.000	-	373.000	-
Debt securities						
Cyprus government	2.431	2.428	169.768	-	172.199	2.428
Other governments	284.610	-	-	-	284.610	-
Local authorities	4.579	1.088	-	-	4.579	1.088
Banks and other corporations	17.974	121.854	-	-	17.974	121.854
Cyprus public companies	257	256	-	-	257	256
	309.851	125.626	169.768	-	479.619	125.626
Listed on the Cyprus Stock Exchange	2.688	2.684	169.768	-	172.456	2.684
Listed on other stock exchanges	16.121	121.837	-	-	16.121	121.837
Unlisted certificates of deposit, bank and local authority bonds	291.042	1.105	-	-	291.042	1.105
	309.851	125.626	169.768	-	479.619	125.626
<i>Geographical dispersion by country of issuer</i>						
Cyprus	3.761	3.773	169.768	-	173.529	3.773
Greece	76.520	-	-	-	76.520	-
United Kingdom and Ireland	142.134	3.451	-	-	142.134	3.451
Russia	16.121	-	-	-	16.121	-
Other European countries	71.315	94.909	-	-	71.315	94.909
Other countries	-	23.493	-	-	-	23.493
	309.851	125.626	169.768	-	479.619	125.626

Included in held-to-maturity investments are €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 at 31 December 2008 was €293.467 thousand (2007: €119.597 thousand) and €537.895 thousand (2007: Nil) respectively.

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 that have occurred 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:

	<i>1 July 2008</i>	<i>31 December 2008</i>
	<i>€000</i>	<i>€000</i>
Investments held for trading reclassified as available-for-sale	17.385	15.454

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

For the six months from 1 January to 30 June 2008, the loss recognised in the income statement as a result of the change in the fair value of the reclassified debt securities, amounted to €1.341 thousand (2007: loss of €1.440 thousand).

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:

	<i>1 October 2008</i>	<i>31 December 2008</i>	
	<i>Book value and fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>€000</i>	<i>€000</i>	<i>€000</i>
Available-for-sale investments reclassified to loans and receivables	169.196	169.768	164.895

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

For the nine months from 1 January to 30 September 2008, the loss recognised in equity within the revaluation reserve for available-for-sale investments as a result of the change in the fair value of the reclassified investments, amounted to €766 thousand.

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

16. Life insurance business assets attributable to policyholders

	2008	2007
	€000	€000
Equity securities	169.670	258.243
Debt securities	146.315	129.419
Mutual funds	4.952	-
Property	8.079	7.907
Mortgages and other loans	4.783	5.119
Bank deposits	113.283	126.958
	447.082	527.646
Other assets	597	2.964
	447.679	530.610

All assets attributable to policyholders are measured at fair value and match the net life insurance liabilities (Note 24).

17. Loans and advances to customers

	2008	2007
	€000	€000
Loans and advances to customers	23.211.594	17.741.256
Hire purchase and finance lease debtors (Note 18)	1.925.636	1.758.672
Gross loans and advances to customers	25.137.230	19.499.928
Provisions for impairment of loans and advances to customers (Note 38)	(687.914)	(579.007)
	24.449.316	18.920.921

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 38.

18. Hire purchase and finance lease debtors

	2008	2007
	€000	€000
Gross investment in hire purchase and finance lease contracts	2.515.161	2.406.835
Unearned finance income	(589.525)	(648.163)
Present value of hire purchase and finance lease payments	1.925.636	1.758.672
<i>Repayable:</i>		
- within one year	342.870	434.492
- between one and five years	973.479	881.702
- after five years	1.198.812	1.090.641
Gross investment in hire purchase and finance lease contracts	2.515.161	2.406.835
<i>Repayable:</i>		
- within one year	267.722	352.100
- between one and five years	772.774	664.663
- after five years	885.140	741.909
Present value of hire purchase and finance lease payments	1.925.636	1.758.672
<i>Analysis by geographical area:</i>		
- Cyprus	476.447	400.785
- Greece	1.988.476	1.982.825
- Romania and Russia	50.238	23.225
Gross investment in hire purchase and finance lease contracts	2.515.161	2.406.835

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

Under finance lease contracts 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 items 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 items to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the items.

19. Property and equipment

	Property	Equipment	Total
2008	€000	€000	€000
Net book value at 1 January	284.803	34.859	319.662
Acquisition of subsidiaries	87.856	13.240	101.096
Additions	29.504	13.775	43.279
Revaluation for the year	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	376.067	43.328	419.395

At 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

At 31 December 2008			
Cost or valuation	457.464	177.844	635.308
Accumulated depreciation	(81.397)	(134.516)	(215.913)
Net book value	376.067	43.328	419.395

19. Property and equipment (continued)

	Property	Equipment	Total
2007	€000	€000	€000
Net book value at 1 January	227.692	35.113	262.805
Additions	23.200	12.486	35.686
Revaluation for the year	48.064	-	48.064
Impairment	(1.112)	-	(1.112)
Disposals and write-offs	(2.035)	(362)	(2.397)
Depreciation charge for the year	(11.475)	(12.006)	(23.481)
Exchange adjustments	469	(372)	97
Net book value at 31 December	284.803	34.859	319.662

At 1 January 2007			
Cost or valuation	293.399	137.717	431.116
Accumulated depreciation	(65.707)	(102.604)	(168.311)
Net book value	227.692	35.113	262.805

At 31 December 2007			
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

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

	2008	2007
	€000	€000
Freehold property	346.915	262.892
Improvements on leasehold property	29.152	21.911
	376.067	284.803

Property includes land amounting to €105.196 thousand (2007: €104.534 thousand) for which no depreciation is charged. The latest revaluation of the Group's freehold property was performed for JSC AvtoZAZbank and for CB Uniastrum LLB at 31 October 2008 and 31 December 2008 respectively, and for the rest of the Group 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 total revaluation surplus at 31 December 2008 amounted to €128.739 thousand (2007: €119.059 thousand) and is included in the revaluation reserve.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2008 would have amounted to €219.231 thousand (2007: €144.274 thousand).

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20. Intangible assets

	Computer software	Licence fees	Insurance portfolio customer list	In-force life insurance business	Customer relationships	Goodwill	Total
2008	€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 (Note 45)	2.850	-	-	-	2.587	420.370	425.807
Additions	8.654	-	-	-	-	-	8.654
Disposals 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	2.358	345.199	442.445

At 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

At 31 December 2008							
Cost	101.368	6.163	-	75.078	2.514	345.199	530.322
Accumulated amortisation	(83.876)	(3.845)	-	-	(156)	-	(87.877)
Net book value	17.492	2.318	-	75.078	2.358	345.199	442.445

During 2008, intangible assets classified as customer relationships arose from the acquisition of the subsidiary company JSC AvtoZAZbank.

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20. Intangible assets (continued)

	Computer software	Licence fees	Insurance portfolio customer list	In-force life insurance business	Goodwill	Total
2007	€000	€000	€000	€000	€000	€000
Net book value at 1 January	12.512	3.547	308	52.778	1.205	70.350
Additions	7.631	-	-	-	-	7.631
Disposal and write-offs	(29)	-	-	-	-	(29)
Increase in value of in-force life insurance policies	-	-	-	11.707	-	11.707
Amortisation charge for the year	(6.592)	(615)	(308)	-	-	(7.515)
Exchange adjustments	(17)	-	-	-	-	(17)
Net book value at 31 December	13.505	2.932	-	64.485	1.205	82.127

At 1 January 2007						
Cost	82.683	6.163	923	52.778	1.205	143.752
Accumulated amortisation	(70.171)	(2.616)	(615)	-	-	(73.402)
Net book value	12.512	3.547	308	52.778	1.205	70.350

At 31 December 2007						
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

Goodwill

	2008	2007
	€000	€000
Kyprou Securities SA	1.205	1.205
JSC AvtoZAZbank	27.578	-
CB Uniastrum Bank LLC	316.416	-
	345.199	1.205

During 2008 there was no impairment of goodwill (2007: Nil). Impairment testing in respect of goodwill is performed annually 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 on current market assessment of GDP, inflation and foreign exchange rates 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 2008 is 5%.

20. Intangible assets (continued)

Goodwill (continued)

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 variables are established on the basis of management judgment and current market assessment of economic variables. The discount rate applied in 2008 to the cash flows of the Russian entity which were translated from Russian Rubles into US Dollars using the projected foreign exchange rate is 14,5%. The discount rate applied in 2008 to the cash flows of the Ukrainian entity which were translated from Ukrainian Hryvnia into Euros using the projected foreign exchange rate is 16,5%.

Management judgement is required in estimating the future cash flows 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.

It is the Group's policy to retest goodwill when there are indications that conditions have changed since the last goodwill impairment test such that a different outcome may result. During the fourth quarter of 2008, similar to a lot of other countries, Russia and Ukraine experienced deterioration in economic and credit conditions as a result of the worldwide worsening of the economic and financial environment. As a result, even though these entities were acquired during 2008, goodwill impairment was retested as at 31 December 2008. This testing confirmed that, notwithstanding the effects of the above factors, goodwill for each of these subsidiaries remained unimpaired.

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:

	2008	2007
Discount rate (after tax)	10,0%	10,0%
Return on investments	5,2%	5,5%
Expense inflation	5,0%	5,0%

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21. Other assets

	2008	2007
	€000	€000
Debtors	26.827	42.006
Stock of property held for sale	10.778	12.897
Investment properties	33.293	35.385
Taxes refundable	12.696	11.383
Deferred tax asset (Note 12)	4.771	2.787
Fair value of derivative financial instruments (Note 34)	153.240	55.642
Retirement benefit plans asset (Note 9)	5.595	2.385
Reinsurers' share of insurance contract liabilities (Note 24)	43.029	43.166
Prepaid expenses	4.589	3.714
Other assets	88.032	68.481
	382.850	277.846

Investment properties

The movement of investment properties is summarised below:

	2008	2007
	€000	€000
At 1 January	35.385	38.288
Acquisition of subsidiary	839	-
Exchange adjustments	(280)	16
Transfer from stock of property held for sale	1.711	-
Additions	1.450	941
Disposals	(20.110)	(10.059)
Gains from change in fair value	14.298	6.199
At 31 December	33.293	35.385

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22. Amounts due to banks

	2008	2007
	€000	€000
Central banks	773.000	-
Other banks	2.059.298	1.233.337
	2.832.298	1.233.337

Amounts due to central banks consist of collateralised funding received and unsettled purchases of government securities. Amounts due to other banks generally bear interest which is based on the interbank rate of the relevant term and currency. During 2008, collateralised funding received from central banks was bearing interest at 2,5%-3,5% per annum.

23. Customer deposits

	2008	2007
	€000	€000
<i>By category</i>		
Demand	3.916.475	3.647.017
Savings	1.614.524	1.771.416
Time or notice	22.404.748	19.760.533
	27.935.747	25.178.966
<i>By geographical area</i>		
Cyprus	15.063.365	14.842.862
Greece	10.507.701	8.798.939
United Kingdom	1.071.274	1.259.694
Australia	266.836	258.534
Russia	900.893	1.996
Romania and Ukraine	125.678	16.941
	27.935.747	25.178.966

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 (74%) mature within three months from the balance sheet date (Note 40).

24. Insurance liabilities

	2008			2007		
	Gross	Reinsurers' shares	Net	Gross	Reinsurers' shares	Net
	€000	€000	€000	€000	€000	€000
Life insurance	460.392	(12.713)	447.679	541.598	(10.988)	530.610
Liabilities relating to deposit administration funds (Note 26)	(20.652)	-	(20.652)	-	-	-
Life insurance contract liabilities	439.740	(12.713)	427.027	541.598	(10.988)	530.610
General insurance						
- unearned premiums	31.991	(14.030)	17.961	29.092	(12.632)	16.460
- claims outstanding	34.716	(16.286)	18.430	37.876	(19.546)	18.330
	506.447	(43.029)	463.418	608.566	(43.166)	565.400

Reinsurance balances receivable are included in 'Other assets' (Note 21).

Life insurance contract liabilities

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

	2008			2007		
	Gross	Reinsurers' shares	Net	Gross	Reinsurers' shares	Net
	€000	€000	€000	€000	€000	€000
At 1 January	541.598	(10.988)	530.610	499.798	(9.163)	490.635
New business	8.053	(1.752)	6.301	8.212	(1.406)	6.806
Changes in existing business	(109.911)	27	(109.884)	33.588	(419)	33.169
At 31 December	439.740	(12.713)	427.027	541.598	(10.988)	530.610

General insurance liabilities

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

	Gross	Reinsurers' shares	Net
	€000	€000	€000
Provisions for unearned premiums			
At 1 January 2007	26.268	(11.559)	14.709
Premium income	60.144	(30.127)	30.017
Earned premiums	(57.320)	29.054	(28.266)
At 31 December 2007	29.092	(12.632)	16.460
Premium income	66.765	(33.108)	33.657
Earned premiums	(63.866)	31.710	(32.156)
At 31 December 2008	31.991	(14.030)	17.961

24. Insurance liabilities (continued)

General insurance liabilities (continued)

The provisions 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' shares	Net
Claims and loss adjustments	€000	€000	€000
Notified claims	29.945	(14.753)	15.192
Incurred but not reported	5.478	(4.148)	1.330
At 1 January 2007	35.423	(18.901)	16.522
Cash paid for claims settled in the year	(16.493)	5.298	(11.195)
Increase in liabilities arising from claims	18.946	(5.943)	13.003
At 31 December 2007	37.876	(19.546)	18.330
Cash 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
At 31 December 2008	34.716	(16.286)	18.430

Notified claims	31.344	(14.706)	16.638
Incurred but not reported	6.532	(4.840)	1.692
At 31 December 2007	37.876	(19.546)	18.330

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

25. Debt securities in issue

	Contractual interest rate	2008	2007
Medium term senior debt		€000	€000
€500 million 2007/2010	Three-month Euribor plus 0,20%	480.130	492.209
€300 million 2006/2009	Three-month Euribor plus 0,33%	286.350	289.162
€300 million 2005/2008	Three-month Euribor plus 0,30%	-	300.478
€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	-
€3 million 2003/2008	Three-month Euribor plus 0,45%	-	3.023
RUB 1.500 million 2010	14%	1.651	-
RUB 1.000 million 2009	11%	2.073	-
		836.828	1.084.872
Short term commercial paper			
- Euro	-	74.933	160.926
- US Dollars	-	20.092	7.400
		95.025	168.326
Other debt securities in issue			
RUB Certificates of Deposit and Promissory Notes	10,8%	26.824	-
Interest-free loan from the European Development Bank	-	492	492
		959.169	1.253.690

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 2008 was €921.523 thousand (2007: €1.243.574 thousand).

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

	Nominal amount held for trading purposes	
	2008	2007
	€000	€000
€500 million 2007/2010	19.750	7.500
€300 million 2006/2009	13.900	11.100
€300 million 2005/2008	-	500

25. Debt securities in issue (continued)

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 (2007: €2.000 million). Under the EMTN Programme, the Company issued the following Senior Debt during 2008:

In April 2008, €30 million 2008/2011, which offers debt holders a put option at par during or after October 2008 which has not been exercised.

In May 2008, €100 million 2008/2013, which offered debt holders a put option at par during or after November 2008. This option was exercised in November 2008.

In July 2008, US\$50 million 2008/2013, which offered debt holders a put option at par during or after January 2009. This option was exercised in January 2009.

In June 2008, the €300 million 2005/2008 issued in June 2005 was redeemed at par.

Under the EMTN Programme, the Company also issued in June 2006, €300 million 2006/2009 bonds and in June 2007, €500 million 2007/2010 bonds. The €3 million 2003/2008 was repaid on maturity in November 2008 at par.

The RUB 1.500 million 2010 and RUB 1.000 million 2009 Bonds were issued at par by CB Uniastrum Bank LLC in April 2007 and February 2006 and mature in April 2010 and February 2009, respectively. During 2008 the issuer has made a public offer and has substantially bought back these bonds at par.

The issues of €500 million 2007/2010, €300 million 2006/2009, €30 million 2008/2011 and US\$50 million 2008/2013 are listed on the Luxembourg Stock Exchange. The RUB 1.500 million 2010 and the RUB 1.000 million 2009 issues are listed on the Moscow Interbank Currency Exchange (MICEX).

The three-month Euribor fluctuated during 2008 between 2,9% and 5,4% (2007: 3,7%-5,0%) 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 (2007: €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 the Commercial Paper 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.

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26. Other liabilities

	2008	2007
	€000	€000
Income tax payable	55.144	26.340
Special defence contribution payable	8.935	14.829
Deferred tax liability (Note 12)	31.149	45.444
Fair value of derivative financial instruments (Note 34)	161.515	30.396
Liability of retirement benefit plans (Note 9)	5.725	6.081
Provision for pending litigation or claims	3.244	3.330
Amount payable under put/call option arrangements	71.242	-
Financial guarantees	4.838	4.355
Liabilities relating to deposit administration funds	20.652	-
Other accrued expenses	28.955	26.025
Deferred income	8.841	9.696
Other liabilities	177.863	213.057
	578.103	379.553

Provision for pending litigation or claims

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

	2008	2007
	€000	€000
At 1 January	3.330	4.225
Decrease of provision in the year	(86)	(904)
Exchange adjustments	-	9
At 31 December	3.244	3.330

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.

27. Subordinated loan stock

	Contractual interest rate	2008	2007
		€000	€000
Subordinated Bonds 2008/2013 (€200 million)	Three-month Euribor plus 1,00%	-	202.227
Subordinated Bonds 2011/2016 (€200 million)	Three-month Euribor plus 0,60%	187.748	197.222
Capital Securities Series A (€111 million)	Base rate plus 1,00%	-	91.229
Capital Securities Series B (€51 million)	Base rate plus 1,00%	50.713	51.381
Capital Securities 12/2007 (€126 million)	Three-month Euribor plus 1,25%	124.034	126.689
Convertible Bonds 2013/2018 (€573 million)	7,50% until 30 June 2009 and six-month Euribor plus 1,00% thereafter	563.726	-
Subordinated Bonds in Ukrainian Hryvnia 12/2016	12,0%	1.806	-
Subordinated Bonds in US Dollars 2013/2014/2015	2,5%	6.058	-
		934.085	668.748

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 2008 was €829.547 thousand (2007: €660.445 thousand).

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

	Nominal amount held for trading purposes	
	2008	2007
	€000	€000
Subordinated Bonds 2008/2013	-	886
Subordinated Bonds 2011/2016	13.550	4.000
Capital Securities Series A	-	20.442
Capital Securities Series B	796	200
Capital Securities 12/2007	2.498	-
Convertible Bonds 2013/2018	1.003	-

27. Subordinated loan stock (continued)

Subordinated Bonds

In 2003 the Company established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4.000 million (2007: €2.000 million).

Under this Programme, the Company issued the following Subordinated Debt:

The €200 million 2008/2013 bonds, maturing in October 2013. The interest rate of the Bonds was set at the three-month Euribor plus 1,00% until October 2008, increasing to plus 2,20% thereafter. The Company had the option to call the Bonds during or after October 2008 and has exercised this option in October 2008, redeeming the Bonds at par. The Bonds were listed on the Luxembourg Stock Exchange.

In May 2006, the €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 denominated in Ukrainian Hryvnia maturing 31 December 2016 were issued by JSC AvtoZAZbank in May 2008.

The Subordinated Bonds in US Dollars 2013/2014/2015 were issued by CB Uniastrum Bank LLC. These bonds 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 lender at any time until maturity.

Convertible Bonds

In July 2008, the Company issued Convertible Bonds 2013/2018 in Euro, with nominal value of €573.410 thousand, maturing in June 2018. The Convertible Bonds bear 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 15-31 March for years 2011-2013 and 15-30 September for years 2010-2012. The 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 are listed on the Cyprus Stock Exchange.

Capital Securities

Capital Securities Series A amounting to €111 million and Series B amounting to €51 million were issued in Cyprus Pounds in February 2003 and March 2004 respectively. On 20 December 2007 the Company completed the issue of Capital Securities 12/2007 amounting to €126 million. The Capital Securities have no maturity date, but may be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter.

The Group exercised its option to redeem in whole the Capital Securities Series A at par on 20 February 2008. Capital Securities Series B bear a floating interest rate, which is 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 or the first six months and floating thereafter, equal to the three-month Euribor plus 1,25%. The Capital Securities Series B and 12/2007 are listed on the Cyprus Stock Exchange.

The base rate during 2008 fluctuated between 2,5% and 4,0% (2007: 4,0%-4,5%) per annum. The three-month Euribor during 2008 fluctuated between 2,9% and 5,4% (2007: 3,7%-5,0%) per annum.

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28. Share capital

	2008		2007	
	Shares (thousand)	€000	Shares (thousand)	€000
Authorised				
Ordinary shares of €1,00 each	750.000	750.000	750.000	750.000
Issued and fully paid				
At 1 January	566.223	483.726	553.839	473.144
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	20.439	20.439	7.398	6.322
Exercise of share options	-	-	4.986	4.260
At 31 December	586.662	586.662	566.223	483.726

As at 1 January 2008, the nominal value of the share capital of the Company was increased to €1,00 per share. Share premium amounting €82.497 thousand (C£48.284 thousand) was applied for the increase in the nominal value of the shares, so that the number of issued shares remained the same.

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, including the proposed final dividend for 2008, the discount has been set at 10%. The reinvestment price for the dividend paid on 9 December 2008 was set at €2,71 per share, for the dividend paid on 10 June 2008 was set at €7,74 per share, for the dividend paid on 12 December 2007 was set at €11,58 (C£6,78) per share and for the dividend paid on 26 June 2007 was set at €11,33 (C£6,63) per share. As a result of the dividend reinvestment during 2008, 20.438.573 (2007: 7.398.023) shares were issued and the Company's share capital and share premium increased by €20.439 thousand and €71.097 thousand respectively (2007: €6.322 thousand and €78.414 thousand respectively).

Shares of the Company held by subsidiaries and associates are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of such shares. The number of these shares at 31 December 2008 was 1.438 thousand (2007: 1.435 thousand). The cost of acquisition of these shares was €15.722 thousand (31 December 2007: €17.334 thousand).

In addition, the life insurance subsidiaries of the Group held, as at 31 December 2008, a total of 3.656 thousand (2007: 3.167 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 €17.934 thousand (31 December 2007: €15.322 thousand).

All issued ordinary shares carry the same rights.

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

28. Share capital (continued)

Share-based payments – Share Options

On 14 May 2008, the Annual General Meeting of shareholders approved the granting of share options to Group employees, without these shares being first offered to existing shareholders. In this context, the Board of Directors was authorised 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 decided the establishment of a share options scheme under which 12,5 million share options were granted to permanent Group employees and employees under contract (excluding seasonal staff) in Cyprus and Greece who were in service on 28 May 2008 ('Share Options 2008/2010'). Each Share Option 2008/2010 gives its holder the right to purchase one share of the Company at the price of €9,41 each. On 31 December 2009, 2/3 of the total Share Options 2008/2010 granted will vest 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 years 2011 and 2012 and from 1 November to 31 December 2012. The Share Options 2008/2010 are not transferable and will not be listed.

The fair value of the Share Options 2008/2010 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). The price of the shares of the Company at 31 December 2008 was materially lower than the exercise price of the options.

In 2006 the Company granted options (Share Options 2006/2007) to all permanent employees of the Group in Cyprus and Greece who were in service at 30 September 2006 (grant date) provided they remained in service until 31 March 2007. The number of Share Options 2006/2007 issued was 4.283.300. The exercise price of the options had been set at €6,32 (C£3,70) and the exercise period was from 31 March to 30 June 2007 and was extended until 31 August 2007. During the exercise period, 4.189.106 options were exercised, as a result of which the Company's share capital and share premium increased by €3.580 thousand and €22.921 thousand respectively, while 94.194 options were forfeited because of the departure of their holders from the Group.

The fair value of Share Options 2006/2007 was measured at the grant date, using the Black-Scholes-Merton valuation model and amounted to €1,81 per option. The main variables taken into account are the share price (€7,79 on 30 September 2006), the exercise price (€6,32), the dividend yield (2,5%), the risk-free interest rate (4%), the duration of the options and the expected volatility of the share price (13% on an annual basis, calculated using the historic volatility of the share).

During 2000, the Company had granted options (Share Options 2001/2007) to all Group employees who were in service at 31 December 2000. The total number of options granted was 3.216.700 and they gave the holder the right to buy one share of the Company at the price of €5,57 (C£3,26) per option (as adjusted after the rights issue in December 2005). The Share Options 2001/2007 were exercisable by their holders from 31 January 2004 to 31 December 2007. The Share Options 2001/2007 were outside the scope of IFRS 2 'Share-based payments'.

During 2007, 796.807 Share Options 2001/2007 were exercised by the Group employees. At 31 December 2007, there were no unexercised options, while 79.550 options were either forfeited during 2007 because of the departure of their holders from the Group or they lapsed unexercised. As a result of the exercise of the share options, the Company's share capital and share premium increased in 2007 by €680 thousand and €3.757 thousand respectively.

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28. Share capital (continued)

The movement in the number of share options is summarised below:

	2008	2007
	000	000
At 1 January	-	5.126
Share options granted	12.500	-
Share options exercised	-	(4.986)
Share options forfeited	-	(140)
At 31 December	12.500	-

29. Dividends

	2008	2007
	€000	€000
Declared and paid during the year:		
Final dividend for 2007: €0,25 (2006: €0,17) per share	141.556	95.372
Interim dividend for 2008: €0,15 (2007: €0,19) per share	86.011	105.696
	227.567	201.068

Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2008 €0,12 (2007: €0,25) per share	70.399	141.556

The final dividend will be paid out of retained earnings as at 31 December 2008 (2007: 31 December 2007).

The proposed ex-dividend date is 21 May 2009, that is buy transactions that take place before market close of the Cyprus Stock Exchange and the Athens Exchange on 20 May 2009 will be eligible to the dividend, which will be paid on 10 June 2009.

Out of the total dividend paid during 2008 of €227.567 thousand, dividend amounting to €376 thousand (2007: €366 thousand) relates to the Company's shares held by subsidiaries and associates.

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30. Revaluation and other reserves

	Property revaluation reserve	Revaluation reserve of available- for-sale investments		Cash flow hedge reserve	Life insurance in- force business reserve	Equity component of convertible bonds	Exchange adjustments reserve	Shares of the Company	Total
		Equity securities	Treasury bills and debt securities						
	€000	€000	€000	€000	€000	€000	€000	€000	€000
At 1 January 2008	100.773	58.274	(10.764)	1.032	57.665	-	(3.321)	(17.334)	186.325
Gains/(losses) from change in fair value	-	(52.251)	(110.947)	7.858	-	-	-	-	(155.340)
Transfer to the income statement on redemption/sale	-	(1.977)	(5.924)	(1.409)	-	-	-	-	(9.310)
Property revaluation	4.362	-	-	-	-	-	-	-	4.362
Deferred tax	(344)	53	(1.007)	(639)	(1.159)	-	-	-	(3.096)
Exchange adjustments	-	-	-	-	-	-	(149.186)	-	(149.186)
Increase in value of in- force life insurance policies	-	-	-	-	10.593	-	-	-	10.593
Transfer to the income statement on impairment	-	545	8.680	-	-	-	-	-	9.225
Transfer of realised profits on disposal of property to retained earnings	(118)	-	-	-	-	-	-	-	(118)
Shares of the Company held by subsidiaries and associates:									
- acquisitions	-	-	-	-	-	-	-	(1.361)	(1.361)
- disposals	-	-	-	-	-	-	-	2.974	2.974
Equity component of convertible bonds	-	-	-	-	-	5.173	-	-	5.173
At 31 December 2008	104.673	4.644	(119.962)	6.842	67.099	5.173	(152.507)	(15.721)	(99.759)

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Notes to the Consolidated Financial Statements

30. Revaluation and other reserves (continued)

	Property revaluation reserve	Revaluation reserve of available- for-sale investments		Cash flow hedge reserve	Life insurance in- force business reserve	Capital reserve	Exchange adjustments reserve	Shares of the Company	Total
		Equity securities	Treasury bills and debt securities						
	€000	€000	€000	€000	€000	€000	€000	€000	€000
At 1 January 2007	61.537	48.180	9.150	(914)	47.499	3.730	(4.461)	-	164.721
Gains/(losses) from change in fair value	-	18.021	(28.629)	1.931	-	-	-	-	(8.677)
Transfer to the income statement on redemption/sale	-	(7.800)	32	248	-	-	-	-	(7.520)
Property revaluation	48.064	-	-	-	-	-	-	-	48.064
Deferred tax	(6.657)	(54)	58	(233)	(1.541)	-	-	-	(8.427)
Exchange adjustments	-	-	-	-	-	-	1.140	-	1.140
Increase in value of in- force life insurance policies	-	-	-	-	11.707	-	-	-	11.707
Reversal of revaluation of investment upon becoming an associate	-	(73)	-	-	-	-	-	-	(73)
Transfer to the income statement on impairment	-	-	8.625	-	-	-	-	-	8.625
Transfer of realised profits on disposal of property to retained earnings	(2.171)	-	-	-	-	-	-	-	(2.171)
Shares of the Company held by subsidiaries and associates	-	-	-	-	-	-	-	(17.334)	(17.334)
Transfer of capital reserves to retained earnings	-	-	-	-	-	(3.730)	-	-	(3.730)
At 31 December 2007	100.773	58.274	(10.764)	1.032	57.665	-	(3.321)	(17.334)	186.325

30. Revaluation and other reserves *(continued)*

Capital reserve

The capital reserve resulted from the capitalisation of the profits of subsidiary companies and joint ventures. The balance was transferred to retained earnings during 2007.

Retained earnings

Retained earnings is the only distributable reserve.

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are 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. There was no special defence contribution payable for 2006 and 2005.

31. Fiduciary transactions

The Group offers fund management services that result in the holding or placing of financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the balance sheet of the Group unless they are placed with the Group. The total assets under management at 31 December 2008 amounted to €783 million (2007: €929 million).

32. Analysis of assets and liabilities by expected maturity

	2008			2007		
	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	481.723	535.350	1.017.073	806.947	518.244	1.325.191
Placements with banks	4.577.926	4.150	4.582.076	6.158.367	-	6.158.367
Reverse repurchase agreements	-	120.000	120.000	-	-	-
Investments	1.404.044	2.836.675	4.240.719	956.908	3.174.240	4.131.148
Life insurance business assets attributable to policyholders	263.121	184.558	447.679	65.580	465.030	530.610
Loans and advances to customers	6.904.533	17.544.783	24.449.316	4.821.284	14.099.637	18.920.921
Property, equipment and intangible assets	-	861.840	861.840	-	401.789	401.789
Other assets	214.213	168.637	382.850	89.069	188.777	277.846
Investment in associate	-	5.663	5.663	-	17.318	17.318
	13.845.560	22.261.656	36.107.216	12.898.155	18.865.035	31.763.190
Liabilities						
Amounts due to banks	2.586.066	246.232	2.832.298	1.033.337	200.000	1.233.337
Repurchase agreements	-	305.000	305.000	250.139	185.001	435.140
Customer deposits	18.009.935	9.925.812	27.935.747	13.914.748	11.264.218	25.178.966
Insurance liabilities	86.018	420.429	506.447	66.885	541.681	608.566
Debts securities in issue	445.158	514.011	959.169	470.860	782.830	1.253.690
Other liabilities	328.170	249.933	578.103	287.605	91.948	379.553
Subordinated loan stock	53.879	880.206	934.085	289.731	379.017	668.748
	21.509.226	12.541.623	34.050.849	16.313.305	13.444.695	29.758.000

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.

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

33. Contingent liabilities and commitments

The nominal principal amount of contingent liabilities and commitments as at 31 December is summarised below:

	2008	2007
	€000	€000
<i>Contingent liabilities</i>		
Acceptances and endorsements	42.387	51.417
Guarantees	1.919.963	1.700.260
	1.962.350	1.751.677
<i>Commitments</i>		
Documentary credits	42.718	76.173
Undrawn formal standby facilities, credit lines and other commitments to lend	4.206.909	3.341.339
	4.249.627	3.417.512

Commitments to lend are agreements to grant a loan to a customer. Such commitments are made for a fixed period of time and are cancellable by the Group subject to notice requirements. Most commitments expire without being fully drawn upon.

The table below shows the contractual expiry by maturity of contingent liabilities and commitments.

	Contingent liabilities		Commitments	
	2008	2007	2008	2007
	€000	€000	€000	€000
Less than one year	1.168.444	1.191.081	4.100.346	1.531.454
Over one year	793.906	560.596	149.281	1.886.058
	1.962.350	1.751.677	4.249.627	3.417.512

Capital commitments

Capital commitments for the acquisition of property and equipment as at 31 December 2008 amount to €14.337 thousand (2007: €6.498 thousand).

33. Contingent liabilities and commitments (continued)

Litigation

The Group's provision for pending litigation or claims is set out in Note 26. 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.

The court of New York has issued a judgement in relation to the application which was pending before it for the payment by the Company of an amount up to US \$77 million (€55 million) plus interest since May 2001, which specific customers allegedly hold with the Company. The judgement was issued on 12 March 2007 and the court ruled that at the time of service of the application there were no funds within its jurisdiction in the name of the specific customers and as a result the claim for the payment of the said amount to the applicants was rejected. An appeal was filed by the petitioner but this was not perfected within the prescribed time limits and is considered by the Group as de facto closed.

In September 2006, the 'Trustees of the AremisSoft Corporation Liquidating Trust' filed civil actions against the Company for at least US \$50 million (€36 million), their main claim being that the Company, in breach of its obligations to AremisSoft, permitted the principal shareholder of AremisSoft to execute transactions leading to the appropriation by him of significant sums belonging to AremisSoft. In August 2007, a federal judge granted the Company's motion to dismiss that case and found that the appropriate forum for the trial of the case is the judicial system in Cyprus. On 28 August 2007, the Trustees filed an application for reconsideration of the judgement issued by the court, which is still pending. The Group does not expect to have any material financial impact as a result of the law suit.

The United States 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 suit claims that the Company violated US Law by enabling the principal shareholder of AremisSoft to fraudulently transfer US \$162 million of proceeds through accounts maintained with the Company. The Company denies the allegations contained in the new case, and regards them as totally unfounded, both legally and factually. The Group does not expect to have any material financial impact as a result of the civil actions, because the civil claims are, in its view both factually and legally without merit.

34. Derivative financial instruments and hedge accounting

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.

34. Derivative financial instruments and hedge accounting (continued)

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 in a specified 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 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 changes in their fair value are recognised in the income statement.

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

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

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 income statement over the term of the hedging relationship in order to match the cash flows from the hedged items.

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 2008, liabilities amounting to €148.664 thousand (2007: €345.602 thousand) have been designated as hedging instruments and have given rise to a loss of €42.447 thousand (2007: loss of €9.502 thousand) which was recognised in the 'Exchange adjustments reserve' in equity, against the profit or loss that arose on the retranslation of the net assets to Euro.

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34. Derivative financial instruments and hedge accounting (continued)

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

	2008			2007		
	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	191.228	8.660	7.649	159.020	2.298	3.640
Currency swaps	2.248.118	50.760	68.450	1.196.147	8.283	21.730
Interest rate swaps	3.370.283	63.185	42.157	1.369.172	18.113	2.011
Currency options	4.211	20	20	3.562	2	7
Commodity swaps	22.409	4.235	4.221	-	-	-
Equity options	62.328	1.567	1.567	13.303	671	670
Interest rate caps/floors	67.269	411	411	69.525	273	296
	5.965.846	128.838	124.475	2.810.729	29.640	28.354
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges - interest rate swaps	982.634	15.547	37.040	793.609	20.830	1.955
Cash flow hedges - interest rate swaps	141.752	8.855	-	180.097	5.172	87
	1.124.386	24.402	37.040	973.706	26.002	2.042
Total	7.090.232	153.240	161.515	3.784.435	55.642	30.396

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

	2008	2007
	€000	€000
Profit before tax	551.614	582.362
<i>Adjustments for:</i>		
Provisions for impairment of loans and advances	91.601	55.877
Depreciation of property and equipment	24.719	23.481
Amortisation of intangible assets	7.453	7.515
Cost of share-based payments	4.701	3.730
Amortisation of discounts/premiums	(4.417)	104
Profit on disposal of property and equipment and write-offs of intangible assets	(299)	(214)
Interest on treasury bills	-	(1.083)
Interest on debt securities	(179.975)	(193.436)
Dividend income from equity securities	(10.461)	(4.620)
Profit on sale of investments in equity securities	(1.007)	(14.808)
Profit on sale of investments in debt securities	(11.335)	(4.224)
Share of loss/(profit) of associates	10.418	(9.148)
Negative goodwill arising on acquisition	(325)	(3.320)
Losses from change in fair value of available-for-sale debt securities designated as fair value hedges	6.449	3.749
Impairment of financial instruments	13.561	8.625
Impairment of property and equipment	-	1.112
Interest on subordinated loan stock	46.723	24.705
Change in present value of future income from in-force life insurance business	(10.593)	(11.708)
	538.827	468.699
<i>Increase in:</i>		
Placements with banks	(62.751)	-
Amounts due to banks	1.530.494	756.955
Obligatory balances with central banks	(31.574)	(96.994)
Customer deposits	1.508.715	4.466.604
Life insurance business assets and liabilities	-	7.103
Loans and advances to customers	(4.329.048)	(4.642.521)
Other assets	(100.876)	(47.251)
Prepayments and accrued income	(813)	(2.983)
Other liabilities	26.057	50.858
Accruals and deferred income	-	5.348
Debt securities in issue	-	502.604
Investments at fair value through profit or loss	-	(57.373)
Repurchase agreements	-	435.140
Reverse repurchase agreements	(120.000)	-
<i>Decrease in:</i>		
Repurchase agreements	(130.140)	-
Debt securities in issue	(393.774)	-
Accruals and deferred income	(1.928)	-
Investments at fair value through profit or loss	232.414	-
Life insurance business assets and liabilities	(19.188)	-
Placements with banks	-	29.326
Subordinated loan stock held for trading	(16.602)	(15.622)
	(1.370.187)	1.859.893
Tax paid	(65.412)	(79.198)
Net cash flows (used in)/from operating activities	(1.435.599)	1.780.695

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

Operational cash flow from interest and dividends

	2008	2007
	€000	€000
Interest paid	(1.233.616)	(915.891)
Interest received	2.125.193	1.611.796
Dividend received	10.461	4.620
	902.038	700.525

36. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2008	2007
	€000	€000
Cash and non obligatory balances with central banks	449.625	808.225
Placements with banks with original maturity less than three months	4.338.226	5.985.411
	4.787.851	6.793.636

Cash and non obligatory balances with central banks	449.625	808.225
Obligatory balances with central banks	567.448	516.966
Total cash and balances with central banks (Note 14)	1.017.073	1.325.191

Placements with banks with original maturity less than three months	4.338.226	5.985.411
Other placements with banks	243.850	172.956
Total placements with banks (Note 14)	4.582.076	6.158.367

37. Operating leases – The Group as lessee

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

	2008	2007
	€000	€000
Within one year	14.053	13.272
Between two and five years	33.451	25.860
After five years	21.867	9.937
	69.371	49.069

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

38. Risk management – Credit risk

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

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

The Group Credit Risk Management unit defines the Group's credit dispensing policies and monitors compliance with the relevant credit sanctioning procedures and controls applicable to each business line (consumer, business and corporate) and to each geographical area where the Group operates. 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 to determine the creditworthiness of customers.

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

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 set out in the summary of significant accounting policies.

38. Risk management – Credit risk (continued)

Maximum exposure to credit risk

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

	Maximum exposure to credit risk	
	2008	2007
	€000	€000
Balances with central banks	736.993	876.738
Placements with banks	4.582.076	6.158.367
Reverse repurchase agreements	120.000	-
Trading investments - debt securities	134.756	276.516
Debt securities at fair value through profit or loss	176.419	185.662
Loans and advances to customers	24.449.316	18.920.921
Debt securities and Treasury bills classified as available-for-sale, held-to-maturity and loans and receivables	3.882.159	3.525.815
Debtors (Note 21)	26.827	42.006
Fair value of derivative financial instruments (Note 34)	153.240	55.642
Reinsurer's share of insurance contract liabilities (Note 21)	43.029	43.166
Other financial assets and taxes refundable	100.728	79.864
On-balance sheet total	34.405.543	30.164.697
Contingent liabilities	1.962.350	1.751.677
Commitments	4.249.627	3.417.512
Off-balance sheet total	6.211.977	5.169.189
Total credit risk exposure	40.617.520	35.333.886

38. 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:

	2008	2007
	€000	€000
On-balance sheet		
Cyprus	21.082.767	19.271.041
Greece	10.176.299	8.973.156
United Kingdom	1.221.458	1.366.649
Australia	494.541	500.947
Russia	1.165.276	13.561
Romania	109.392	39.343
Ukraine	155.810	-
	34.405.543	30.164.697

Off-balance sheet		
Cyprus	3.290.588	2.966.409
Greece	2.680.000	2.074.815
United Kingdom	59.056	85.070
Australia	54.625	39.637
Russia	114.720	-
Romania	5.634	3.258
Ukraine	7.354	-
	6.211.977	5.169.189

Credit portfolio 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 should not lend more than 25% of their capital base to any one customer group. In addition, total lending to customer groups whose borrowings exceed 10% of the Company's capital base, should not in aggregate exceed eight times its capital base. The Group is in compliance with both restrictions.

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 amount to more than 10% of the Group's capital base as at 31 December 2008, was €939.445 thousand (2007: €346.178 thousand).

38. Risk management – Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

The Group Credit Risk Policy and Credit Risk Management units determine the amount and type of collateral and other credit enhancements required.

The main types of collateral obtained by the Group are 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, when necessary, requires 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, treasury bills 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 to mitigate the market contingent counterparty risk inherent in the outstanding 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.

38. Risk management – Credit risk (continued)

Concentrations of loans and advances

	2008	2007
By economic activity	€000	€000
Trade	3.483.250	2.479.555
Manufacturing	1.583.127	1.267.550
Hotels and catering	1.977.281	1.815.652
Construction	2.678.265	1.728.836
Real estate	3.029.948	2.368.199
Private individuals	7.566.584	6.516.546
Professional and other services	3.411.377	2.356.304
Other sectors	1.407.398	967.286
	25.137.230	19.499.928
By geographical area		
Cyprus	12.803.195	9.878.187
Greece	9.660.974	7.919.421
United Kingdom	1.110.568	1.270.875
Australia	411.213	401.272
Russia	953.990	1.804
Romania	74.707	28.369
Ukraine	122.583	-
	25.137.230	19.499.928

Analysis of loans and advances to customers

	2008	2007
	€000	€000
Neither past due nor impaired	21.739.682	16.656.637
Past due but not impaired	2.615.179	2.096.613
Impaired	782.369	746.678
	25.137.230	19.499.928

38. Risk management – Credit risk (continued)

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
2008	€000	€000	€000	€000
Cyprus	8.032.567	1.531.909	1.722.902	11.287.378
Greece	5.461.343	341.420	2.327.582	8.130.345
UK	816.176	76.900	65.981	959.057
Australia	135.438	226.644	10.185	372.267
Russia	819.176	-	-	819.176
Romania	71.804	201	-	72.005
Ukraine	95.022	253	4.179	99.454
	15.431.526	2.177.327	4.130.829	21.739.682

2007				
Cyprus	6.649.137	895.799	955.645	8.500.581
Greece	4.967.890	252.856	1.429.040	6.649.786
UK	735.780	127.574	279.939	1.143.293
Australia	185.270	98.257	66.405	349.932
Russia	1.804	-	-	1.804
Romania	11.241	-	-	11.241
	12.551.122	1.374.486	2.731.029	16.656.637

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.

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

	2008	2007
<i>Past due:</i>	€000	€000
- up to 30 days	1.318.320	1.306.607
- 31-90 days	783.961	533.203
- 91-180 days	185.448	153.301
- 181-365 days	118.454	38.204
- over one year	208.996	65.298
	2.615.179	2.096.613

38. Risk management – Credit risk (continued)

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

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 2008 amounts to €2.079.049 thousand (2007: €1.652.479 thousand).

Impaired loans and advances to customers

The analysis of gross loans and advances to customers that are individually determined to be impaired, by geographical area, is set out below:

	2008	2007
	€000	€000
Cyprus	382.133	483.231
Greece	283.019	249.890
United Kingdom	24.227	13.546
Australia	-	11
Russia	81.370	-
Romania	2.163	-
Ukraine	9.457	-
	782.369	746.678

The fair value of collateral that the Group holds in respect of individually impaired loans and advances to customers as at 31 December 2008 amounts to €343.523 thousand (2007: €390.971 thousand).

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38. 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	Other countries	Total
2008	€000	€000	€000	€000
At 1 January	387.629	181.036	10.342	579.007
Acquisition of subsidiaries	-	-	59.954	59.954
Exchange adjustments	-	1.400	(13.786)	(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	14.041	91.601
At 31 December	392.202	225.910	69.802	687.914
Individual impairment	256.175	168.202	27.586	451.963
Collective impairment	136.027	57.708	42.216	235.951

	Cyprus	Greece	Other countries	Total
2007	€000	€000	€000	€000
At 1 January	578.966	197.730	12.179	788.875
Exchange adjustments	5	2.139	(144)	2.000
Applied in writing off:				
- interest on previous years' impaired loans and advances	(207.574)	(27.966)	(1.453)	(236.993)
- impaired loans and advances	(30.608)	(22.147)	(304)	(53.059)
Interest accrued on impaired loans and advances	(19.931)	(9.423)	(454)	(29.808)
Collection of loans and advances previously written off	41.422	10.693	-	52.115
Charge for the year	25.349	30.010	518	55.877
At 31 December	387.629	181.036	10.342	579.007
Individual impairment	277.964	98.528	7.868	384.360
Collective impairment	109.665	82.508	2.474	194.647

38. Risk management – Credit risk (continued)

Renegotiated loans

Loans renegotiated in 2008 that would otherwise be past due or impaired at 31 December 2008 amounted to €45.886 thousand (2007: €50.382 thousand). Such loans are subject to the Group's assessment for impairment of loans and advances to customers.

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:

	2008	2007
	€000	€000
Residential property	2.325	817
Commercial and other property	17.227	9.645
	19.552	10.462

The majority of the repossessed assets are 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:

	2008	2007
	€000	€000
Aaa – Aa3	4.535.103	5.433.682
A1 – A3	486.747	996.349
Baa1 – Baa3	159.878	89.661
Unrated	64.930	440.289
Other receivables from banks	72.411	75.124
	5.319.069	7.035.105

38. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

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

	Debt securities	Treasury bills	Total
2008	€000	€000	€000
<i>Analysis by Moody's rating:</i>			
Aaa – Aa3	2.806.063	373.000	3.179.063
A1 – A3	891.290	-	891.290
Baa1 – Baa3	101.731	-	101.731
Unrated	21.250	-	21.250
	3.820.334	373.000	4.193.334
<i>Issued by:</i>			
- Cyprus government	640.898	373.000	1.013.898
- other governments	935.183	-	935.183
- banks and other corporations	2.236.811	-	2.236.811
- local authorities	7.185	-	7.185
- Cyprus public companies	257	-	257
	3.820.334	373.000	4.193.334
<i>Classified as:</i>			
- trading investments	134.756	-	134.756
- investments at fair value through profit or loss	176.419	-	176.419
- available-for-sale investments	3.029.540	-	3.029.540
- held-to-maturity investments	309.851	-	309.851
- loans and receivables investments	169.768	373.000	542.768
	3.820.334	373.000	4.193.334

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38. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

	Debt securities	Treasury bills	Total
2007	€000	€000	€000
<i>Analysis by Moody's rating:</i>			
Aaa – Aa3	2.399.751	-	2.399.751
A1 – A3	1.572.632	-	1.572.632
Baa1 – Baa3	1.194	-	1.194
Unrated	14.416	-	14.416
	3.987.993	-	3.987.993
<i>Issued by:</i>			
- Cyprus government	861.433	-	861.433
- other governments	882.885	-	882.885
- banks and other corporations	2.240.541	-	2.240.541
- local authorities	2.878	-	2.878
- Cyprus public companies	256	-	256
	3.987.993	-	3.987.993
<i>Classified as:</i>			
- trading investments	276.516	-	276.516
- investments at fair value through profit or loss	185.662	-	185.662
- available-for-sale investments	3.400.189	-	3.400.189
- held-to-maturity investments	125.626	-	125.626
	3.987.993	-	3.987.993

39. Risk management – Market risk

Analysis by rating agency designation (continued)

Market risk is the risk of loss from 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 earnings 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 (2007: Cyprus Pound) and for foreign currencies. Maximum loss limits apply for each of the first three years. They 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.

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:

Change in interest rates	Cyprus Pounds	Euros	US Dollars	British Pounds	Other Currencies	Total
	€000	€000	€000	€000	€000	€000
2008						
+0,5% for all currencies	-	12.004	2.115	495	(321)	12.270
-0,25% for USD and -0,5% for all other currencies	-	(13.599)	(1.145)	(528)	210	(13.851)
2007						
+0,5% for all currencies	10.624	1.777	1.215	877	473	14.465
-1,5% for USD and -0,5% for all other currencies	(10.754)	(1.845)	(5.317)	(911)	(593)	(18.212)

For 2007 and 2008 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. Furthermore, the 2007 calculation included the assumption of perfect positive correlation between the interest rates of the foreign currencies and the Cyprus Pound.

39. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

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 influenced 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' as well as from changes in the fair value of derivative financial instruments which are hedging instruments in effective cash flow hedges.

The sensitivity analysis is based on the assumption of a parallel movement 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.

Change in interest rates	Impact on profit before tax	Impact on equity
	€000	€000
2008		
+0,5% for all currencies	3.401	(20.657)
-0,25% for USD and -0,5% for all other currencies	(5.499)	18.943
2007		
+0,5% for all currencies	5.722	(25.195)
-1,5% for USD and -0,5% for all other currencies	(3.298)	33.347

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.

Trading book positions were only allowed in Cyprus. Since May 2008 the currency trading book was closed and open position limits were reduced.

The Group ALCO has also approved maximum loss limits (daily and monthly) and a Value at Risk ('VaR') limit. These limits are monitored by Group Market Risk Management. VaR is measured using the variance/co-variance methodology, which is based on the assumption that the daily changes in prices follow the normal distribution. VaR is calculated with a confidence interval of 99% for a one-day holding period, using historic data for foreign exchange rates over the last five years. The use of a 99% confidence interval means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

39. Risk management – Market risk (continued)

Currency risk (continued)

The VaR method indicates an estimate of the possible losses of the trading book under the above assumptions and not the actual losses. Although a valuable guide to risk, VaR has various limitations, such as the fact that historical data may not always be an accurate reflector of future events. In addition, the use of a one-day holding period assumes that all positions can be liquidated in one day. This is not considered a significant limitation, since the Group's foreign currency positions are very small relative to market volumes and the Group is thus confident of being able to reverse them within a day. Moreover, the use of a 99% confidence level implies that no account is taken of losses beyond this confidence level. Finally, VaR is calculated on the basis of overnight exposures and does not reflect intra-day exposures.

To mitigate the above limitations, stop-loss limits were in place for the trading book.

The VaR for foreign exchange trading book positions up to May 2008 when foreign exchange trading book positions were closed was as follows:

	2008	2007
	€000	€000
Average	32	132
Highest	113	285
Lowest	-	3

During 2008 the realised losses did not exceed the VaR on any single day.

There are intra-day and overnight position limits for the banking book. Adherence to the limits is monitored on a daily basis by Group Market Risk Management.

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 (2007: Cyprus Pound), based mainly on past price fluctuations.

Currency	Change in exchange rate	Impact on profit before tax	Impact on equity
2008	%	€000	€000
US Dollar	+6,0	(1.246)	-
Russian Ruble	+8,0	(14.586)	48.195
Romanian Lei	+8,0	-	590
Ukrainian Hryvnia	+8,0	-	6.544
Other currencies	+8,0	395	-

US Dollar	-6,0	1.246	-
Russian Ruble	-15,0	27.350	(90.365)
Romanian Lei	-8,0	-	(590)
Ukrainian Hryvnia	-15,0	-	(12.271)
Other currencies	-8,0	(395)	-

39. Risk management – Market risk (continued)

Currency risk (continued)

Currency	Change in exchange rate	Impact on profit before tax	Impact on equity
2007	%	€000	€000
Euro	+0,5	178	-
US Dollar	+6,0	595	-
British Pound	+4,0	(19)	-
Other currencies	+8,0	(43)	-

Euro	-0,5	(178)	-
US Dollar	-6,0	(595)	-
British Pound	-4,0	19	-
Other currencies	-8,0	43	-

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 (assuming no impairment). 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
2008	%	€000	€000
Cyprus Stock Exchange	+25	2.643	5.555
Athens Exchange	+15	629	-
Cyprus Stock Exchange	-25	(2.643)	(5.555)
Athens Exchange	-15	(629)	-

39. Risk management – Market risk (continued)

Price risk (continued)

	Change in index	Impact on profit before tax	Impact on equity
2007	%	€000	€000
Cyprus Stock Exchange	+25	7.393	18.222
Athens Exchange	+15	1.782	79
Cyprus Stock Exchange	-25	(7.393)	(18.222)
Athens Exchange	-15	(1.782)	(79)

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 2008 was Aa3 (2007: 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 (assuming no impairment). 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.

Change in market price	Impact on profit before tax	Impact on equity
	€000	€000
2008		
+3%	9.027	87.495
-4%	(12.030)	(116.661)
2007		
+3%	28.113	88.130
-4%	(37.485)	(114.553)

40. Risk management – Liquidity risk

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

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

Group assets are mainly funded by deposits. 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.

The liquidity position is assessed under various scenarios, including a bank-specific crisis and a 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:

	2008	2007
	%	%
31 December	30,8	40,5
Average ratio	33,9	39,5
Highest ratio	38,0	41,9
Lowest ratio	30,8	35,2

Analysis of financial liabilities by remaining contractual maturity

The table below presents the Group's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until their contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice has been given on 31 December. The Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date.

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

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40. Risk management – Liquidity risk (continued)

Analysis of financial 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
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
Derivative financial instruments – contractual amount payable	680.516	334.669	232.907	116.407	64.688	1.429.187
Derivative financial instruments – contractual amount 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
	17.050.083	6.408.243	7.958.944	2.672.507	124.240	34.214.017

2007						
Amounts due to banks	689.055	315.652	35.556	215.157	-	1.255.420
Repurchase agreements	250.139	-	-	216.053	-	466.192
Customer deposits	16.605.891	5.104.657	3.509.411	146.333	200	25.366.492
Debt securities in issue	115.500	353.252	42.148	820.354	395	1.331.649
Derivative financial instruments – contractual amount payable	606.448	343.940	201.709	27.432	7.602	1.187.131
Derivative financial instruments – contractual amount receivable	(592.618)	(338.400)	(195.548)	(22.899)	(7.743)	(1.157.208)
Subordinated loan stock	-	102.960	221.806	431.328	-	756.094
Other liabilities	193.265	253	-	-	-	193.518
	17.867.680	5.882.314	3.815.082	1.833.758	454	29.399.288

41. Risk management – Other risks

Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organisation and covers a wide range of issues.

The Group manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by a programme of audits undertaken by the Group Internal Audit department and by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Regulatory risk

The operations of the Company are supervised by the Central Bank of Cyprus. All banks in Cyprus, including the Company, have to comply with the requirements of both the European Union and Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Company.

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 which may adversely affect the results and financial position of the Group's insurance companies.

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 33) 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 not under the control of the Group, like 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 and European Central Bank policies, political instability or military conflict which affect Europe and/or other areas overseas and social developments in the countries in which the Group operates.

41. Risk management – Other risks (continued)

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.

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.

42. 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. In December 2006 the Central Bank of Cyprus issued the Directive for the calculation of the capital requirements and large exposures of banks, (the 'Directive', 'Basel II') adopting the relevant European Union directive. Basel II consists of three pillars: (I) minimum capital requirements, (II) supervisory review process, and (III) market discipline. The Group has implemented the provisions of the Directive as from 1 January 2007.

Pillar I - Minimum capital requirements

The Group has adopted the standardised approach for credit, market and operational risk.

According to the standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the application of various mitigating factors, depending on the exposure class to which they belong. The risk weights of exposures with institutions and corporates, depend on the term of the exposure (more favourable risk weights apply where the exposure is less than three months).

The standardised approach for determining the capital requirement for market risk aggregates the positions for interest rate, equities, foreign exchange, commodity risk and price risk on options, according to predefined models.

For operational risk, in accordance with the standardised approach, banking activities are divided into eight business lines. Gross income is used as the main indicator in determining the operational risk exposure within each business line. The capital requirement is computed using the average, over a three year term, of the weighted indicators for the business lines.

Pillar II – The supervisory review process

The supervisory review process provides guidelines to safeguard that adequate capital is in place to support any risk exposures of the Group and also requires appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as credit concentration risk, interest rate risk in the banking book, business and strategy risk and any external factors affecting the Group (e.g. business cycle effects).

42. Capital management (continued)

Pillar II – The supervisory review process (continued)

Pillar II links the regulatory capital requirements to the Group's internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The purpose of Pillar II is to promote the communication between supervisors and banks on a continuous basis and to evaluate how well the banks are assessing their capital needs in relation to their risks. If a deficiency arises, prompt and decisive action is taken to restore the appropriate relationship between capital and risk.

Pillar III – Market discipline

Market discipline requires the disclosure of information regarding the risk management policies of the Group, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds and additional own funds together with any associated deductions. In addition the results of ICAAP are disclosed together with various analyses of credit risk exposures.

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 shareholder 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.

As from 1 January 2007 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 2008 and 2007 the Group had fully complied with all externally imposed capital requirements.

	2008	2007
	€000	€000
<i>Regulatory capital</i>		
Original own funds	1.540.566	1.677.765
Additional own funds	838.877	522.707
Total capital	2.379.443	2.200.472

Risk weighted assets – credit risk	18.847.418	15.687.263
Risk weighted assets – market risk	136.675	58.926
Risk weighted assets – operational risk	2.194.888	1.610.422
	21.178.981	17.356.611

	%	%
Tier 1 ratio	7,2	9,7
Tier 2 ratio	4,0	3,0
Total capital ratio	11,2	12,7

42. Capital management (continued)

Capital management (continued)

Under the Directive, regulatory capital comprises of:

(i) Original own funds which consist mainly of paid up share capital, share premium, retained earnings less any proposed dividends, minority interest and hybrid capital (up to 15% of original own funds), after the application of prudential filters relating mainly to fair value reserves. The book value of goodwill and other intangible assets are deducted from original own funds.

(ii) Additional own funds which include mainly subordinated debt and revaluation reserves (property revaluation reserve and other unrealised gains arising from the revaluation of financial instruments in accordance with IFRSs).

Investments in non banking subsidiaries and participations in the share capital or subordinated capital of other credit institutions in excess of 10% of their capital, are deducted equally from original own funds and additional own funds.

There are also local regulatory capital requirements for banking subsidiaries operating overseas. In addition to the Directive set by the Central Bank of Cyprus, these subsidiaries also comply with their local regulatory capital requirements.

The increase of regulatory capital during 2008 is mainly the result of current year profit, after taking into account dividends paid and proposed, and the increase of equity through dividend reinvestment and the issue of convertible bonds of €573 million. The increase of the risk weighted assets reflects the growth of balance sheet assets as well as business growth during the year, partly effected through acquisitions.

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43. Related party transactions

	2008	2007	2008	2007
	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	4	196.079	120.598
- less than 1% of the Group's net assets per director	13	14	24.569	20.339
	16	18	220.648	140.937
Loans and advances to key management personnel and connected persons			2.657	877
Total loans and advances			223.305	141.814
Loans and advances:				
- members of the Board of Directors and key management personnel			7.321	9.814
- connected persons			215.984	132.000
			223.305	141.814
Collateral			245.608	223.641
Interest income			11.806	8.032
Deposits:				
- members of the Board of Directors and key management personnel			78.287	85.965
- connected persons			66.218	42.654
			144.505	128.619
Interest expense on deposits			6.992	3.677
Debt securities in issue and subordinated loan stock:				
- members of the Board of Directors and key management personnel			13.800	171
- connected persons			1.569	50
			15.369	221
Interest expense on debt securities in issue and subordinated loan stock			442	3

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 €49.689 thousand (2007: €85.017 thousand). Of these, €44.283 thousand (2007: €79.532 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 €378 thousand (2007: €326 thousand).

43. Related party transactions (continued)

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 Group key management personnel

	2008	2007
	€000	€000
Directors' emoluments		
<i>Non executives</i>		
Fees	678	740
<i>Executives</i>		
Emoluments in executive capacity:		
Salaries and other short term benefits	1.065	2.640
Ex-gratia payment	678	-
Employer's contributions	54	79
Retirement benefit plan costs	157	186
Share options	752	9
Total emoluments in executive capacity	2.706	2.914
Emoluments of a non executive director who is also an employee of the Company	140	97
Total fees and emoluments of directors	3.524	3.751
Key management personnel emoluments		
Salaries and other short term benefits	881	2.098
Employer's contributions	63	87
Retirement benefit plan costs	140	195
Share options	376	17
Total key management personnel emoluments	1.460	2.397
Total	4.984	6.148

The total emoluments of the executive directors for the year, including employer's contributions and other benefits, were: one director in the range of €550-€600 thousand (in the range of €400-€450 thousand excluding share options benefit), one director in the range of €900-€950 thousand (no share options benefit) and one director in the range of €1.150-€1.200 thousand (the range of €600-€650 thousand excluding share options benefit). In 2007, directors' emoluments were: one director in the range of €700-€750 thousand, one director in the range of €850-€900 thousand and one director in the range of €1.250-€1.300 thousand. The remuneration of the members of the Board of Directors for 2008 includes ex-gratia retirement benefits amounting to €678 thousand paid to a former executive director who left the Group.

The fees and emoluments of key management personnel comprise the amounts of the Group General Managers, the number of which at 31 December 2008 was four (31 December 2007: six). The fees and emoluments of the executive directors comprise the emoluments of the members of the Group Executive Management team, the number of which at 31 December 2008 was two (31 December 2007: three).

43. Related party transactions (continued)

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

In the context of the Share Options 2008/2010 issued by the Company to the Group's permanent employees, 2.000.000 share options were granted to executive directors, 12.000 were granted to a non-executive director in his capacity as employee of the Company and 1.000.000 were granted to key management personnel at the exercise price of €9,41 per option (fair value of €1,17 per option). The price of the shares of the Company at 31 December 2008 was materially lower than the exercise price of the options.

In the context of the Share Options 2006/2007 issued by the Company to the Group's permanent employees on 30 September 2006, 15.000 share options were granted to the executive directors at the exercise price of €7,38 per option (fair value €1,18 per option) and 18.000 options were granted to key management personnel at the exercise price of €6,32 per option (fair value €1,81 per option). All Share Options 2006/2007 were exercised by their holders during 2007.

During 2007, 10.000 Share Options 2001/2007 which were granted to two non executive directors in 2000 while they were executive directors, were exercised at the price of €5,57 per option. Also during 2007, the executive directors exercised 3.000 Share Options 2001/2007 at the price of €5,57 per option and 15.000 Share Options 2006/2007 at the price of €7,38 per option.

The executive directors participate in the main retirement benefit plan for the Group's permanent employees in Cyprus, which is a defined benefit plan. Their total retirement benefits increased during 2008 by €517 thousand (2007: €1.001 thousand).

Other transactions with related parties

Mr Andreas Artemis, Vice-Chairman of the Board of Directors of the Company, holds an indirect interest and is Chairman of the Board of Directors of the Commercial General Insurance Ltd group which is engaged in general insurance business. The Commercial General Insurance Ltd group has entered into reinsurance arrangements with General Insurance of Cyprus Ltd, a subsidiary of the Group. The total reinsurance premiums assigned to the Commercial General Insurance Ltd group in 2008 amounted to €920 thousand (2007: €1.218 thousand).

Mrs Anna Diogenous, member of the Board of Directors of the Company, holds an indirect interest in the company Pylones SA Hellas, which supplies the Company with equipment and services following tender procedures and in the company Unicars Ltd which supplies the Group in Cyprus with cars and related services. The total purchases from these companies in 2008 amounted to €699 thousand (2007: €926 thousand). In addition, the company Mellon Cyprus Ltd which supplies the Group with equipment, is significantly influenced by a person connected to Mrs Anna Diogenous. The total purchases from this company in 2008 amounted to €439 thousand (2007: €899 thousand).

Mr Costas Z. Severis, member of the Board of Directors of the Company, is the main shareholder of the company D. Severis and Sons Ltd, which is a general agent of the Group's subsidiary, General Insurance of Cyprus Ltd. The total commissions paid to D. Severis and Sons Ltd in 2008 amounted to €147 thousand (2007: €166 thousand).

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44. Group companies

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

Cyprus	Activities
Bank of Cyprus Public Company Ltd	Commercial bank
Mortgage Bank of Cyprus Ltd	Commercial bank
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Investment banking
General Insurance of Cyprus Ltd	General insurance
EuroLife Ltd	Life insurance
Kermia Ltd	Property trading and development
Kermia Properties & Investments Ltd	Property trading and development
Kermia Hotels Ltd	Hotel business
BOC Ventures Ltd	Management of venture capital investments
Tefkros Investments Ltd	Investment fund
Bank of Cyprus Mutual Funds Ltd	Inactive
JCC Payment Systems Ltd	Credit card transactions processing
Cytrustees Investment Public Company Ltd (Note 45)	Closed - end investment company
Interfund Investment Plc (Note 46)	Closed - end investment company
Diners Club (Cyprus) Ltd	Diners Club credit card facilities
BOC Russia (Holdings) Ltd	Intermediate holding company
Greece	
Bank of Cyprus Public Company Ltd (branch)	Commercial bank
Kyprou Leasing SA	Leasing
Kyprou Commercial SA	Financing of motor vehicles and other consumer products
Kyprou Securities SA	Investment banking
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	Management of mutual funds
Kyprou Properties SA	Property management
Kyprou Insurance Services Ltd	General insurance brokers
Kyprou Zois (branch of EuroLife Ltd)	Life insurance
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	General insurance
United Kingdom	
Bank of Cyprus United Kingdom (branch)	Commercial bank

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44. Group companies (continued)

Channel Islands	
Bank of Cyprus (Channel Islands) Ltd	Commercial bank
Tefkros Investments (CI) Ltd	Investment fund
Australia	
Bank of Cyprus Australia Ltd	Commercial bank
Romania	
Bank of Cyprus Romania (branch)	Commercial bank
Cyprus Leasing Romania IFN SA	Leasing
Otherland Properties Dorobanti SRL	Property holding company
Russia	
LLC CB Bank of Cyprus	Commercial bank
Cyprus Leasing LLC	Leasing
CB Uniastrum Bank LLC (Note 45)	Commercial bank
Uniastrum Leasing LLC (Note 45)	Leasing
Ukraine	
JSC AvtoZAZbank (Note 45)	Commercial bank

On 26 May 2008 the Company completed the acquisition of the Ukrainian bank JSC AvtoZAZbank (Note 45). The Company initially acquired 97,2% of the company's share capital. JSC AvtoZAZbank is accounted for as a subsidiary since the date of the acquisition. In December 2008, the Group's shareholding in JSC AvtoZAZbank 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 45). These companies are accounted for as subsidiaries since the date of their acquisition. 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.

The investment in Cytrustees Investment Public Company Ltd was included in the financial statements as an associate during the period from 8 February to 26 April 2007 using the equity method. Following the acquisition of additional shares by the Group on 27 April 2007 (Note 45), the company is accounted for as a subsidiary, in accordance with the provisions of IFRSs.

The investment in Interfund Investments Plc was acquired on 21 May 2007 and is accounted for as an associate using the equity method.

The subsidiary company LLC CB Bank of Cyprus obtained its license of operation in Russia on 6 June 2007 and was included in the financial statements as from that date. The subsidiary company Cyprus Leasing LLC was incorporated in Russia on 16 October 2007 and was included in the financial statements as from that date.

At the beginning of 2009, the Group decided to operationally merge its two Russian banking units. The merger aims at achieving synergies between the two units and at the same time reducing the costs and improving systems and procedures. The operational merger is expected to be fully completed in the first half of 2009.

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44. Group companies (continued)

All the above companies are wholly owned subsidiaries, except for the following companies:

Company	Shareholding		Accounting treatment
	31 Dec. 2008	31 Dec. 2007	
JCC Payment Systems Ltd	45,00%	45,00%	Proportional consolidation
Cytrustees Investment Public Company Ltd	49,90%	49,98%	Consolidation (8 February until 26 April 2007: Equity method)
Interfund Investments Plc	22,83%	22,83%	Equity method
JSC AvtoZAZbank	99,71%	-	Consolidation
BOC Russia (Holdings) Ltd	80,00%	-	Consolidation

There were no other changes in the companies being consolidated and their accounting treatment compared to 31 December 2007, except as described above.

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

	2008	2007
	€000	€000
Gross income	10.207	10.684
Profit before tax	3.798	4.386
Net assets	19.866	19.053
Total assets	27.607	26.360

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Acquisition of subsidiary companies

(i) JSC AvtoZAZbank

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

The Group's consolidated financial statements include the results of JSC AvtoZAZbank since the date of acquisition.

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

	<i>Fair value</i>	<i>Carrying value before the acquisitions</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
Minority interest	(521)	
Net assets acquired	17.961	
Goodwill (Note 45 (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 JSC AvtoZAZbank 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 a cash payment of €57.882 thousand and costs of €1.822 thousand directly attributable to the acquisition.

From the date of acquisition, JSC AvtoZAZbank has contributed €446 thousand to Group profit after tax. If the combination had taken place at the beginning of the year, the contribution to Group profit after tax would have been €1.656 thousand.

As part of the agreement for the acquisition of JSC AvtoZAZbank, the Group has received a letter of guarantee from the seller amounting at 31 December 2008 to €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

45. Acquisition of subsidiary companies (continued)

(ii) CB Uniastrum Bank LLC and Uniastrum Leasing LLC

On 31 October 2008, the Group completed the acquisition of 80% of the share capital of CB Uniastrum Bank LLC and Uniastrum Leasing LLC in Russia. The acquisition has been accounted for using the purchase method of accounting. These companies were acquired 100% by BOC Russia (Holdings) Ltd, which is 80% owned by the Company. The two founding shareholders of the acquired companies currently leading their management maintain (through BOC Russia (Holdings) Ltd) a 10% interest each. This residual shareholding is 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 is accounted for in these financial statements as a liability. This results in accounting as if the Group has already acquired the shares subject to this arrangement. Therefore, no minority interest is recognised for reporting purposes in relation to the shares that are subject to this arrangement.

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

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

	<i>Provisional fair value recognised on acquisition</i>
	€000
Cash and balances at central banks	113.311
Placements with banks	39.752
Loans and advances to customers	1.194.093
Investments	34.666
Property, equipment and intangible assets	94.754
Other assets	16.120
	1.492.696
Customer deposits	(1.121.841)
Subordinated loan stock	(6.198)
Amounts due to banks	(46.653)
Debt securities	(99.253)
Other liabilities	(57.605)
	(1.331.550)
Net assets acquired	161.146
Goodwill (Note 45 (iii))	378.627
Total consideration	539.773
Cost of acquisition paid in cash	455.473
Fair value of the put/call option	84.300
	539.773
Net cash and cash equivalents acquired with the subsidiaries	128.077
Net cash outflow	327.396
Cost of the acquisition paid in cash	455.473

Bank of Cyprus Group

Notes to the Consolidated Financial Statements

45. Acquisition of subsidiary companies (continued)

(ii) CB Uniastrum Bank LLC and Uniastrum Leasing LLC (continued)

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

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

The acquisition cost paid in cash comprises a cash payment of €449.835 thousand and costs of €5.638 thousand directly attributable to the acquisition.

From the date of acquisition, CB Uniastrum Bank LLC and Uniastrum Leasing LLC have contributed €5.095 thousand to Group profit after tax. If the combination had taken place at the beginning of the year, 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 2008 amounted to €132 million and on the date of approval of the financial statements, amounted to €87 million.

(iii) Goodwill arising from business combinations

	€000
Goodwill arising on acquisition of JSC AvtoZAZbank	41.743
Goodwill arising on acquisition of CB Uniastrum Bank LLC	378.627
Total (Note 20)	420.370

(iv) Cytrustees Investment Public Company Limited

During the period between 8 February 2007 to 26 April 2007 the Company increased its shareholding in Cytrustees Investment Public Company Ltd ('Cytrustees') from 3,31% (held as at 31 December 2006) to 24,89% by acquiring 21,58% of Cytrustees, and accounted for this acquisition using the equity method. Cytrustees is a closed-end investment company listed on the Cyprus Stock Exchange. On 27 April 2007, the Company acquired an additional 23,14% of the share capital of Cytrustees. As from that date, Cytrustees is accounted for as a subsidiary, in accordance with the provisions of IFRSs. During June and November 2007 the Group elected to reinvest its dividend from Cytrustees and as a result, additional shares of the company were acquired. As at 31 December 2007, the Company held 49,98% of the share capital of Cytrustees. During 2008 the Company acquired and disposed of a number of Cytrustees shares and as at 31 December 2008 the holding in Cytrustees decreased to 49,90%

45. Acquisition of subsidiary companies (continued)

(iv) Cytrustees Investment Public Company Limited (continued)

The share of the fair value of the identifiable net assets of Cytrustees acquired and the negative goodwill arising as at the respective acquisition dates were:

	Fair value recognised on acquisition of minority interest	Fair value recognised on acquisition of subsidiary	Fair value recognised on acquisition of associate
	2008	2007	2007
	€000	€000	€000
Net assets	1.659	20.551	17.096
Negative goodwill arising on acquisition (Notes 8 and 10)	(325)	(3.320)	(3.732)
Total consideration	1.334	17.231	13.364

The majority of the net assets represent investments in equity and debt securities.

The fair values recognised on acquisition were equal to the carrying amounts of the net assets immediately before the acquisition.

Cash outflow on acquisition of subsidiary	€000
Net cash and cash equivalents acquired with the subsidiary	2.546
Cash paid	(17.231)
Net cash outflow	(14.685)

The profit before tax attributable to the shareholders of the Company from the acquisition date of the subsidiary (27 April 2007) to 31 December 2007 amounted to €4.311 thousand.

46. 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 share of the fair value of the identifiable net assets acquired and the negative goodwill arising as at the date of acquisition were:

	Fair value recognised on acquisition
	€000
Fair value of net assets (mainly trading investments) on acquisition date	19.499
Negative goodwill arising on acquisition (Note 10)	(1.082)
Total consideration	18.417

The fair values recognised on acquisition were equal to the carrying amount of the net assets immediately before the acquisition.

46. Investment in associate (continued)

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

	2008	2007
		€000
Total assets	5.808	17.359
Liabilities	(145)	(41)
Net assets	5.663	17.318
Carrying amount of the investment	5.663	17.318
Market value of investment on the Cyprus Stock Exchange	3.137	15.164
Share of the associate's:		
Operating (loss)/income	(10.249)	3.962
(Loss)/profit after tax	(10.548)	3.911

47. Events after the balance sheet date

On 25 February 2009, the Board of Directors of the Company decided to propose to an Extraordinary General Meeting of the shareholders the issue of Convertible Capital Securities up to €645 million.

The Convertible Capital Securities will be issued at par and will be offered via a priority right to all registered shareholders in the ratio of €11 Convertible Capital Securities for every 10 shares held as at record date. Shareholders may subscribe to the Convertible Capital Securities (based on the priority rights that will be allotted to them) either by paying the consideration in cash or by exchanging existing Convertible Bonds 2013/2018 of an equal nominal value.

The Convertible Capital Securities will bear a fixed annual interest rate of 5,50% for the first five years, i.e. until 30 June 2014. In the event that the Convertible Capital Securities are not redeemed on 30 June 2014, the interest rate will be floating and will be equal to the 6-month Euribor in force at the beginning of each interest period plus 3,00%.

The Convertible Capital Securities may, at the option of the holder, be converted into ordinary shares during any conversion period. The first conversion period is 15-30 September 2010 and the last conversion period is 15-31 March 2014. The conversion price has been set at €5,50 per ordinary share of nominal value €1,00.

Other investors (shareholders or non-shareholders) including the holders of Convertible Bonds 2013/2018 may apply to subscribe for any unsubscribed Convertible Capital Securities (Rump) that may arise. The consideration for the subscription to the Rump Convertible Capital Securities could be paid in cash or by exchange of an equal nominal value of existing Convertible Bonds 2013/2018. In the Rump, placement applications from holders of Convertible Bonds 2013/2018 will be given priority over other investors' applications.

The Convertible Capital Securities have no maturity date. However, they may be redeemed in whole at the option of the Company, at their principal amount 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.

Independent Auditors' 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 7 to 112 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements 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 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 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 of 31 December 2008, 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 Auditors' Report to the Members of Bank of Cyprus Public Company Ltd

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 6 is consistent with the financial statements.

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 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

25 February 2009