

Bank of Cyprus Group



Interim Condensed Consolidated Financial Statements
for the six months ended

30 June 2006

Bank of Cyprus Group

Interim Condensed Consolidated Financial Statements

for the six months ended 30 June 2006

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Interim Condensed Consolidated Income Statement

for the six months ended 30 June 2006

		Six months ended 30 June		Year ended 31 Dec.
		2006	2005	2005
	Notes	C€000	C€000	C€000
Turnover	4	443.188	379.152	797.255
Net interest income		163.586	132.295	279.766
Net fee and commission income		49.156	43.062	89.704
Foreign exchange income		8.676	6.430	14.493
Net gains/(losses) on sale and change in fair value of financial instruments		18.584	(145)	6.022
Income from insurance business		13.063	11.717	23.375
Other income	5	2.339	3.773	5.882
		255.404	197.132	419.242
Staff costs		(74.969)	(73.962)	(151.331)
Other operating expenses	6	(45.296)	(42.520)	(86.266)
Profit before provisions		135.139	80.650	181.645
Provisions for bad and doubtful debts		(33.897)	(42.320)	(91.087)
Profit before tax		101.242	38.330	90.558
Tax		(16.222)	(7.019)	(18.141)
Profit after tax		85.020	31.311	72.417
Basic earnings per share (cent)	7	15,6	6,3	14,4
Diluted earnings per share (cent)	7	15,6	6,3	14,4

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Interim Condensed Consolidated Income Statement

for the three months from 1 April to 30 June 2006

		<i>Three months ended 30 June</i>	
		<i>2006</i>	<i>2005</i>
	<i>Notes</i>	<i>C£000</i>	<i>C£000</i>
Turnover		227.092	192.913
Net interest income		85.205	66.438
Net fee and commission income		25.321	22.511
Foreign exchange income		4.847	3.316
Net gains/(losses) on sale and change in fair value of financial instruments		10.192	(297)
Income from insurance business		5.973	5.803
Other income	5	1.332	1.041
		132.870	98.812
Staff costs		(36.802)	(36.051)
Other operating expenses	6	(23.419)	(21.562)
Profit before provisions		72.649	41.199
Provisions for bad and doubtful debts		(15.756)	(22.389)
Profit before tax		56.893	18.810
Tax		(9.094)	(3.545)
Profit after tax		47.799	15.265
Basic earnings per share (cent)		8,7	3,1
Diluted earnings per share (cent)		8,7	3,1

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Interim Condensed Consolidated Balance Sheet

as at 30 June 2006

		30 June	<i>31 Dec.</i>
		2006	<i>2005</i>
	Notes	C€000	<i>C€000</i>
Assets			
Cash and balances with central banks		596.551	611.681
Placements with banks		2.235.836	2.578.300
Investments at fair value through profit or loss		169.190	89.331
Loans and other advances to customers	8	7.640.946	6.984.211
Investments available-for-sale and held-to-maturity		1.953.548	1.945.261
Property and equipment	9	156.588	159.664
Intangible assets	9	10.334	10.927
Other assets	10	205.213	191.008
		12.968.206	12.570.383
Life assurance business net assets attributable to policyholders		255.032	231.806
Total assets		13.223.238	12.802.189
Liabilities			
Amounts due to banks		356.395	177.749
Customer deposits and other accounts		10.673.406	10.724.485
Debt securities in issue	11	560.439	318.216
Other liabilities	12	240.812	223.701
		11.831.052	11.444.151
Life assurance business liabilities to policyholders		255.032	231.806
Subordinated loan stock	13	318.679	364.581
Equity			
Share capital	14	274.767	272.658
Reserves		543.708	488.993
		818.475	761.651
Total liabilities and equity		13.223.238	12.802.189
Contingent liabilities and commitments			
Contingent liabilities		803.346	770.809
Commitments		1.325.268	1.389.717

V. G. Rologis
A. Artemis
A. Eliades
C. G. Stavrakis
Y. Kypri
Chr. Hadjimitsis

Chairman
Vice-Chairman
Group Chief Executive Officer
Chief Executive Officer – Cyprus and Deputy Group Chief Executive Officer
Group Chief General Manager
Group General Manager Finance

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Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006

	Share capital C£000	Share premium C£000	Revaluation reserves and other reserves C£000	Exchange adjustments reserves C£000	Retained earnings C£000	Total equity C£000
At 1 January 2006	272.658	311.399	95.919	(2.898)	84.573	761.651
Gains from change in fair value of available-for-sale investments	-	-	917	-	-	917
Losses from change in fair value of financial instruments designated as cash flow hedges	-	-	(1.083)	-	-	(1.083)
Deferred tax	-	-	959	-	-	959
Exchange adjustments	-	-	-	38	-	38
Increase in value of life assurance policies in force	-	-	1.867	-	(1.867)	-
Transfer of realised profits on disposal of property	-	-	(21)	-	21	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(5.349)	-	-	(5.349)
Profit/(loss) recognised directly in equity	-	-	(2.710)	38	(1.846)	(4.518)
Profit after tax for the period	-	-	-	-	85.020	85.020
Total profit/(loss) for the period	-	-	(2.710)	38	83.174	80.502
Dividend paid (Note 15)	-	-	-	-	(38.211)	(38.211)
Dividend reinvestment	1.695	10.140	-	-	-	11.835
Exercise of share options	414	2.284	-	-	-	2.698
At 30 June 2006	274.767	323.823	93.209	(2.860)	129.536	818.475

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Interim Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2005

	Share capital C£000	Share premium C£000	Revaluation reserves and other reserves C£000	Exchange adjustments reserve C£000	Retained earnings C£000	Total equity C£000
At 1 January 2005	232.385	238.955	56.918	(2.828)	33.683	559.113
Gains from change in fair value of available-for-sale investments	-	-	14.793	-	-	14.793
Transfer to the income statement on termination of cash flow hedges	-	-	4.043	-	-	4.043
Deferred tax	-	-	1.207	-	-	1.207
Exchange adjustments	-	-	-	(6)	-	(6)
Increase in value of life assurance policies in force	-	-	800	-	(800)	-
Transfer of realised profits on disposal of property	-	-	(89)	-	89	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(3.958)	-	-	(3.958)
Profit/(loss) recognised directly in equity	-	-	16.796	(6)	(711)	16.079
Profit after tax for the period	-	-	-	-	31.311	31.311
Total profit/(loss) for the period	-	-	16.796	(6)	30.600	47.390
Dividend paid (Note 15)	-	-	-	-	(18.591)	(18.591)
Dividend reinvestment	1.321	2.907	-	-	-	4.228
At 30 June 2005	233.706	241.862	73.714	(2.834)	45.692	592.140

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Interim Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2006

		Six months ended 30 June	
		2006	2005
	Notes	C£000	C£000
Net cash flow from operating activities			
Profit before tax		101.242	38.330
Provisions for bad and doubtful debts		33.897	42.320
Depreciation of property and equipment and amortisation of intangible assets and discounts/premiums		11.223	8.629
Income from investments and disposal of property, equipment and intangible assets less interest on subordinated loan stock		(30.300)	(36.639)
		116.062	52.640
Net increase in loans and other advances to customers and other accounts		(643.967)	(469.072)
Net increase in customer deposits and other accounts		385.057	1.083.690
		(142.848)	667.258
Tax paid		(12.572)	(12.562)
Net cash flow (used in)/from operating activities		(155.420)	654.696
Net cash flow from investing activities		20.530	916
Net cash flow used in financing activities		(71.649)	(21.975)
Net (decrease)/increase in cash and cash equivalents for the six months		(206.539)	633.637
Cash and cash equivalents			
At 1 January		2.780.103	1.601.133
Exchange adjustments		38	(6)
Net (decrease)/increase in cash and cash equivalents for the six months		(206.539)	633.637
At 30 June	16	2.573.602	2.234.764

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Notes to the Interim Condensed Consolidated Financial Statements

1. Corporate information

The Interim Condensed Consolidated Financial Statements include the financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and all its subsidiaries, which together are referred to as the 'Group', and were authorised for issue by a resolution of the Board of Directors on 27 July 2006.

Bank of Cyprus Public Company Ltd is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiary companies during the period 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 considered a public company under the Cyprus Stock Exchange Laws and Regulations and the Income Tax Law of Cyprus.

2. Basis of preparation

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2006 have been prepared in accordance with International Financial Reporting Standards (IFRSs) applicable to interim financial reporting as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) (IAS 34 Interim Financial Reporting).

All IFRSs issued by the IASB and effective at the time of preparing these Interim Condensed Consolidated Financial Statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 'Financial Instruments': recognition and measurement, relating to portfolio hedge accounting. Since the Group is not affected by these provisions, these Interim Condensed Consolidated Financial Statements comply with both the IFRSs as adopted by the EU and the IFRSs as issued by the IASB.

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2005.

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2006 have not been audited by the Group's external auditors. The Group's external auditors have conducted a review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The Interim Condensed Consolidated Financial Statements are presented in Cyprus pounds (C£).

3. Significant accounting policies

The accounting policies that have been followed for the preparation of the Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2006 are consistent with those followed for the preparation of the financial statements for year 2005, except for the adoption by the Group of the new and amended IFRSs as of 1 January 2006, as stated below. It is noted that as of 1 January 2006, the Group has adopted the stricter regulations issued by the Central Bank of Cyprus regarding suspension of income. According to the new regulations, income is suspended on all loans and advances that are more than three months in arrear (six months until 31 December 2005) and are not fully secured. Income is suspended on all the loans and advances of customers who have a specific facility to which the aforementioned criteria apply.

Adoption of new and amended IFRSs

As of 1 January 2006, the following new and amended IFRSs came into force.

IAS 19 (amended): Employee benefits

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses on defined benefit plans. The Group has not changed its accounting policy regarding the recognition of actuarial gains and losses. Adoption of this amendment will affect the format and extent of disclosures presented in the Group's annual financial statements.

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Notes to the Interim Condensed Consolidated Financial Statements

3. Significant accounting policies (continued)

Adoption of new and amended IFRSs (continued)

IAS 39 (amended): Cash flow hedge accounting of forecast intra-group transactions

The amendment allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and (b) the foreign currency risk will affect the consolidated income statement. The Group does not currently have any intra-group transactions that could qualify as hedged items in the consolidated financial statements.

IAS 39 and IFRS 4 (amended): Financial guarantee contracts

This amendment requires issued financial guarantees (other than those previously asserted by the Group to be insurance contracts) to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred and (b) the expenditure required to settle the commitment at the balance sheet date. The adoption of the amendment did not have a material effect on the results and financial statements of the Group.

IFRS 1 (amended): First-time adoption of International Financial Reporting Standards and IFRS 6 (amended): Exploration for and evaluation of mineral resources

The amendments are not relevant to the activities of the Group.

IFRIC Interpretation 4: Determining whether an arrangement contains a lease

The Interpretation specifies criteria for the determination of whether an agreement is or contains a lease and specifies the circumstances under which agreements that do not have the legal nature of a lease should be recognised according to IAS 17 'Leases'. The adoption of the Interpretation did not have a material effect on the financial statements of the Group.

IFRIC Interpretation 5: Right to interest arising from decommissioning, restoration and environmental rehabilitation funds and IFRIC Interpretation 6: Liabilities arising from participating in a specific market - waste electrical and electronic equipment

The Interpretations are not relevant to the activities of the Group.

IAS 21 (amended): The effects of changes in foreign exchange rates - net investment in a foreign operation

This amendment mainly requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in equity irrespective of the currency of the monetary item. The amendment does not have an effect on the financial statements of the Group.

4. 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 mainly conducted in three geographic segments: (a) Cyprus, (b) Greece and (c) other countries, primarily the United Kingdom and Australia.

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Notes to the Interim Condensed Consolidated Financial Statements

4. Segmental analysis (continued)

The primary reporting format is by business segment.

	Banking and financial services		Insurance business		Property and hotel business		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2006 C€000	2005 C€000	2006 C€000	2005 C€000	2006 C€000	2005 C€000	2006 C€000	2005 C€000
Turnover	403.647	342.417	36.406	33.318	3.135	3.417	443.188	379.152
Profit before tax	92.002	29.688	8.173	6.899	1.067	1.743	101.242	38.330

5. Other income

Other income for the six months ended 30 June 2006 includes dividend income of C€101 thousand (corresponding period of 2005: C€113 thousand) and for the three months ended 30 June 2006 of C€84 thousand (corresponding period of 2005: C€51 thousand).

6. Other operating expenses

Other operating expenses for the six months ended 30 June 2006 include depreciation of property and equipment and amortisation of intangible assets of C€9.319 thousand (corresponding period of 2005: C€9.881 thousand) and for the three months ended 30 June 2006 of C€4.598 thousand (corresponding period of 2005: C€4.917 thousand).

7. Earnings per share

	Six months ended 30 June	
	2006	2005
Profit after tax (C€ thousand)	85.020	31.311
Weighted average number of shares in issue during the period for basic earnings per share (thousand)	546.070	499.009
Weighted average number of shares, adjusted for the exercise of share options for diluted earnings per share (thousand)	546.347	499.009
Basic earnings per share (cent)	15,6	6,3
Diluted earnings per share (cent)	15,6	6,3

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Notes to the Interim Condensed Consolidated Financial Statements

7. Earnings per share (continued)

The Group has issued Share Options to its employees, which are potentially dilutive ordinary shares. The diluted earnings per share are calculated after adjusting the weighted average number of shares in issue during the period, under the assumption that all potentially dilutive ordinary shares are converted into shares.

The weighted average number of shares for the six months ended 30 June 2005 has been adjusted to reflect the bonus element of the rights issue of shares in December 2005 and also under the Dividend Reinvestment Plan, resulting from the dividend payment for the year 2005, in June 2006.

8. Loans and other advances to customers

	30 June 2006	<i>31 Dec. 2005</i>
	C£000	<i>C£000</i>
Loans and other advances to customers	8.094.594	7.398.021
Provisions for bad and doubtful debts	(453.648)	(413.810)
	7.640.946	6.984.211

Provisions for bad and doubtful debts and suspended income

	Provisions	Suspended income	Total
	<i>C£000</i>	<i>C£000</i>	C£000
At 1 January 2006	292.478	121.332	413.810
Exchange adjustments	164	(92)	72
Applied in writing off advances	(9.626)	(2.188)	(11.814)
Suspended income less collections	-	15.043	15.043
Collections of loans previously written off	2.640	-	2.640
Charge for the period	33.897	-	33.897
At 30 June 2006	319.553	134.095	453.648

9. Capital expenditure

The total capital expenditure of the Group for the period 1 January 2006 to 30 June 2006 was C£6.064 thousand (corresponding period of 2005: C£7.457 thousand).

10. Other assets

Other assets at 30 June 2006 include the positive fair value of derivative financial instruments of C£24.835 thousand (31 December 2005: C£8.229 thousand).

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Notes to the Interim Condensed Consolidated Financial Statements

11. Debt securities in issue

	Interest rate:	30 June 2006	31 Dec. 2005
		C£000	C£000
Senior Debt in Euro (€300 million) 2006/2009	Three-month Euribor plus 0,33%	172.314	-
Senior Debt in Euro (€300 million) 2005/2008	Three-month Euribor plus 0,30%	171.692	170.038
Senior Debt in Euro (€250 million) 2003/2006	Three-month Euribor plus 0,35%	140.267	143.302
Senior Debt in Euro (€5 million) 2003/2006	Three-month Euribor plus 0,40%	2.875	2.867
Senior Debt in Euro (€3 million) 2003/2008	Three-month Euribor plus 0,45%	1.725	1.721
		488.873	317.928
Euro Commercial Paper			
<i>in Euro</i>	-	60.744	-
<i>in British pounds</i>	-	8.283	-
<i>in U.S.Dollars</i>	-	2.251	-
		71.278	-
Interest-free loan from the European Development Bank	-	288	288
		560.439	318.216

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (31 December 2005: €1.500 million). Under this Programme the Company issued on 29 June 2006 Senior Debt of €300 million which has a three year term, bears a floating rate of interest set at three-month Euribor plus 0,33% and was issued at the price of €99,942.

On 30 June 2006, the amount of Senior Debt (€250 million) 2003/2006 and the amount of Senior Debt (€300 million) 2005/2008 outstanding was €244 million and €299 million respectively (31 December 2005: €250 million and €297 million respectively) as €6 million and €1 million of Debt respectively was held by the Company for trading purposes (31 December 2005: nil and €3 million respectively).

The Senior Debt (€300 million) 2006/2009, €300 million 2005/2008, €250 million 2003/2006 and €5 million 2003/2006 are listed on the Luxembourg Stock Exchange.

In April 2006 the Company established a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €500 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 upto 364 days and the Commercial Paper will not be listed on any stock exchange. Under this Programme the Company proceeded with seven issues amounting to €124 million (C£71.278 thousand).

12. Other liabilities

Other liabilities at 30 June 2006 include the negative fair value of derivative financial instruments of C£8.957 thousand (31 December 2005: C£12.608 thousand) and provisions for pending litigation or claims of C£2.025 thousand (31 December 2005: C£2.025 thousand).

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Notes to the Interim Condensed Consolidated Financial Statements

13. Subordinated loan stock

	30 June 2006	31 Dec. 2005
	C£000	C£000
Subordinated Bonds 2006/2011 in Euro (€275 million)	-	157.625
Subordinated Bonds 2008/2013 in Euro (€200 million)	113.824	114.422
Capital Securities Series A (C£65 million)	64.311	62.781
Capital Securities Series B (C£30 million)	29.883	29.753
Subordinated Bonds 2011/2016 in Euro (€200 million)	110.661	-
	318.679	364.581

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

The Subordinated Bonds 2006/2011 had a floating rate of interest and maturity in June 2011 and were issued in Euro (€275 million) in June 2001. The Company had the option to redeem the bonds in whole on or after 20 June 2006. The Company redeemed the bonds on 20 June 2006. The interest rate of the bonds was the three-month Euribor plus 1,20% until June 2006 and plus 2,40% thereafter. The bonds were listed on the Luxembourg Stock Exchange.

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (31 December 2005: €1.500 million). Under this Programme, the Company issued in October 2003, €200 million floating rate bonds 2008/2013 in Euro maturing in October 2013. The Company has the option to redeem the bonds during or after October 2008. The interest rate of the bonds is the three-month Euribor plus 1,00% until October 2008 and plus 2,20% thereafter. The issue price of the bonds was 99,766%. The bonds are listed on the Luxembourg Stock Exchange.

On 30 June 2006 the bonds (€200 million) 2008/2013 outstanding amounted to €198.350 thousand (31 December 2005: €200 million) as €1.650 thousand (31 December 2005: nil) bonds were held by the Company for trading purposes.

Capital Securities Series A amounting to C£65 million and Series B amounting to C£30 million were issued in Cyprus pounds in February 2003 and March 2004 respectively, and were offered in Cyprus. The Capital Securities rank as Tier 1 capital and have no maturity date. They may, however, be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter. The Capital Securities bear floating interest rate, which is revised every three months. The interest rate is equal to the base rate of the Company at the beginning of each three-month period plus 1,00%. Interest is payable quarterly. The Capital Securities are listed on the Cyprus Stock Exchange.

On 30 June 2006 the Capital Securities Series A and Series B outstanding amounted to C£64.311 thousand and C£29.883 thousand respectively (31 December 2005: C£62.781 thousand and C£29.753 thousand respectively) as C£689 thousand of Capital Securities Series A and C£117 thousand of Capital Securities Series B (31 December 2005: C£2.219 thousand and C£247 thousand respectively) were held by the Company for trading purposes.

13. Subordinated loan stock (continued)

Under the EMTN Programme, the Company issued on 4 May 2006 €200 million floating rate Subordinated Bonds 2011/2016 in Euro maturing in May 2016. The Company has the option to redeem them in whole during or after May 2011. The interest rate of the bonds is the three-month Euribor plus 0,60% until May 2011 and plus 1,60% thereafter. The issue price of the bonds was 99,861%. The bonds are listed on the Luxembourg Stock Exchange.

On 30 June 2006 the bonds (€200.000 thousand) 2011/2016 outstanding amounted to €193.000 thousand as €7.000 thousand were held by the Company for trading purposes.

14. Share capital

	30 June 2006		31 Dec. 2005	
	Shares (thousand)	C£000	Shares (thousand)	C£000
<i>Authorised</i>				
Shares of 50 cent each	600.000	300.000	600.000	300.000
<i>Issued and fully paid</i>				
At 1 January	545.316	272.658	464.771	232.385
Issue of shares	-	-	77.902	38.951
Dividend reinvestment	3.391	1.695	2.643	1.322
Exercise of share options	828	414	-	-
At 30 June 2006/31 December 2005	549.535	274.767	545.316	272.658

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

The Company has established a Dividend Reinvestment Plan under which all shareholders have the opportunity to reinvest all or part of their dividend in shares of the Company at a 10% discount on the market value. The share price under the Dividend Reinvestment Plan for the dividend paid on 27 June 2006 was set at C£3,49 per share. As a result of the dividend reinvestment, the Company's share capital and share premium increased by C£1.695 thousand, 3.391.194 shares (2005: C£1.322 thousand, 2.642.800 shares) and C£10.140 thousand (2005: C£2.907 thousand) respectively.

The Company has granted Share Options to all Group employees who were in service on 31 December 2000. The total number of Share Options granted was 3.216.700 and they give the holder the right to buy one share of the Company at the price of C£3,26 per share (as adjusted after the share issue in December 2005). The Share Options can be exercised by their holders from 31 January 2004 to 31 December 2007. During the six months ended 30 June 2006, 827.506 Share Options (2005: nil) were exercised. On 30 June 2006, 2.073.644 Options remain unexercised by their holders whilst 315.550 Options have been cancelled as a result of the retirement of their holders. As a result of the exercise of the Options, the Company's share capital and share premium increased by C£414 thousand (827.506 shares) and C£2.284 thousand respectively.

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Notes to the Interim Condensed Consolidated Financial Statements

15. Dividend

At the Annual General Meeting held on 30 May 2006 the payment of a dividend of 7 cent per share was approved. The total dividend amounted to C£38.211 thousand and was paid on 27 June 2006.

During 2005, dividend amounting to C£18.591 thousand (4 cent per share) was paid.

16. Cash and cash equivalents

	30 June 2006	<i>30 June. 2005</i>
	C£000	<i>C£000</i>
Cash and non obligatory balances with central banks	431.532	130.275
Placements with banks repayable within three months	2.142.070	2.104.489
	2.573.602	2.234.764

17. Staff numbers

The number of persons employed by the Group as at 30 June 2006 was 6.100 (31 December 2005: 6.065).

18. Group companies

The Interim Condensed Consolidated Financial Statements of the Group at 30 June 2006 include the following companies, by country of incorporation:

Cyprus: Bank of Cyprus Public Company Ltd, Mortgage Bank of Cyprus Ltd, Cyprus Investment and Securities Corporation Ltd (CISCO), General Insurance of Cyprus Ltd, EuroLife Ltd, Kermia Ltd, Kermia Properties & Investments Ltd, Kermia Hotels Ltd, BOC Ventures Ltd, Tefkros Investments Ltd, Bank of Cyprus Mutual Funds Ltd and JCC Payment Systems Ltd.

Greece: Bank of Cyprus Public Company Ltd (branch), Kyprou Leasing SA, Kyprou Commercial SA, Kyprou Securities SA, Kyprou Mutual Fund Management Company (AEDAK), Kyprou Properties SA, Kyprou Insurance Services Ltd, Kyprou Zois (branch of EuroLife Ltd) and Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd).

United Kingdom: Bank of Cyprus United Kingdom (branch of Bank of Cyprus Public Company Ltd) and Old Company (BCL) Ltd.

Channel Islands: Bank of Cyprus (Channel Islands) Ltd and Tefkros Investments (CI) Ltd.

Australia: Bank of Cyprus Australia Pty Ltd.

Ireland: BOC International Fund Management Ltd.

Bank of Cyprus Group

Notes to the Interim Condensed Consolidated Financial Statements

18. Group companies (continued)

All companies are wholly owned subsidiaries (100%) of the Group, except for JCC Payment Systems Ltd, in which the Company owns 45% of the issued share capital. This company is accounted for as an interest in a jointly controlled entity.

During 2005, the Group decided the termination of the activities of the subsidiary company BOC International Funds Management Ltd, in the context of its restructuring process aiming to achieve synergies, and has started the dissolution process.

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

There was no other change in the companies that were consolidated or in the method of consolidation compared to 30 June and 31 December 2005.

19. Related party transactions

Loans and other advances, contingent liabilities, commitments and deposits with members of the Board of Directors of the Company, key management personnel and their connected persons

On 30 June 2006 there were loans and other advances to members of the Board of Directors of the Company, key management personnel and their connected persons amounting to C£84.976 thousand (31 December 2005: C£90.841 thousand). Additionally, there were contingent liabilities in the form of documentary credits, guarantees and commitments to lend amounting to C£45.881 thousand (31 December 2005: C£41.321 thousand). The tangible security for the above, amounted to C£120.689 thousand (31 December 2005: C£105.451 thousand). Deposits of related parties on 30 June 2006 amounted to C£11.826 thousand (31 December 2005: C£10.228 thousand). Interest income and expense from related parties for the six months ended 30 June 2006 amounted to C£2.489 thousand and C£126 thousand respectively.

For the six months ended 30 June 2006, a provision for bad and doubtful debts of C£1.518 thousand has been made which represents the facilities as at 30 June 2006 extended to Mr. D. Z. Pierides, who is a member of the Board of Directors of the Company, and his connected persons. Pursuant to an agreement, the Group is in the process of enhancing the securities covering these facilities.

Connected persons include spouses, minor children and entities in which directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares.

All transactions with members of the Board of Directors and with their connected persons are made on normal business terms. A number of credit facilities have been extended to key management personnel with favourable terms, similar to those which apply to the rest of the Group's personnel.

Other transactions with related parties

Mr Andreas Artemis, Vice-Chairman of the Board of Directors of the Company, holds an indirect interest and is the Chairman of the Board of Directors of the Commercial Union Assurance (Cyprus) group which is engaged in general insurance business in Cyprus and Greece. The Commercial Union Assurance (Cyprus) group has entered into reinsurance arrangements with General Insurance of Cyprus Ltd, a subsidiary of the Company. The net reinsurance premiums which were assigned to the Commercial Union Assurance (Cyprus) group for the six months ended 30 June 2006 amounted to C£228 thousand (corresponding period of 2005: C£229 thousand).

Mrs Anna Diogenous, who is a member of the Board of Directors of the Company, holds an indirect interest in the company Pylones SA Hellas, which supplies the branch of the Company in Greece with equipment and services following tender procedures. The total purchases from this company for the six months ended 30 June 2006 amounted to C£272 thousand (corresponding period of 2005: C£366 thousand).

19. Related party transactions *(continued)*

Other transactions with related parties *(continued)*

Mr Polys G. Polyviou, who served as a member of the Board of Directors of the Company until 26 June 2006, is a partner in the Law Office Chryssafinis & Polyviou, who are the external legal advisers of the Group and also handle court cases and legal proceedings on behalf of the Group in Cyprus and abroad. The legal fees paid to the law office Chryssafinis & Polyviou by the Group for the six months ended 30 June 2006 amounted to C£219 thousand (corresponding period of 2005: C£214 thousand). The same law office is also assigned court cases and actions against Group debtors. The total amount paid to the law office of Chryssafinis & Polyviou for these cases and charged to these debtors for the six months ended 30 June 2006, was C£606 thousand (corresponding period of 2005: C£604 thousand).

Mr Costas Z. Severis, who is a member of the Board of Directors of the Company, is the main shareholder of the company D. Severis and Sons Ltd, which is the general agent of the subsidiary of the Company, General Insurance of Cyprus Ltd. The total commissions paid to the company D. Severis and Sons Ltd for the six months ended 30 June 2006 amounted to C£50 thousand (corresponding period of 2005: C£52 thousand).

20. Competitive tender offer for the purchase of 100% of the shares in Emporiki Bank of Greece S.A.

On 22 June 2006, the Company made a Public Tender Offer to all the shareholders of Emporiki Bank of Greece S.A. ('Emporiki Bank') for 100% of the shares of Emporiki Bank. The offer consideration was €6,00 in cash and 3,25 Company shares for every Emporiki Bank share. The offer was subject to the approval of the appropriate regulatory authorities and the General Meeting of the Company's shareholders.

On 21 July 2006, the Company received a negative response by the Central Bank of Cyprus to its application for approval of investing in Emporiki Bank. As a result of the Central Bank of Cyprus' decision, which is final, Bank of Cyprus' Public Tender Offer for Emporiki is no longer valid and lapses, in accordance with clause 2.14 (A) (b) of the Information Memorandum for the Public Tender Offer by the Company for the shares of Emporiki Bank, approved by the Hellenic Capital Markets Commission.

21. Other information

- There are no fixed charges in favour of third parties over the Group's property and equipment as at 30 June 2006.
- The Group's provision for pending litigation or claims at 30 June 2006 is set out in Note 12. 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 and operations.
- The legal proceedings between Mr. A. Georgiou and the Company referred to in the annual financial statements of the year 2005 will be withdrawn, following the agreement for the sale of the shares held in Universal Life Insurance Public Co. Ltd, as mentioned in note 22.
- An application for the payment by the Company of an amount up to \$77.112 thousand (C£34.892 thousand) plus interest is pending before the courts of New York, relating to balances that certain customers allegedly maintain with Bank of Cyprus Public Company Ltd. This application, which relates to executing a judgement of the courts against third parties, does not create any legal obligation for the Company if no accounts exist in the names of third parties/customers. The Company, pursuant to consultation and advice from the Group's legal counsel in New York, expects that the final outcome of the above proceedings will not have a material effect on the Group's financial position.

Bank of Cyprus Group

Notes to the Interim Condensed Consolidated Financial Statements

21. Other information *(continued)*

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

22. Events after the balance sheet date

On 13 July 2006, the Group announced that it has reached an agreement to sell to Mr. Andreas Georgiou and to the Group of Photos Photiades Ltd, the shares it holds in Universal Life Insurance Public Co. Ltd ('Universal') for cash.

The total number of Universal shares held by Bank of Cyprus Public Company Ltd and its subsidiary companies amounts to 2,9 million. The corresponding consideration for these shares in accordance with the agreement amounts to C£6,1 million. The book value of the shares as at 30 June 2006 amounts to C£6,1 million (31 December 2005: C£5,8 million).

The agreement is subject to completion within six months, in order to provide the buyers with sufficient time to take the necessary actions they are required to take.

**Report on review of interim condensed consolidated financial statements
to the Board of Directors of Bank of Cyprus Public Company Ltd**

Introduction

We have reviewed the interim condensed consolidated financial statements of Bank of Cyprus Public Company Ltd (the "Company") and its subsidiaries (the "Group") on pages 1 to 17, which comprise the interim condensed consolidated balance sheet as at 30 June 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. We have not reviewed the interim condensed consolidated statement of income for the three-month period from 1 April to 30 June 2006 which is included in these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards applicable to interim financial reporting as issued by the International Accounting Standards Board and adopted by the European Union ("IAS 34 Interim Financial Reporting"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Ernst & Young

Nicosia
27 July 2006