

Bank of Cyprus Group



Condensed Interim Consolidated Financial Statements
for the three months ended

31 March '06

Bank of Cyprus Group

Condensed Interim Consolidated Financial Statements

for the three months ended 31 March 2006

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Condensed Consolidated Income Statement

for the three months ended 31 March 2006

	Notes	<i>Three months ended 31 Mar.</i>		<i>Year ended 31 Dec.</i>
		<i>2006</i>	<i>2005</i>	<i>2005</i>
		<i>C£000</i>	<i>C£000</i>	<i>C£000</i>
Turnover	4	216.096	186.239	797.255
Net interest income		78.381	65.857	279.766
Net fee and commission income		23.835	20.551	89.704
Foreign exchange income		3.829	3.114	14.493
Net gains on sale and change in fair value of financial instruments		8.392	152	6.022
Income from insurance business		7.090	5.914	23.375
Other income	5	1.007	2.732	5.882
		122.534	98.320	419.242
Staff costs		(38.167)	(37.911)	(151.331)
Other operating expenses	6	(21.877)	(20.958)	(86.266)
Profit before provisions		62.490	39.451	181.645
Provisions for bad and doubtful debts		(18.141)	(19.931)	(91.087)
Profit before tax		44.349	19.520	90.558
Tax		(7.128)	(3.474)	(18.141)
Profit after tax		37.221	16.046	72.417
Basic and diluted earnings per share (cent)	7	6,8	3,2	14,4

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Condensed Consolidated Balance Sheet

as at 31 March 2006

		31 Mar.	31 Dec.
		2006	2005
	Notes	€000	€000
Assets			
Cash and balances with central banks		361.359	611.681
Placements with banks		2.162.001	2.578.300
Investments at fair value through profit or loss		143.587	89.331
Loans and other advances to customers	8	7.249.743	6.984.211
Investments available-for-sale and held-to-maturity		2.034.417	1.945.261
Property and equipment	9	158.515	159.664
Intangible assets		10.669	10.927
Other assets	10	233.662	191.008
		12.353.953	12.570.383
Life assurance business net assets attributable to policyholders		251.870	231.806
Total assets		12.605.823	12.802.189
Liabilities			
Amounts due to banks		276.563	177.749
Customer deposits and other accounts		10.363.961	10.724.485
Debt securities in issue		320.804	318.216
Other liabilities	11	226.569	223.701
		11.187.897	11.444.151
Life assurance business liabilities to policyholders		251.870	231.806
Subordinated loan stock	12	366.397	364.581
Equity			
Share capital	13	272.820	272.658
Reserves		526.839	488.993
		799.659	761.651
Total liabilities and equity		12.605.823	12.802.189
Contingent liabilities and commitments			
Contingent liabilities		811.259	770.809
Commitments		1.315.320	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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Consolidated Statement of Changes in Equity

for the three months ended 31 March 2006

	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 2006	272.658	311.399	95.919	(2.898)	84.573	761.651
Gains from change in fair value of available-for-sale investments	-	-	1.521	-	-	1.521
Losses from change in fair value of financial instruments designated as cash flow hedges	-	-	(368)	-	-	(368)
Deferred tax	-	-	473	-	-	473
Exchange adjustments	-	-	-	28	-	28
Increase in value of life assurance policies in force	-	-	847	-	(847)	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(1.923)	-	-	(1.923)
Profit/(loss) recognised directly in equity	-	-	550	28	(847)	(269)
Profit after tax for the period	-	-	-	-	37.221	37.221
Total profit for the period	-	-	550	28	36.374	36.952
Exercise of share options	162	894	-	-	-	1.056
At 31 March 2006	272.820	312.293	96.469	(2.870)	120.947	799.659

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Consolidated Statement of Changes in Equity

for the three months ended 31 March 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	-	-	1.071	-	-	1.071
Gains from change in fair value of financial instruments designated as cash flow hedges	-	-	786	-	-	786
Deferred tax	-	-	172	-	-	172
Exchange adjustments	-	-	-	280	-	280
Increase in value of life assurance policies in force	-	-	160	-	(160)	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(75)	-	-	(75)
Profit/(loss) recognised directly in equity	-	-	2.114	280	(160)	2.234
Profit after tax for the period	-	-	-	-	16.046	16.046
At 31 March 2005	232.385	238.955	59.032	(2.548)	49.569	577.393

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Condensed Consolidated Cash Flow Statement

for the three months ended 31 March 2006

	<i>Three months ended 31 Mar.</i>	
	<i>2006</i>	<i>2005</i>
	<i>C€000</i>	<i>C€000</i>
Net cash flow from operating activities		
Profit before tax	44.349	19.520
Provisions for bad and doubtful debts	18.141	19.931
Depreciation of property and equipment and amortisation of intangible assets and discounts/premiums	5.852	4.605
Income from investments and disposal of property, equipment and intangible assets, less interest on subordinated loan stock	(9.649)	(11.997)
	58.693	32.059
Net increase in loans and advances to customers and other accounts	(253.635)	(224.578)
Net (decrease)/increase in customer deposits and other accounts	(256.253)	310.860
	(451.195)	118.341
Tax paid	(2.185)	(6.735)
Net cash flow (used in)/from operating activities	(453.380)	111.606
Net cash flow (used in)/from investing activities	(78.564)	151
Net cash flow used in financing activities	(4.513)	(3.821)
Net (decrease)/increase in cash and cash equivalents for the three months	(536.457)	107.936
Cash and cash equivalents		
At 1 January	2.780.103	1.601.133
Exchange adjustments	28	280
Net (decrease)/increase in cash and cash equivalents for the three months	(536.457)	107.936
At 31 March	2.243.674	1.709.349

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Notes to the Condensed Interim Consolidated Financial Statements

1. General information

The Condensed Interim 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 11 May 2006.

The Condensed Interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements for the year ended 31 December 2005.

The financial statements are expressed in Cyprus pounds (C£).

2. Unaudited financial statements

The Condensed Interim Consolidated Financial Statements for the three months ended 31 March 2006 have not been audited by the Group’s external auditors.

3. Accounting policies

The Condensed Interim Consolidated Financial Statements for the three months ended 31 March 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), including International Accounting Standard (IAS) 34 “Interim Financial Reporting”.

All IFRSs issued by the IASB and effective at the time of preparing these financial statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the amendment to IAS 21 “The effects of changes in foreign exchange rates – net investment in a foreign operation” which was issued by the IASB on 15 December 2005, is effective for annual accounting periods commencing on or after 1 January 2006 and which has not yet been endorsed by the EU. Since the Group is not affected by this amendment, these condensed consolidated financial statements comply with both the IFRSs as adopted by the EU and the IFRSs as issued by the IASB.

The accounting policies that have been followed for the preparation of the Condensed Interim Consolidated Financial Statements for the three months ended 31 March 2006 are the same as those followed for the preparation of the financial statements for year 2005, with the exception of the adoption by the Group of the new and amended IFRSs as of 1 January 2006. 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. The suspension of income is also applied to all other loans and advances of the customers who have a specific facility that falls under the aforementioned criteria.

Adoption of new and amended IFRSs

As from 1 January 2006, the following new and amended IFRSs and Interpretations 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.

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.

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Notes to the Condensed Interim Consolidated Financial Statements

3. Accounting policies (continued)

Adoption of new and amended IFRSs (continued)

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. There was no material effect on the results and financial statements of the Group as a result of the adoption of the amended standards.

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

These 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

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

IFRSs that have been issued by the IASB but have not yet been adopted by the EU

The Group has not adopted the following IFRSs, which were issued by the IASB and have come into effect, but have not yet been adopted by the EU:

IAS 21 (amended): The effects of changes in foreign exchange rates - net investment in a foreign operation (effective as from 1 January 2006)

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 impact 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.

The primary reporting format is by business segment.

	Banking and financial services		Insurance business		Property and hotel business		Total	
	Three months ended 31 Mar.		Three months ended 31 Mar.		Three months ended 31 Mar.		Three months ended 31 Mar.	
	2006 €000	2005 €000	2006 €000	2005 €000	2006 €000	2005 €000	2006 €000	2005 €000
Turnover	196.114	167.751	18.146	16.116	1.836	2.372	216.096	186.239
Profit before tax	39.173	14.708	4.661	3.394	515	1.418	44.349	19.520

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Notes to the Condensed Interim Consolidated Financial Statements

5. Other income

Other income for the three months ended 31 March 2006 includes dividend income of C£17 thousand (corresponding period of 2005: C£62 thousand).

6. Other operating expenses

Other operating expenses for the three months ended 31 March 2006 include depreciation of property and equipment and amortisation of intangible assets of C£4.721 thousand (corresponding period of 2005: C£4.964 thousand).

7. Basic and diluted earnings per share

	<i>Three months ended 31 Mar.</i>	
	<i>2006</i>	<i>2005</i>
Profit after tax (C£ thousand)	37.221	16.046
Weighted average number of shares in issue during the period (thousand)	545.316	498.345
Weighted average number of shares, adjusted for the exercise of share options (thousand)	545.419	498.345
Basic and diluted earnings per share (cent)	6,8	3,2

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 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 three months ended 31 March 2005 has been adjusted to reflect the bonus element of the issue of shares under the Dividend Reinvestment Plan, resulting from the dividend payment in June 2005 and the rights issue in December 2005.

8. Loans and other advances to customers

	<i>31 Mar. 2006</i>	<i>31 Dec. 2005</i>
	<i>C£000</i>	<i>C£000</i>
Loans and other advances to customers	7.684.275	7.398.021
Provisions for bad and doubtful debts	(434.532)	(413.810)
	7.249.743	6.984.211

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Notes to the Condensed Interim Consolidated Financial Statements

8. Loans and other advances to customers (continued)

Provisions for bad and doubtful debts and suspended income

	Provisions	Suspended income	Total
	C£000	C£000	C£000
At 1 January 2006	292.478	121.332	413.810
Exchange adjustments	306	39	345
Applied in writing off advances	(5.825)	(1.805)	(7.630)
Suspended income less collections	-	8.256	8.256
Collections of loans previously written off	1.610	-	1.610
Charge of the period	18.141	-	18.141
At 31 March 2006	306.710	127.822	434.532

9. Capital expenditure

The total capital expenditure of the Group for the period from 1 January 2006 to 31 March 2006 amounts to C£3.437 thousand (corresponding period of 2005: C£4.242 thousand).

10. Other assets

Other assets at 31 March 2006 include the positive fair value of derivative financial instruments of C£17.460 thousand (31 December 2005: C£8.229 thousand).

11. Other liabilities

Other liabilities at 31 March 2006 include the negative fair value of derivative financial instruments of C£8.685 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).

12. Subordinated loan stock

	31 Mar. 2006	31 Dec. 2005
	C£000	C£000
Subordinated Bonds 2006/2011 in Euro (€275 million)	158.356	157.625
Subordinated Bonds 2008/2013 in Euro (€200 million)	114.947	114.422
Capital Securities Series A (C£65 million)	63.211	62.781
Capital Securities Series B (C£30 million)	29.883	29.753
	366.397	364.581

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Notes to the Condensed Interim Consolidated Financial Statements

12. Subordinated loan stock (continued)

All subordinated loan stock has been issued by the Company. 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 the shareholders of the Company.

The Subordinated Bonds 2006/2011 bear a floating rate of interest, mature in June 2011 and were issued in Euro (€275 million) in June 2001. The Company has the option to redeem the bonds in whole during or after June 2006. The interest rate of the bonds is the three-month Euribor plus 1,20% until June 2006 and plus 2,40% thereafter. The bonds are 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. Under this programme, the Company has issued in October 2003, €200 million floating rate bonds 2008/2013 in Euro maturing in October 2013. The Company has the option to call 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 set at 99,766%. The bonds are listed on the Luxembourg Stock Exchange.

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 have been 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.

Post balance sheet event

Under its EMTN Programme, the Company has issued €200 million floating rate Subordinated Bonds in Euro in May 2006. 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 set at 99,861%. The bonds mature in May 2016 but the Company has the option to redeem them in whole during or after May 2011. The bonds are listed on the Luxembourg Stock Exchange.

13. Share capital

	31 Mar. 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	-	-	2.643	1.322
Exercise of share options	323	162	-	-
31 March 2006/31 December 2005	545.639	272.820	545.316	272.658

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Notes to the Condensed Interim Consolidated Financial Statements

13. Share capital (continued)

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 Bank of Cyprus Public Company Ltd shares at a 10% discount on the market value. The share price under the Dividend Reinvestment Plan for the dividend paid on 18 June 2005 was set at C£1,60 per share. As a result of the dividend reinvestment, the Company's share capital and share premium increased by C£1.322 thousand (2.642.800 shares) and 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). The Share Options can be exercised by their holders from 31 January 2004 to 31 December 2007. During the three months ended 31 March 2006, 323.816 Share Options (2005: nil) were exercised by their holders and 2.575.534 Options remain unexercised as at 31 March 2006. As a result of the exercise of the Options, the Company's share capital and share premium increased by C£162 thousand (323.816 shares) and C£894 thousand respectively.

14. Dividend

On 27 February 2006, the Board of Directors of the Company decided to propose the payment of a dividend of 7 cent per share, amounting to C£38.195 thousand. The proposed dividend will be submitted for approval to the Annual General Meeting of the shareholders which will take place on 30 May 2006. The Board of Directors also proposes that the ex-dividend date will be on 2 June 2006. As a result, registered shareholders on 1 June 2006 will be eligible to receive the dividend. The proposed dividend is not recognised as a liability in the financial statements until its approval by the Annual General Meeting and its subsequent payment to shareholders.

15. Staff number

The number of persons employed by the Group as at 31 March 2006 was 6.062 (31 December 2005: 6.065).

16. Group companies

The Condensed Consolidated Financial Statements of the Group at 31 March 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 Asfalistikí (branch of General Insurance of Cyprus Ltd).

United Kingdom: Bank of Cyprus United Kingdom (branch of Bank of Cyprus Public Company 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.

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Notes to the Condensed Interim Consolidated Financial Statements

16. 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.

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 31 March 2005 and 31 December 2005.

17. Other information

- There are no fixed charges in favour of third parties over the Group's property and equipment as at 31 March 2006.
- The Group's provision for pending litigation or claims at 31 March 2006 is set out in Note 11. 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.
- There is a pending legal dispute between the Company and Mr A. Georgiou, regarding the alleged exercise of an option for the sale of shares the Group holds in Universal Life Insurance Public Co. Ltd. An application for the payment by the Company of an amount up to \$77.112 thousand (C£36.720 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, expects that the final outcome of the above proceedings will not have a material effect on the Group's financial position.
- 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.