

**MARFIN POPULAR BANK PUBLIC CO LTD  
FINANCIAL STATEMENTS 2006**

Board of Directors and Other Officers

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## BOARD OF DIRECTORS AND OTHER OFFICERS

### Board of Directors

Soud Ba'alawy	-	Chairman	(appointed 12 January, 2007 and elected Chairman 8 February, 2007)
Neoclis Lysandrou	-	Vice Chairman	(appointed 26 July, 2006)
Andreas Vgenopoulos	-	Chief Executive Officer	(elected 15 June, 2006)
Christos Stylianides	-	Deputy Chief Executive Officer	(elected 15 June, 2006)
Eleftherios Chiliadakis	-	Deputy Chief Executive Officer	(appointed 6 November, 2006)
Platon E. Lanitis			
Michalis Louis			(elected 15 June, 2006)
Kyriacos Magiras			(elected 15 June, 2006)
Constantinos Mylonas			(elected 15 June, 2006)
Manolis Xanthakis			(elected 15 June, 2006)
Marcos Foros			(elected 15 June, 2006)
Stelios Stylianou			(appointed 12 January, 2007)
Sayanta Basu			(appointed 12 January, 2007)
Vincent Pica			(appointed 12 January, 2007)
Nicholas Wrigley			(appointed 12 January, 2007)
Michael R. Erotokritos			(retired 26 July, 2006)
Chrysostomos Theokli			(elected 15 June, 2006 and retired 12 January, 2007)
Theophilos Theophilou			(retired 26 July, 2006)
Kikis N. Lazarides			(retired 17 July, 2006)
Marios E. Lanitis			(retired 15 June, 2006)
Andreas Louroutziatis			(retired 15 June, 2006)
Christos Papaellinas			(retired 15 June, 2006)
Rena Rouvitha Panou			(retired 15 June, 2006, appointed 26 July, 2006 and retired 6 November, 2006)

**BOARD OF DIRECTORS AND OTHER OFFICERS** (continued)

**Board of Directors** (continued)

Andreas Philippou

(retired 19 October, 2006)

Loizos Hadjicostis

(appointed 21 November, 2006 and  
retired 21 December, 2006)

George Psimolophitis

(retired 15 June, 2006)

Anthony Townsend

(retired 15 June, 2006)

**Secretary**

Stelios Hadjijoseph

**Chief Financial Officer**

Annita Philippidou

**Registered Office**

154, Limassol Avenue, 2025 Nicosia

**Independent Auditor**

PricewaterhouseCoopers Limited

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents the audited financial statements of Marfin Popular Bank Public Co Ltd ("the Bank") for the year ended 31 December, 2006.

### Principal activities

The Bank is the parent company of the Marfin Popular Bank Public Co Ltd Group. The principal activity of the Bank is the provision of banking services. The Bank operates in Cyprus and through a branch in the United Kingdom.

### Results for the year

The results for 2006 are shown in the income statement on page 8. The Bank's profit before provision for impairment of advances reached C£ 103,3 m compared to C£ 70,1 m in 2005. After provision for impairment of advances of C£ 15,2 m, profit before tax reached C£ 88,1 m against C£ 36,4 m in 2005. After tax (C£ 9,7 m), profit for the year reached C£ 78,4 m against C£ 30,6 m in 2005.

### Dividend

The Board of Directors recommends a dividend payment of 36% (2005: 12%) which corresponds to 18 cent (2005: 6 cent) per share. The remaining profit for the year is transferred to reserves.

### Share capital

Following the approval of the Extraordinary General Meeting on 15 June, 2006 the authorised share capital of the Bank was increased from C£ 200 m to C£ 250 m and with the approval of the Extraordinary General Meeting on 31 October, 2006 the authorised share capital was further increased to C£ 475 m.

In June 2006 the issued share capital increased by 51.057.000 ordinary shares from rights for the benefit of existing shareholders. In December 2006 the share capital increased by 414.716.000 ordinary shares from the issue and allocation of ordinary shares to the shareholders of Marfin Financial Group Holdings S.A., to the shareholders and holders of convertible bonds of Egnatia Bank S.A. and to the shareholders of Laiki Bank (Hellas) S.A. who entered into exchange and transfer contracts for their shares. Another 18.138.000 ordinary shares, which will be allocated to the shareholders of Laiki Bank (Hellas) S.A. who will accept the private offer for the acquisition of the minority interest in Laiki Bank (Hellas) S.A., are in the process of being issued.

The share capital and share premium are presented in Note 34 of the financial statements.

### Risk management

As any other financial institution, the Bank is exposed to risks. The nature of these risks and the Bank's risk management policies are explained in Note 41 of the financial statements.

### Post balance sheet events

Post balance sheet events are disclosed in Note 46 of the financial statements.

## **REPORT OF THE BOARD OF DIRECTORS** (continued)

### **Prospects for the future**

The integration of the three groups is significantly underway and is expected to be completed on target by 30 June, 2007. The complementarity of the new group's operations will lead to significant revenue and cost synergies. The Group dynamics evolve around three axes: acceleration of asset and revenue growth, cost containment and improvement in asset quality. These dynamics are present in all the geographical regions the Group operates, making the future profitability prospects especially strong.

### **Board of Directors**

The Members of the Board of Directors of the Bank are shown on pages 1 and 2.

Marios E. Lanitis, Platon E. Lanitis, Andreas Louroutziatis, Christos Papaellinas, Andreas Philippou and George Psimolophitis submitted their resignation effective from 15 June, 2006, date of the Annual General Meeting, in order to facilitate the restructuring of the Board.

Rena Rouvitha Panou and Anthony Townsend who were retiring by rotation at the same General Meeting, in accordance with Article 92 of the Articles of Association as it then stood, informed the Bank that they were not interested for re-election.

In accordance with Article 96 of the Articles of Association the following were recommended to the Bank and elected by the Annual General Meeting as new Members of the Board: Andreas Vgenopoulos, Chrysostomos Theokli, Theophilos Theophilou, Platon E. Lanitis, Michalis Louis, Kyriacos Magiras, Constantinos Mylonas, Christos Stylianides, Andreas Philippou, Marcos Foros, Manolis Xanthakis

Manolis Xanthakis was elected Vice Chairman on 27 June, 2006.

Kikis N. Lazarides retired from the position of Chairman and Member of the Board on 17 July, 2006.

Michael R. Erotokritos retired from the position of Managing Director and Member of the Board on 26 July, 2006. Theophilos Theophilou also retired from the Board on the same date.

Neoclis Lysandrou and Rena Rouvitha Panou were appointed Members of the Board on 26 July, 2006 in accordance with Article 98 of the Articles of Association. On the same day Neoclis Lysandrou was elected as Chairman.

Andreas Philippou and Rena Rouvitha Panou retired from the Board on 19 October, 2006 and 6 November, 2006 respectively.

Eleftherios Chiliadakis and Loizos Hadjicostis were appointed Members of the Board in accordance with Article 98 of the Articles of Association, on 6 and 21 November, 2006 respectively. Loizos Hadjicostis retired from the Board on 21 December, 2006.

Chrysostomos Theokli retired from the Board on 12 January, 2007.

Soud Ba'alawy, Sayanta Basu, Vincent Pica, Nicholas Wrigley and Stelios Stylianou were appointed Members of the Board in accordance with Article 98 of the Articles of Association on 12 January, 2007.

## **REPORT OF THE BOARD OF DIRECTORS** (continued)

### **Board of Directors** (continued)

Soud Ba'alawy was elected Chairman and Neoclis Lysandrou as Vice Chairman on 8 February, 2007.

Soud Ba'alawy, Neoclis Lysandrou, Sayanta Basu, Vincent Pica, Nicholas Wrigley, Eleftherios Chiliadakis and Stelios Stylianou who have been appointed Members of the Board in accordance with Article 98 of the Articles of Association offer themselves for re-election by the Annual General Meeting.

The remuneration of the Members of the Board of Directors is disclosed in Note 44 of the financial statements.

### **Statement by the Members of the Board of Directors**

The Members of the Board of Directors which are shown on pages 1 and 2 and are responsible for the preparation of the financial statements state that the information presented in the financial statements is true and complete and this information is the product of careful and conscientious work.

### **Independent Auditor**

The Independent Auditors of the Bank, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

**Neoclis Lysandrou**  
Vice Chairman

Nicosia, 20 February, 2007

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARFIN POPULAR BANK PUBLIC CO LTD

## Report on the Financial Statements

1. We have audited the financial statements of the parent company Marfin Popular Bank Public Co Ltd on pages 8 to 81 which comprise the balance sheet as at 31 December, 2006, and the income statement, statement of changes in equity and 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*

2. 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 (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) 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.

### *Auditor's Responsibility*

3. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4. 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 judgement, 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.

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MARFIN POPULAR BANK PUBLIC CO LTD (continued)**

*Opinion*

6. In our opinion, the financial statements give a true and fair view of the financial position of the parent company Marfin Popular Bank Public Co Ltd as of 31 December, 2006 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 EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap. 113.

**Report on Other Legal Requirements**

7. 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 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 5 is consistent with the financial statements.

PricewaterhouseCoopers Limited  
Chartered Accountants

Nicosia, 20 February, 2007

**INCOME STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 C£ '000	2005 C£ '000
Interest income	4	<b>319.668</b>	249.956
Interest expense	4	<b>(186.781)</b>	(145.670)
<b>Net interest income</b>		<b>132.887</b>	104.286
Fee and commission income	5	<b>48.100</b>	42.076
Fee and commission expense	5	<b>(1.752)</b>	(1.239)
<b>Net fee and commission income</b>		<b>46.348</b>	40.837
Profit on disposal and revaluation of securities	6	<b>476</b>	914
Foreign exchange income		<b>11.620</b>	9.456
Other income	7	<b>11.704</b>	7.298
<b>Operating income</b>		<b>203.035</b>	162.791
Staff costs	8	<b>(71.946)</b>	(65.224)
Depreciation and amortisation	9	<b>(6.020)</b>	(6.786)
Administrative expenses	10	<b>(21.810)</b>	(20.675)
Profit before provision for impairment of advances		<b>103.259</b>	70.106
Provision for impairment of advances	11	<b>(15.156)</b>	(27.161)
Profit before impairment of investments		<b>88.103</b>	42.945
Impairment of investments		-	(6.514)
<b>Profit before tax</b>		<b>88.103</b>	36.431
Tax	12	<b>(9.687)</b>	(5.807)
<b>Profit for the year</b>		<b>78.416</b>	30.624
<b>Earnings per share – cent</b>	13	<b>23,5</b>	10,0

The notes on pages 14 to 81 are an integral part of these financial statements.

**BALANCE SHEET**  
31 DECEMBER 2006

	Note	2006 C£ '000	2005 C£ '000
<b>Assets</b>			
Cash and balances with the Central Bank	14	370.702	354.378
Due from other banks	15	1.456.597	1.055.686
Financial assets at fair value through profit or loss	16	118.891	61.997
Advances to customers	17	2.827.591	2.253.324
Balances with subsidiary companies	44	332.153	337.197
Government bonds and treasury bills	19	261.914	279.057
Available-for-sale financial assets	20	782.250	535.977
Held-to-maturity financial assets	21	6.586	-
Other assets	22	41.073	32.346
Tax refundable		5.191	6.511
Investments in subsidiary companies	23	1.688.346	329.993
Investments in associates	24	6.874	5.874
Intangible assets	25	3.314	4.014
Investment property	26	1.522	1.385
Property and equipment	27	65.452	66.030
<b>Total assets</b>		<b>7.968.456</b>	<b>5.323.769</b>
<b>Liabilities</b>			
Due to other banks	28	173.907	111.404
Customer deposits	29	5.122.405	4.113.760
Senior debt	30	173.460	171.833
Loan capital	31	319.157	213.154
Balances with subsidiary companies	44	125.270	154.572
Other liabilities	32	116.126	84.482
Current tax liabilities		1.111	1.265
Deferred tax liabilities	33	4.618	4.520
Retirement benefit obligations	8	96.680	85.418
<b>Total liabilities</b>		<b>6.132.734</b>	<b>4.940.408</b>
<b>Share capital and reserves</b>			
Share capital	34	395.159	153.648
Share premium	34	1.113.055	4.843
Reserves	35	327.508	224.870
<b>Total equity</b>		<b>1.835.722</b>	<b>383.361</b>
<b>Total equity and liabilities</b>		<b>7.968.456</b>	<b>5.323.769</b>

N. Lysandrou, Vice Chairman  
A. Vgenopoulos, Chief Executive Officer  
C. Stylianides, Deputy Chief Executive Officer  
A. Philippidou, Chief Financial Officer

The notes on pages 14 to 81 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Share capital C£ '000	Share premium C£ '000	Fair value and currency translation reserves C£ '000	Revenue reserves C£ '000	Total C£ '000
<b>Balance 1 January 2005</b>		152.450	2.949	53.349	112.614	321.362
Revaluation of available-for-sale financial assets and investments in subsidiary companies and associates	35	-	-	30.901	-	30.901
Revaluation of property	35	-	-	(176)	-	(176)
Deferred tax	35	-	-	(86)	-	(86)
Impairment of investments	35	-	-	6.514	-	6.514
Exchange differences arising in the year	35	-	-	250	-	250
Transfer from fair value reserves to revenue reserves	35	-	-	(63)	63	-
Profit recognised directly in equity		-	-	37.340	63	37.403
Profit for the year		-	-	-	30.624	30.624
Total recognised profit for 2005		-	-	37.340	30.687	68.027
Dividend	35,45	-	-	-	(9.120)	(9.120)
Reinvestment of dividend	34,45	1.198	1.894	-	-	3.092
		1.198	1.894	-	(9.120)	(6.028)
<b>Balance 31 December 2005 / 1 January 2006</b>		<b>153.648</b>	<b>4.843</b>	<b>90.689</b>	<b>134.181</b>	<b>383.361</b>
Revaluation of available-for-sale financial assets and investments in subsidiary companies and associates	35	-	-	45.337	-	45.337
Deferred tax	35	-	-	18	-	18
Exchange differences arising in the year	35	-	-	315	-	315
Transfer from fair value reserves to revenue reserves	35	-	-	(178)	178	-
Profit recognised directly in equity		-	-	45.492	178	45.670
Profit for the year		-	-	-	78.416	78.416
Total recognised profit for 2006		-	-	45.492	78.594	124.086
Exercise of rights	34	25.528	35.740	-	-	61.268
Issue of shares according to public and private offers	34	207.358	1.036.789	-	-	1.244.147
Share issue costs	34	-	(9.662)	-	-	(9.662)
Shares in the process of being issued	34	9.069	45.345	-	-	54.414
Dividend	35,45	-	-	-	(21.448)	(21.448)
Equity element of convertible debentures repaid	34	(444)	-	-	-	(444)
		241.511	1.108.212	-	(21.448)	1.328.275
<b>Balance 31 December 2006</b>		<b>395.159</b>	<b>1.113.055</b>	<b>136.181</b>	<b>191.327</b>	<b>1.835.722</b>

The notes on pages 14 to 81 are an integral part of these financial statements.

**CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 C£ '000	2005 C£ '000
<b>Cash generated from operations</b>	37	<b>482.197</b>	538.542
Tax paid		<b>(8.403)</b>	(6.227)
<b>Net cash from operating activities</b>		<b>473.794</b>	532.315
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	27	<b>(4.220)</b>	(3.384)
Purchase of computer software	25	<b>(1.934)</b>	(1.636)
Proceeds from disposal of property and equipment	27	<b>1.993</b>	183
Proceeds from disposal of computer software		<b>13</b>	6
Additions less proceeds from redemption of available-for-sale financial assets		<b>(241.719)</b>	(137.588)
Income received from available-for-sale financial assets		<b>30.760</b>	15.633
Dividend received		<b>9.438</b>	5.119
Payments for acquisition of subsidiary companies and share capital increase in subsidiary companies		<b>(33.573)</b>	(1.697)
<b>Net cash used in investing activities</b>		<b>(239.242)</b>	(123.364)
<b>Cash flows from financing activities</b>			
Dividend paid		<b>(21.448)</b>	(6.029)
Interest paid on loan capital		<b>(9.059)</b>	(10.197)
Share issue costs	34	<b>(9.662)</b>	-
Proceeds from the exercise of rights	34	<b>61.268</b>	-
Proceeds from the issue of loan capital		<b>260.189</b>	-
Repayment of loan capital		<b>(154.630)</b>	-
<b>Net cash from/(used in) financing activities</b>		<b>126.658</b>	(16.226)
Effects of exchange rate changes		-	2.926
<b>Net increase in cash and cash equivalents</b>		<b>361.210</b>	395.651
<b>Cash and cash equivalents at beginning of year</b>		<b>1.408.324</b>	1.012.673
<b>Cash and cash equivalents at end of year</b>	38	<b>1.769.534</b>	1.408.324

The notes on pages 14 to 81 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

#### **Country of incorporation**

Marfin Popular Bank Public Co Ltd (“the Bank”) was established in Cyprus in 1901 under the name “Popular Savings Bank of Limassol”. In 1924 it was registered as the first public company in Cyprus under the name “The Popular Bank of Limassol Ltd”. In 1967 the Bank changed its name to “Cyprus Popular Bank Ltd” and on 26 May, 2004 it was renamed to “Cyprus Popular Bank Public Company Ltd”. An Extraordinary General Meeting held on 31 October, 2006, unanimously approved the change of its name to “Marfin Popular Bank Public Co Ltd”. The Bank’s shares are listed on the Cyprus and Athens Stock Exchanges. The Bank’s registered office is at 154, Limassol Avenue, 2025 Nicosia.

#### **Principal activities**

The principal activity of the Bank, which is unchanged from last year, is the provision of banking services.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The main accounting policies adopted in the preparation of these separate financial statements of the Bank are set out below. These policies have been consistently applied to all years presented in these financial statements unless otherwise stated.

#### **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB). The financial statements comply with both these reporting frameworks because at the time of their preparation all applicable IFRSs issued by the IASB have been adopted by the EU through the endorsement procedure established by the European Commission. In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, financial assets, liabilities and all derivative financial instruments held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Basis of preparation** (continued)

These separate financial statements of the Bank have been prepared to comply with the Athens Stock Exchange listing requirements. The Bank has prepared consolidated financial statements in accordance with International Financial Reporting Standards for the Bank and its subsidiary companies (the Group). The consolidated financial statements are available at the Bank's registered office and at the internet site [www.laiki.com](http://www.laiki.com). The users of these separate financial statements of the parent company, should read them in conjunction with the Group's consolidated financial statements as at and for the year ended 31 December, 2006, so as to better understand the financial position, the financial performance and the cash flows of the Bank and the Group.

#### **Adoption of new and revised IFRSs**

In the current year, the Bank adopted all new and revised International Accounting Standards (IASs) and IFRSs, which are relevant to its operations and applicable for annual accounting periods commencing from 1 January, 2006. The adoption of the following Standards did not have a material effect on the Bank's financial statements:

- (a) IAS 19 (Amendment) Employee Benefits.
- (b) IAS 39 and IFRS 4 (Amendment ) Financial Guarantee Contracts.
- (c) IAS 21 (Amendment) Net Investment in a Foreign Operation.
- (d) IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
- (e) IFRIC 4 Determining whether an Arrangement contains a Lease.
- (f) IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- (g) IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

On the date of approval of these financial statements, the following accounting standards have been issued but are not applicable in the preparation of these financial statements:

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Adoption of new and revised IFRSs (continued)

**(a) IFRS 7, Financial Instruments: Disclosures and IAS 1 (Revised) Presentation of Financial Statements – Capital Disclosures (effective from 1 January, 2007)**

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30 Disclosures in the Financial Statements of Banks and similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and the additional disclosures required. The Bank will apply IFRS 7 and the amendment to IAS 1 from 1 January, 2007.

**(b) IFRS 8, Operating Segments (effective from 1 January 2009)**

The Bank is in the process of assessing the implications of IFRS 8 and will apply IFRS 8 as from 1 January, 2009.

**(c) IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual accounting periods beginning 1 March, 2006)**

This Interpretation is not applicable to the Bank's operations.

**(d) IFRIC 8, Scope of IFRS 2 (effective for annual accounting periods beginning 1 May, 2006)**

This Interpretation is not applicable to the Bank's operations.

**(e) IFRIC 9, Reassessment of Embedded Derivatives (effective for annual accounting periods beginning 1 June, 2006)**

The Bank assesses whether an embedded derivative needs to be separated from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract. According to this Interpretation, subsequent reassessment is prohibited unless there is a change in the terms of the contract. The Bank intends to apply this Interpretation from 1 January, 2007.

**(f) IFRIC 10, Interim Financial Reporting and Impairment (effective for annual accounting periods beginning 1 November, 2006)**

This Interpretation requires an entity not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The Bank intends to apply this Interpretation from 1 January, 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Adoption of new and revised IFRSs (continued)

**(g) IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual accounting periods beginning 1 March, 2007)**

IFRIC 11 refers to various issues relating to IFRS 2 and in particular to share-based payment arrangements involving the Bank's own equity instruments and share-based payment arrangements involving equity instruments of the parent. The Bank intends to apply this Interpretation from 1 January, 2008.

**(h) IFRIC 12, Service Concession Arrangements (effective from 1 January, 2008)**

This Interpretation is not applicable to the Bank's operations.

#### Foreign currency translation

**(a) Functional and presentation currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates («the functional currency»). The financial statements are presented in Cyprus pounds, which is the functional and presentation currency of the Bank.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing assets and liabilities on an accrual basis. Interest income includes interest earned on advances, held-to-maturity financial assets, available-for-sale financial assets, financial assets at fair value through profit or loss as well as discount and premium on government bonds and treasury bills and other financial instruments.

The Bank adopts the policy of suspending income on non-performing loans. In these cases, the recognition of income is suspended until it is received and therefore, it is not included in the income statement but it is transferred to an income suspense account.

#### Income and expense from fees, commissions and provision of services

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided.

#### Dividend income

Dividend income is recognised in the income statement when the right to receive payment is established.

#### Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a financial instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized at fair value on the date the guarantee was given and subsequently are measured at the higher of:

- (a) the initial measurement amount less, when applicable, cumulative amortisation recognized, and
- (b) the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. The estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

Any increase in the liability relating to guarantees is taken to the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Tax

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### Retirement benefits

The Bank operates defined retirement benefit plans in Cyprus and in the United Kingdom for the staff employed by the Bank's branch in the United Kingdom. A defined benefit plan is a plan that defines an amount of lump sum or pension benefit to be provided by taking into account factors such as years of service and employee salary.

Annual contributions are made for these plans in order to build up sufficient reserves or funds during the employees' service life, which will fund the related benefits to be given to the employees upon retirement.

Retirement benefit costs relating to the defined benefit plans and which are included in staff costs are assessed using the projected unit credit method. Under this method, the cost of providing defined benefit pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of professionally qualified actuaries who value the plan at the end of each year.

The obligation for the defined benefit plans is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability less the fair value of the plan assets.

Actuarial gains or losses which exceed 10% of the greater of the present value of the Bank's obligation and the fair value of the plan assets, are amortised over the expected average remaining working lives of the participating employees.

The Bank also pays contributions to the Government Social Insurance Fund in accordance with legal requirements.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity and include cash and balances with the Central Bank, including the minimum reserve requirement that the Bank is obliged to place with the Central Bank for liquidity purposes, government bonds and treasury bills and amounts due from other banks.

#### Advances to customers

Advances to customers are presented on the balance sheet net of any accumulated provisions for impairment.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will be unable to recover all amounts due on a loan, according to the original contractual terms. In cases where the loan is fully secured or there are reasonable grounds that the loan will be fully recovered, no provision is established. Such objective evidence is the following:

- (a) violation of the contractual terms resulting in the delay of capital or interest payment,
- (b) significant deterioration in the loan repayment ability,
- (c) legal action,
- (d) bankruptcy, and
- (e) other objective evidence that leads to the conclusion that the Bank will not collect the full amount due.

For a loan that has been characterised as impaired, the realizable value of its securities is considered to be the present value of its future cash flows. In addition, for significant amounts other factors such as the financial status of the customer, the alternative sources of funds available and the extent to which credit worthy guarantors can support the customer are considered. The provision amount is calculated as the difference between the loan's carrying amount and the realisable amount, including all securities and guarantees.

Impaired loans are continuously monitored and are reviewed for provisioning purposes on a quarterly basis. If the amount of the impairment decreases in a subsequent period, due to an event occurring after the impairment was recognized, the provision is written back by reducing the loan impairment provision account accordingly.

Advances are written off either partially or in full when there is no realistic potential of recovery notwithstanding the Bank's right to collect any written off amounts in the future. Such future recoveries of amounts that were written off in the past are recognized in the Bank's income statement upon recovery.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments

The Bank classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every balance sheet date.

#### (a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in the held for trading category if acquired principally for the purpose of generating a profit from short-term fluctuations in price. Derivative financial instruments are also categorised as held for trading. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to key management personnel.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable.

#### (c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has the positive intention and ability to hold to maturity.

#### (d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Regular way purchases and sales of investments are recognized on trade-date which is the date on which the Bank commits to purchase or sell the financial asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments (continued)

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement. Interest calculated using the effective interest method and foreign currency gains and losses on monetary financial assets classified as available-for-sale are recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

The fair value of investments quoted in an active market is based on quoted bid prices. If the market for a financial asset is not active and for unlisted securities, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator of possible impairment. If any such evidence exists for available-for-sale financial assets the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a locally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### Derivative financial instruments

Derivative financial instruments include forward exchange contracts, currency and interest rate swaps, stock, currency and index futures, equity and currency options and other derivative financial instruments. These are initially recognised in the balance sheet at fair value, and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and other pricing models as appropriate. All derivatives are shown as financial assets at fair value through profit or loss when fair value is positive and as financial liabilities when fair value is negative.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Derivative financial instruments (continued)**

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

#### **Investments in subsidiary companies and associates**

In these separate financial statements of the Bank, investments in subsidiary companies and in associates are accounted for according to IAS 39 as available-for-sale financial assets according to the provisions of IAS 27, paragraph 37(b). Therefore, investments in subsidiary companies and associates are accounted for according to the accounting policy for "Investments" as stated above.

#### **Investment property**

Investment property includes land and buildings, owned by the Bank with the intention of earning rentals or for capital appreciation or both, and are not used by the Bank. Investment property is stated at fair value, as is determined by independent professional valuers who apply recognised valuation techniques. Changes in fair values are included within "Other income" in the income statement.

#### **Computer software**

Costs that are directly associated with identifiable and unique computer software products controlled by the Bank and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software.

Costs associated with maintenance of computer software programmes are recognised as an expense when incurred. Computer software costs are amortised using the straight-line method over their useful lives, not exceeding a period of five years. Amortisation commences when the computer software is available for use and is included within "Depreciation and amortisation" in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Operating leases

Leases in which a significant portion of the risks and rewards of ownership remain with the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received by the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### Property and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. Revaluations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. All other property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment.

Increases in the carrying amount arising on revaluation of land and buildings are credited to fair value reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against those reserves. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from property fair value reserves to retained earnings.

Land is not depreciated. Depreciation on other property and equipment is calculated using the straight-line method to allocate the cost or revalued amount of each asset less their residual values, over their estimated useful lives. The estimated useful lives are as follows:

	Years
Freehold buildings	33 – 50
Furniture and equipment	3 – 10

Property leased for up to 33 years is depreciated on a straight-line basis over the term of the lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The difference is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment (continued)

Expenditure for repairs and maintenance of property and equipment is charged to the income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure is included in the carrying amount of the asset or recognised as a separate asset, as appropriate, when it is probable that future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in the property fair value reserves are transferred to retained earnings.

Properties under construction for administrative purposes are carried at cost less any impairment loss where the recoverable amount of the asset under construction is estimated to be lower than its carrying value. Depreciation for these assets commences when the assets are ready for their intended use.

#### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### Loan capital

Loan capital is recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Loan capital is subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings. A financial liability is derecognised when it is extinguished, that is, when the obligation is discharged, cancelled or expires.

When convertible bonds are issued, the fair value of the conversion option is determined. This amount is recorded separately in shareholders' equity. The Bank does not recognise any change in the value of this option in subsequent periods. The remaining obligation to make future payments of principal and interest to bond holders is recalculated using a market interest rate for an equivalent non-convertible bond and is presented on an amortised cost basis in loan capital until extinguished, that is, when the obligation is discharged, cancelled or expires.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share capital

##### (a) Share issue costs

Incremental costs directly attributable to the issue of new shares are deducted from equity.

##### (b) Dividend on ordinary shares

The dividend distribution to ordinary shareholders is recognized in the period in which the dividend is approved by the Bank's shareholders.

Dividend for the year that is declared after the balance sheet date is disclosed in Note 45.

#### Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Bank expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Bank recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

#### Credit-related transactions

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. The Bank is also involved in trading transactions whereby it issues guarantees and documentary credits (known as credit-related instruments) on behalf of its customers. Assets arising from payments to a third party where the Bank is awaiting reimbursement from the customer are shown on the balance sheet, less any necessary provisions.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Fiduciary activities**

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

#### **Segment reporting**

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Bank mainly operates in the banking sector and geographically in Cyprus and in the United Kingdom. Therefore, no analysis is presented by business segment and the primary segment of the Bank is by geographical region.

#### **Comparatives**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (a) Impairment losses on advances

The Bank reviews its loan portfolio to assess impairment at least quarterly. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is sufficient evidence indicating that the balance of a loan or a portfolio of homogenous loans outstanding will not be fully recovered. This evidence includes:

- violation of the contractual terms resulting in the delay of capital or interest payment,
- significant deterioration in the loan repayment ability,
- legal action,
- bankruptcy, and
- other objective evidence that leads to the conclusion that the Bank will not collect the full amount due.

For a loan that has been characterized as impaired, the realisable value of its securities is considered to be the present value of its future cash flows. In addition, for significant amounts other factors such as the financial status, the alternative sources of funds available and the extent to which credit worthy guarantors can support the customer are considered. The provision amount is calculated as the difference between the loan's carrying amount and the realisable amount, including all securities and guarantees.

#### (b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market is determined using valuation techniques. The Bank uses its judgement to select a variety of valuation techniques and make assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation techniques used are frequently assessed to ensure their validity and appropriateness. Changes in methods and assumptions about these factors could affect the reported fair value of financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### Critical accounting estimates and assumptions (continued)

##### (c) Retirement benefits

The present value of liabilities arising from staff retirement benefits is determined with an actuarial valuation using specific assumptions. These assumptions are disclosed in Note 8. According to the relevant Bank's accounting policy for retirement benefits, any change in the assumptions are likely to have an effect on the level of the unrecognised actuarial gain or loss.

##### (d) Tax

The Bank is subject to income tax in various jurisdictions in which it operates. In order to establish the corporation tax, as presented in the balance sheet, significant assumptions are required. For specific transactions and calculations the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### Critical judgements in applying Bank accounting policies

##### (a) Held-to-maturity financial assets

The Bank follows the guidance provided in IAS 39 in relation to the classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. Critical judgement is required when applying the classification, which takes into account the Bank's intention and ability to hold investments to maturity. If the Bank fails to hold the investments to maturity for any reason other than those explained in IAS 39, all financial assets held in the asset class will have to be reclassified as available-for-sale financial assets. Under these circumstances, investments will be presented at fair value and not amortised cost, in which case the book value of investments will increase by C£ 3.496.000 with a corresponding credit in the fair value reserve within equity.

##### (b) Impairment of available-for-sale financial assets

The Bank follows the guidance in IAS 39 to determine if an investment has been impaired. This decision requires critical judgement. In making this judgement, the Bank evaluates among other factors whether there has been a significant or prolonged decline in the fair value of the investment compared to cost, as well as the financial viability and the short term future of the investment by considering factors such as the industry and sector performance, changes in technology and operational and financing cash flows.

If the estimates made regarding the duration and extent of fair values being below cost, do not materialise within 2007, the Bank will not suffer significant losses in the 2007 financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. NET INTEREST INCOME

	2006 C£ '000	2005 C£ '000
<b>Interest income</b>		
Interest from advances to customers	178.843	162.751
Interest from other banks	101.889	60.966
Interest from bonds and other interest	38.936	26.239
	<u>319.668</u>	<u>249.956</u>
<b>Interest expense</b>		
Interest on customer deposits	137.503	110.598
Interest to other banks	40.197	24.839
Interest on loan capital and other interest	9.081	10.233
	<u>186.781</u>	<u>145.670</u>

### 5. NET FEE AND COMMISSION INCOME

	2006 C£ '000	2005 C£ '000
<b>Fee and commission income</b>		
Banking related fees and commissions	46.520	40.767
Portfolio and other management fees	1.580	1.309
	<u>48.100</u>	<u>42.076</u>
<b>Fee and commission expense</b>	<u>1.752</u>	<u>1.239</u>

### 6. PROFIT ON DISPOSAL AND REVALUATION OF SECURITIES

	2006 C£ '000	2005 C£ '000
Profit on disposal of financial assets at fair value through profit or loss	211	-
Profit on disposal of available-for-sale financial assets	74	-
Profit on revaluation of financial assets at fair value through profit or loss	191	914
	<u>476</u>	<u>914</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 7. OTHER INCOME

	<b>2006</b> <b>C£ '000</b>	2005 C£ '000
Dividend from subsidiary companies and associates	<b>9.438</b>	5.119
Dividend from available-for-sale financial assets	<b>391</b>	50
Fair value gain on investment property (Note 26)	<b>137</b>	138
Profit on disposal of property and equipment (Note 27)	<b>434</b>	-
Other income	<b>1.304</b>	1.991
	<b>11.704</b>	7.298

### 8. STAFF COSTS

	<b>2006</b> <b>C£ '000</b>	2005 C£ '000
Salaries and employer's contributions	<b>55.044</b>	50.905
Retirement benefit costs:		
Defined benefit plans	<b>14.618</b>	13.338
Other staff costs	<b>2.284</b>	981
	<b>71.946</b>	65.224

#### Defined Benefit Plans

The amounts recognised in the balance sheet with respect to the defined benefit plans are shown below:

	<b>2006</b> <b>C£ '000</b>	2005 C£ '000
Present value of funded obligations	<b>11.663</b>	11.705
Fair value of plan assets	<b>(6.646)</b>	(5.215)
	<b>5.017</b>	6.490
Present value of unfunded obligations	<b>81.959</b>	102.331
Unrecognised actuarial gain/(loss)	<b>9.704</b>	(23.403)
Retirement benefit obligations in the balance sheet	<b>96.680</b>	85.418

## NOTES TO THE FINANCIAL STATEMENTS

### 8. STAFF COSTS (continued)

#### Defined Benefit Plans (continued)

The amounts recognised in the income statement with respect to the defined benefit plans are as follows:

	2006 C£ '000	2005 C£ '000
Current service cost	8.042	7.318
Interest cost on plan liabilities	7.079	5.785
Expected return on plan assets	(2.730)	(265)
Actuarial loss recognised in the year	2.227	500
	<b>14.618</b>	<b>13.338</b>

The movement in the retirement benefit obligations recognised in the balance sheet is as follows:

	2006 C£ '000	2005 C£ '000
Balance 1 January	85.418	73.897
Total expenses charged in the income statement	14.618	13.338
Payments to departing members	(2.769)	(1.392)
Contributions paid	(587)	(425)
Balance 31 December	<b>96.680</b>	<b>85.418</b>

The principal assumptions used in the actuarial valuations were:

	2006		2005	
	Cyprus	United Kingdom	Cyprus	United Kingdom
Discount rate	5,0%	5,0%	5,0%	4,7%
Average expected return on plan assets	8,0%	7,0%	5,0%	6,6%
Average increase in basic insurable earnings	4,5%	-	4,5%	-
Average increase in total salaries	7,0%	4,0%	7,0%	4,1%
Average increase in inflation	2,5%	3,0%	2,5%	2,9%
Rate of increase of pension payments	-	2,6%	-	2,6%

## NOTES TO THE FINANCIAL STATEMENTS

### 9. DEPRECIATION AND AMORTISATION

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Depreciation of property and equipment (Note 27)	<b>3.387</b>	4.184
Amortisation of computer software (Note 25)	<b>2.633</b>	2.602
	<b>6.020</b>	6.786

### 10. ADMINISTRATIVE EXPENSES

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Occupancy costs	<b>2.244</b>	1.911
Computer maintenance costs	<b>2.427</b>	1.884
Marketing and sales expenses	<b>3.893</b>	4.667
Operating lease rentals	<b>3.652</b>	3.511
Printing and stationery expenses	<b>1.610</b>	1.425
Telephone expenses	<b>690</b>	673
Auditors' remuneration	<b>99</b>	86
Other administrative expenses	<b>7.195</b>	6.518
	<b>21.810</b>	20.675

### 11. PROVISION FOR IMPAIRMENT OF ADVANCES

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Provision for impairment of advances for the year (Note 18)	<b>40.747</b>	44.771
Release of provision and recoveries (Note 18)	<b>(25.591)</b>	(17.610)
	<b>15.156</b>	27.161

## NOTES TO THE FINANCIAL STATEMENTS

### 12. TAX

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
<b>Current year tax</b>		
Cyprus corporation tax	<b>7.244</b>	3.125
Defence tax	<b>16</b>	16
Overseas tax	<b>2.311</b>	2.299
Deferred tax (Note 33)	<b>116</b>	15
	<hr/>	<hr/>
Total current year tax	<b>9.687</b>	5.455
	<hr/>	<hr/>
<b>Prior year tax</b>	<b>-</b>	352
	<hr/>	<hr/>
<b>Total tax charge</b>	<b>9.687</b>	5.807
	<hr/>	<hr/>

The profit of the Bank in Cyprus is subject to corporation tax at the rate of 10% and of the branch in the United Kingdom at the rate of 30%.

For tax purposes in Cyprus, under certain circumstances, interest may be subject to defence tax at the rate of 10%. In this case 50% of interest income is exempted from corporation tax, leading to an effective tax rate of 15%. In certain circumstances dividends from overseas may be subject to defence tax at the rate of 15%.

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Profit before tax	<b>88.103</b>	36.431
	<hr/>	<hr/>
Tax calculated at the applicable tax rates	<b>8.810</b>	3.643
Tax effect of expenses not deductible for tax purposes	<b>308</b>	760
Tax effect of income not subject to tax	<b>(1.071)</b>	(518)
Tax effect of surrender of tax losses from subsidiary companies	<b>-</b>	(4)
Tax effect of different tax rates in the United Kingdom	<b>1.640</b>	1.574
	<hr/>	<hr/>
Total current year tax	<b>9.687</b>	5.455
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS

### 13. EARNINGS PER SHARE

Earnings per share was derived after dividing the figure representing the profit for the year with the weighted average number of shares in issue for the year.

	<b>2006</b> C£ '000	2005 C£ '000
Profit for the year	<b>78.416</b>	30.624
	<b>2006</b> '000	2005 '000
Weighted average number of shares in issue during the year	<b>333.125</b>	305.167
Earnings per share – cent	<b>23,5</b>	10,0

### 14. CASH AND BALANCES WITH THE CENTRAL BANK

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

	<b>2006</b> C£ '000	2005 C£ '000
Cash in hand	<b>35.038</b>	62.575
Balances with the Central Bank other than obligatory reserves for liquidity purposes	<b>229.606</b>	181.903
Obligatory reserves for liquidity purposes	<b>106.058</b>	109.900
Cash and balances with the Central Bank (Note 38)	<b>370.702</b>	354.378

### 15. DUE FROM OTHER BANKS

	<b>2006</b> C£ '000	2005 C£ '000
Items in course of collection from other banks	<b>40.471</b>	37.680
Placements with other banks	<b>1.416.126</b>	1.018.006
	<b>1.456.597</b>	1.055.686
<b>Maturity analysis</b>		
Repayable on demand	<b>1.237.796</b>	877.557
Three months or less	<b>129.980</b>	153.344
Over three months but less than one year	<b>84.259</b>	24.785
Over one but less than five years	<b>4.562</b>	-
	<b>1.456.597</b>	1.055.686

## NOTES TO THE FINANCIAL STATEMENTS

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Debt securities	<b>110.825</b>	58.541
Derivative financial instruments with positive fair value (Note 36)	<b>8.066</b>	3.456
	<b>118.891</b>	61.997
<b>Debt securities</b>		
Listed on other Stock Exchanges (other than the CSE)	<b>46.616</b>	56.741
Not listed	<b>64.209</b>	1.800
	<b>110.825</b>	58.541

The Bank classifies financial assets at fair value through profit or loss in the sub-category financial assets held for trading.

Financial assets at fair value through profit or loss are presented as part of "Cash generated from operations" in the cash flow statement (Note 37).

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Profit on disposal and revaluation of securities" in the income statement (Note 6).

## NOTES TO THE FINANCIAL STATEMENTS

### 17. ADVANCES TO CUSTOMERS

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Advances to customers	<b>3.023.697</b>	2.477.510
Provision for impairment of advances (Note 18)	<b>(196.106)</b>	(224.186)
	<b><u>2.827.591</u></b>	<u>2.253.324</u>

The amount of income suspended is included in provision for impairment of advances.

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
<b>Maturity analysis</b>		
Repayable on demand	<b>755.362</b>	797.762
Three months or less	<b>107.567</b>	360.192
Over three months but less than one year	<b>149.198</b>	127.958
Over one but less than five years	<b>629.969</b>	424.812
Over five years	<b>1.381.601</b>	766.786

**3.023.697**    2.477.510

#### **Analysis by sector**

Trade	<b>439.101</b>	402.445
Manufacturing	<b>170.199</b>	159.796
Tourism	<b>288.102</b>	242.979
Property and construction	<b>732.244</b>	355.226
Personal, professional and home loans	<b>1.269.163</b>	1.172.037
Other sectors	<b>124.888</b>	145.027

**3.023.697**    2.477.510

#### **Analysis by geographical area**

Cyprus	<b>2.567.504</b>	2.132.436
United Kingdom	<b>456.193</b>	345.074

**3.023.697**    2.477.510

## NOTES TO THE FINANCIAL STATEMENTS

### 18. PROVISION FOR IMPAIRMENT OF ADVANCES

	Provisions C£ '000	Suspension of income C£ '000	Total C£ '000
<b>2006</b>			
Balance 1 January	157.715	66.471	224.186
Provision for impairment of advances for the year (Note 11)	40.747	-	40.747
Release of provision and recoveries	(25.591)	(8.659)	(34.250)
Loans written-off	(42.146)	(17.962)	(60.108)
Exchange differences	141	-	141
Suspension of income for the year	-	25.390	25.390
	<hr/>	<hr/>	<hr/>
Balance 31 December	<b>130.866</b>	<b>65.240</b>	<b>196.106</b>
<b>2005</b>			
Balance 1 January	143.699	51.175	194.874
Provision for impairment of advances for the year (Note 11)	44.771	-	44.771
Release of provision and recoveries	(17.610)	(7.833)	(25.443)
Loans written-off	(13.196)	(2.238)	(15.434)
Exchange differences	51	-	51
Suspension of income for the year	-	25.367	25.367
	<hr/>	<hr/>	<hr/>
Balance 31 December	<b>157.715</b>	<b>66.471</b>	<b>224.186</b>

The total amount of non-performing loans, including accumulated income suspended, amounts to C£ 279.351.000 (2005: C£ 346.322.000). The total amount of non-performing loans excluding accumulated income suspended amounts to C£ 214.111.000 (2005: C£ 279.851.000).

## NOTES TO THE FINANCIAL STATEMENTS

### 19. GOVERNMENT BONDS AND TREASURY BILLS

	Held-to-maturity C£ '000	Available-for-sale C£ '000	Total C£ '000
<b>2006</b>			
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	185.918	7.493	193.411
Other government bonds and treasury bills	-	68.503	68.503
	<b>185.918</b>	<b>75.996</b>	<b>261.914</b>
<b>Maturity analysis</b>			
Three months or less	31.056	-	31.056
Over three months but less than one year	15.021	5.800	20.821
Over one but less than five years	121.557	10.986	132.543
Over five years	18.284	59.210	77.494
	<b>185.918</b>	<b>75.996</b>	<b>261.914</b>
Listed on the Cyprus Stock Exchange	185.918	-	185.918
Listed on other Stock Exchanges	-	73.790	73.790
Not listed	-	2.206	2.206
	<b>185.918</b>	<b>75.996</b>	<b>261.914</b>
<b>Movement for the year</b>			
Balance 1 January	218.365	60.692	
Additions	92.698	24.994	
Redemptions	(129.422)	(9.176)	
Amortisation of premium/discount	4.277	2	
Exchange differences	-	(1.544)	
Revaluation	-	1.028	
Balance 31 December	<b>185.918</b>	<b>75.996</b>	
<b>2005</b>			
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	218.365	6.623	224.988
Other government bonds and treasury bills	-	54.069	54.069
	<b>218.365</b>	<b>60.692</b>	<b>279.057</b>
<b>Maturity analysis</b>			
Three months or less	20.119	-	20.119
Over three months but less than one year	107.011	2.009	109.020
Over one but less than five years	72.549	13.216	85.765
Over five years	18.686	45.467	64.153
	<b>218.365</b>	<b>60.692</b>	<b>279.057</b>
Listed on the Cyprus Stock Exchange	218.365	-	218.365
Listed on other Stock Exchanges	-	60.692	60.692
	<b>218.365</b>	<b>60.692</b>	<b>279.057</b>
<b>Movement for the year</b>			
Balance 1 January	127.560	38.716	
Additions	153.703	24.341	
Redemptions	(60.900)	(2.318)	
Amortisation of premium/discount	(1.998)	-	
Exchange differences	-	456	
Revaluation	-	(503)	
Balance 31 December	<b>218.365</b>	<b>60.692</b>	

## NOTES TO THE FINANCIAL STATEMENTS

### 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Debt securities	<b>745.627</b>	515.781
Equity securities	<b>36.623</b>	20.196
	<b>782.250</b>	535.977
Listed on the Cyprus Stock Exchange	<b>26.522</b>	11.886
Listed on other Stock Exchanges	<b>744.310</b>	515.781
Not listed	<b>11.418</b>	8.310
	<b>782.250</b>	535.977
<b>Movement for the year</b>		
Balance 1 January	<b>535.977</b>	377.909
Additions	<b>416.815</b>	215.104
Redemptions	<b>(175.020)</b>	(77.528)
Revaluation for the year	<b>16.048</b>	3.286
Amortisation of premium/discount	<b>(26)</b>	(319)
Exchange differences	<b>(11.544)</b>	17.525
Balance 31 December	<b>782.250</b>	535.977

The deficit or surplus from the revaluation of investments at fair value at the year end is accounted for in fair value reserves.

The Bank holds 34,7% of the issued share capital of Universal Life Insurance Public Co. Ltd, the total issued share capital of which is C£ 6,6 m. The Bank does not exercise significant influence in the management of the company and, consequently, the company is not considered to be an associate. This investment is accounted for as an available-for-sale financial asset. On 1 February, 2007 an agreement was signed to dispose this investment (Note 46).

## NOTES TO THE FINANCIAL STATEMENTS

### 21. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets include listed bonds on Stock Exchanges.

	2006 C£ '000	2005 C£ '000
<b>Movement for the year</b>		
Balance 1 January	-	-
Additions	<b>6.586</b>	-
Balance 31 December	<b>6.586</b>	-
<b>Maturity analysis</b>		
Over five years	<b>6.586</b>	-

### 22. OTHER ASSETS

	2006 C£ '000	2005 C£ '000
Interest receivable	<b>29.102</b>	18.485
Non-current financial assets held for sale	<b>2.919</b>	4.297
Other assets	<b>9.052</b>	9.564
	<b>41.073</b>	32.346

### 23. INVESTMENT IN SUBSIDIARY COMPANIES

	2006 C£ '000	2005 C£ '000
Balance 1 January	<b>329.993</b>	301.123
Establishment of Laiki Bank (Guernsey) Ltd	-	1.697
Acquisition of Laiki Bank a.d., Marfin Financial Group Holdings S.A. and Egnatia Bank S.A.	<b>1.267.852</b>	-
Share capital increase in Laiki Bank (Australia) Ltd	<b>3.508</b>	-
Increase of shareholding in Laiki Bank (Hellas) S.A.	<b>60.773</b>	-
Disposal of shareholdings in Laiki Leasing S.A., Laiki Factoring S.A., Laiki A.E.D.A.K., Laiki Attalos Securities S.A., Laiki Life S.A. and Laiki Insurance Agency E.P.E. to Laiki Bank (Hellas) S.A.	<b>(1.041)</b>	-
Revaluation for the year	<b>27.261</b>	27.173
<b>Balance 31 December</b>	<b>1.688.346</b>	329.993

## NOTES TO THE FINANCIAL STATEMENTS

### 23. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

The main subsidiary companies of the Bank including indirect holdings through its subsidiary companies as at 31 December, 2006 were as follows:

Company name	Effective shareholding (1)	Country of incorporation	Issued capital C£ '000	Activity sector
Marfin Financial Group Holdings S.A.	95%	Greece	252.429	Investment company
Marfin Bank S.A.	95%	Greece	83.647	Banking
Egnatia Bank S.A.	86%	Greece	63.108	Banking
Laiki Bank (Hellas) S.A.	100%	Greece	57.651	Banking
Investment Bank of Greece S.A.	87%	Greece	51.810	Investment banking
Laiki Investments E.P.E.Y. Public Company Ltd	57%	Cyprus	40.000	Investment banking
Laiki Bank (Australia) Ltd	100%	Australia	27.728	Banking
Euroline S.A. (1)	46%	Greece	22.309	Brokerage
Marfin Capital S.A.	95%	British Virgin Islands	11.589	Investment company
Laiki Leasing S.A.	100%	Greece	11.003	Leasing
Egnatia Finance S.A.	61%	Greece	10.301	Brokerage
Laiki Bank a.d.	95%	Serbia	10.134	Banking
Egnatia Bank (Romania) S.A.	86%	Romania	9.542	Banking
Paneuropean Insurance Co Ltd	100%	Cyprus	8.250	Investment company
Laiki Insurance Ltd	100%	Cyprus	8.000	General insurance
AS SBM Pank (1)	48%	Estonia	7.409	Banking
Laiki Cyprialife Ltd	100%	Cyprus	6.200	Life insurance
Philiki Insurance Co Ltd	100%	Cyprus	5.764	Investment company
Egnatia Leasing S.A.	86%	Greece	5.210	Leasing
Laiki Bank (Guernsey) Ltd	100%	Guernsey	1.723	Banking
Cyprialife Ltd	100%	Cyprus	5.000	Investment company
Laiki Factoring S.A.	100%	Greece	3.388	Factoring and invoice discounting
The Cyprus Popular Bank (Finance) Ltd	100%	Cyprus	3.000	Installment finance and leasing
Laiki Factors Ltd	100%	Cyprus	500	Factoring and invoice discounting
MFG Capital Partners Ltd	95%	United Kingdom	418	Investment company

- (1) The effective shareholding includes the direct holding of Marfin Popular Bank Public Co Ltd and the indirect holding through its subsidiary companies. Regarding AS SBM Pank, Marfin Financial Group Holdings S.A. owns 50,12% of its share capital and therefore it is consolidated as a subsidiary. Regarding Euroline S.A., due to the changes made to the structure of its Board of Directors, Marfin Financial Group Holdings S.A. also consolidates it as a subsidiary.

Marfin Popular Bank Public Co Ltd is registered in Cyprus and operates in Cyprus and in the United Kingdom.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

**(a) Voluntary public offers to the shareholders of Marfin Financial Group Holdings S.A. and the shareholders and holders of convertible bonds of Egnatia Bank S.A.**

The Bank submitted voluntary public offers to the shareholders of Marfin Financial Group Holdings S.A. (Marfin) and to the shareholders and holders of convertible bonds of Egnatia Bank S.A. (Egnatia). The provisions of the public offers were successfully fulfilled and the 22 December, 2006 was set as the acquisition date by the Board of Directors of the Bank. This was the date that the results of the public offers were announced. The Bank acquired 95,30% of the share capital of Marfin, 86,44% of the total voting rights of Egnatia and 86,25% of the total share capital of Egnatia.

Marfin operates as a holding company (Societe Anonyme) in accordance with the Greek Regulations through investments in companies which operate mainly in the banking and financial sectors. Marfin is incorporated in Greece and its share is listed in the Athens Stock Exchange General Index and FTSE-40 Index.

Egnatia operates as a banking company (Societe Anonyme) in accordance with the Greek Regulations. Egnatia is incorporated in Greece and its share is listed in the Athens Stock Exchange. The Egnatia Group of companies operates mainly in the financial sector, providing a wide range of financial services to individuals and companies, mainly in Greece. It also has subsidiary companies which operate in Romania and in Cyprus.

The acquisition of the Marfin and Egnatia Groups took place by means of issuing and exchanging shares of the Bank with the shares of Marfin and Egnatia. The number of Bank's shares issued for the purposes of the acquisition of Marfin was 303.594.271 and for Egnatia 109.087.650. This number of shares resulted from the acceptance percentages of the public offers using the relevant exchange ratios, which were 5,757 Bank shares for each Marfin share and 1,2090 Bank shares for each Egnatia share. In total, 412.681.921 shares were issued at a price of C£ 3 per share, in accordance with the decision of the Extraordinary General Meeting of the Bank's Shareholders held on 31 October, 2006. The share issue price clearly reflects the fair relation of the value of the Bank's transaction with the shareholders of the two Groups being acquired. The resulting exchange ratios using the price of C£ 3 per share was confirmed by two independent international financial advisory firms (fairness opinion) and is essentially equal to the quoted price of the share during the announcement period of the public offers. Between the date of announcement of the public offers and the date of completion of the acquisition, the quoted price of the shares increased significantly, a fact which confirms investor confidence in the completion of the transaction as well as in the improved prospects and the success of the new formation.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

**(a) Voluntary public offers to the shareholders of Marfin Financial Group Holdings S.A. and the shareholders and holders of convertible bonds of Egnatia Bank S.A. (continued)**

The Board of Directors of the Bank, using a relevant provision in IFRS 3, calculated the acquisition cost on the basis of the price of C£ 3 per share, which clearly and reliably reflects the integration of the three Groups during the period when, firstly, the management of the acquiring Group announced its public offers and, secondly, the managements of the Groups being acquired made positive assessments of the transaction. In order to substantiate the price, the independent financial advisory firms used three different valuation methods, one based on discounted future cash flows, one using multiples of comparable companies and one using comparable transactions, in accordance with the provisions of IAS 39.

**(b) Restructuring of the shareholdings in Laiki Bank (Hellas) S.A. and the subsidiary companies in Greece and acquisition of minority interest in Laiki Bank (Hellas) S.A.**

In July 2006, by order of the Board of Directors of the Bank and after approval from the Extraordinary General Meeting of Laiki Bank (Hellas) S.A. (Laiki Hellas), the Bank disposed of its shareholdings in the companies Laiki Leasing S.A. (shareholding 50%), Laiki Factoring S.A. (shareholding 50%), Laiki A.E.D.A.K. (shareholding 50%), Laiki Attalos Securities S.A. (shareholding 46%), Laiki Life S.A. (shareholding 50%), Laiki Insurance Agency E.P.E. (shareholding 50%) to Laiki Hellas in exchange for the issue of 719.232 shares in Laiki Hellas at the price of euro 31,40 per share. As a result of the above action the percentage shareholdings in Laiki Hellas increased from 78% on 31 December, 2005 to 80%.

Subsequently, according to a voluntary private offer for the acquisition of the minority interests in Laiki Hellas, the Bank offered to acquire up to 19,79% of the ordinary shares of Laiki Hellas in exchange for 14,9962 shares of the Bank for each share of Laiki Hellas at the price of C£ 3 per share, according to the valuation as presented above. Up to 31 December, 2006, 2.034.000 new ordinary shares were issued and allocated to the shareholders of Laiki Hellas who completed the contracts for the exchange and transfer of shares. Another 18.138.000 shares are in the process of being issued to be allocated to the shareholders of Laiki Hellas who will accept the private offer.

As a result of the acceptance of the private offer the percentage shareholdings in Laiki Hellas increased to 100%.

## NOTES TO THE FINANCIAL STATEMENTS

### 23. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

#### (c) Acquisition of subsidiary company in Serbia

On 20 January, 2006 the Bank acquired 90,43% of the ordinary share capital of the Serbian Bank Centrobanka a.d. (later renamed to Laiki Bank a.d.) for a total amount of C£ 19.268.000. In September 2006, the Bank took up the new shares issued by Laiki Bank a.d. for C£ 5.780.000 increasing its shareholding to 92,82% and proceeded with a bid to acquire any remaining shares in the company. This resulted in the Bank paying an additional amount of C£ 735.000 to acquire an extra shareholding of 2,41% bringing its total shareholding to 95,23%.

### 24. INVESTMENTS IN ASSOCIATES

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Balance 1 January	<b>5.874</b>	4.929
Revaluation for the year	<b>1.000</b>	945
	<hr/>	<hr/>
Balance 31 December	<b>6.874</b>	5.874

Investments in associates relate to the 30% interest (2005: 30%) in the share capital of JCC Payment Systems Ltd.

The summarised financial information of the associate company is as follows:

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Assets	<b>29.661</b>	23.568
Liabilities	<b>6.676</b>	3.988
Revenues	<b>10.685</b>	10.017
Profit	<b>4.925</b>	4.735
Issued share capital	<b>1.000</b>	1.000

## NOTES TO THE FINANCIAL STATEMENTS

### 25. INTANGIBLE ASSETS

	<b>Computer software C£ '000</b>
<b>1 January 2005</b>	
Cost	13.690
Accumulated amortisation	<u>(8.715)</u>
Net book value	<u>4.975</u>
<b>Year ended 31 December 2005</b>	
Net book value at the beginning of the year	4.975
Additions	1.636
Disposals	(6)
Amortisation charge (Note 9)	(2.602)
Exchange differences	<u>11</u>
Net book value	<u>4.014</u>
<b>At 31 December 2005</b>	
Cost	15.350
Accumulated amortisation	<u>(11.336)</u>
Net book value	<u>4.014</u>
<b>Year ended 31 December 2006</b>	
Net book value at the beginning of the year	4.014
Additions	1.934
Disposals	(13)
Amortisation charge (Note 9)	(2.633)
Exchange differences	<u>12</u>
Net book value	<u>3.314</u>
<b>At 31 December 2006</b>	
Cost	17.317
Accumulated amortisation	<u>(14.003)</u>
Net book value	<u>3.314</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 26. INVESTMENT PROPERTY

	<b>2006</b> <b>C£ '000</b>	2005 C£ '000
Balance 1 January	<b>1.385</b>	-
Transfer from the category "Property and equipment" (Note 27)	-	1.247
Fair value gain (Note 7)	<b>137</b>	138
Balance 31 December	<b>1.522</b>	1.385

The investment properties are valued annually on 31 December by independent, professionally qualified valuers with adequate and relevant experience on the nature and the location of the property. Changes in the fair value are included in the income statement.

Within "Other income" in the income statement, an amount of C£ 3.000 (2005: C£ 10.000) is also included, that concerns income from operating lease rentals from investment properties held by the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

### 27. PROPERTY AND EQUIPMENT

	Property C£ '000	Equipment C£ '000	Total C£ '000
<b>1 January 2005</b>			
Cost or valuation	56.556	41.780	98.336
Accumulated depreciation	(369)	(29.603)	(29.972)
	56.187	12.177	68.364
<b>Year ended 31 December 2005</b>			
Net book value at the beginning of the year	56.187	12.177	68.364
Additions	1.178	2.206	3.384
Disposals	(77)	(106)	(183)
Transfer to the category "Investment property" (Note 26)	(1.247)	-	(1.247)
Revaluation of property (Note 35)	(176)	-	(176)
Depreciation charge (Note 9)	(474)	(3.710)	(4.184)
Exchange differences	64	8	72
	55.455	10.575	66.030
<b>At 31 December 2005</b>			
Cost or valuation	56.305	43.008	99.313
Accumulated depreciation	(850)	(32.433)	(33.283)
	55.455	10.575	66.030
<b>Year ended 31 December 2006</b>			
Net book value at the beginning of the year	55.455	10.575	66.030
Additions	1.500	2.720	4.220
Disposals	(1.511)	(48)	(1.559)
Depreciation charge (Note 9)	(313)	(3.074)	(3.387)
Exchange differences	136	12	148
	55.267	10.185	65.452
<b>At 31 December 2006</b>			
Cost or valuation	56.026	42.310	98.336
Accumulated depreciation	(759)	(32.125)	(32.884)
	55.267	10.185	65.452

## NOTES TO THE FINANCIAL STATEMENTS

### 27. PROPERTY AND EQUIPMENT (continued)

Included within the property of the Bank is an amount of C£ 1.721.000 (2005: C£ 679.000) which represents buildings under construction.

In the cash flow statement, proceeds from sale of property and equipment comprise:

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Net book value	<b>1.559</b>	183
Profit on disposal of property and equipment (Note 7)	<b>434</b>	-
	<hr/>	<hr/>
Proceeds from disposal of property and equipment	<b>1.993</b>	183
	<hr/>	<hr/>

At 31 December, 2004 a valuation of the Bank's property was performed by independent professional valuers. The fair value of the Bank's property is based on the market value or in the absence of any market information on the method of the depreciated replacement cost. Increases in the carrying amount arising on the revaluation were credited to property fair value reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against those reserves. All other decreases are charged to the income statement.

Included within the property of the Bank is an amount of C£ 6.342.000 (2005: C£ 6.710.000) which represents leasehold buildings.

The net book value of revalued property that would have been included in the financial statements had the assets been carried at cost less depreciation is C£ 24.808.000 (2005: C£ 24.962.000). The amount of property and equipment which relates to land and is not depreciated is C£ 31.111.000 (2005: C£ 29.284.000).

## NOTES TO THE FINANCIAL STATEMENTS

### 28. DUE TO OTHER BANKS

	2006 C£ '000	2005 C£ '000
<b>Maturity analysis</b>		
Repayable on demand	86.231	47.243
Three months or less	83.357	64.161
Over three months but less than one year	4.318	-
Over five years	1	-
	<b>173.907</b>	<b>111.404</b>
 <b>Analysis by geographical area</b>		
Cyprus	130.179	64.201
United Kingdom	43.728	47.203
	<b>173.907</b>	<b>111.404</b>

### 29. CUSTOMER DEPOSITS

	2006 C£ '000	2005 C£ '000
<b>Maturity analysis</b>		
Repayable on demand	2.404.797	1.143.512
Three months or less	2.093.779	2.307.136
Over three months but less than one year	595.059	573.184
Over one but less than five years	28.298	85.151
Over five years	472	4.777
	<b>5.122.405</b>	<b>4.113.760</b>
 <b>Analysis by geographical area</b>		
Cyprus	4.842.203	3.875.406
United Kingdom	280.202	238.354
	<b>5.122.405</b>	<b>4.113.760</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30. SENIOR DEBT

During 2004 the Bank set up a Euro Medium Term Note Programme for a total amount of euro 750 m. In 2006 an increase was approved in the amount of the existing programme into euro 1 bln. Pursuant to the Programme the Bank has the ability to issue senior and/or subordinated debt in accordance to its needs.

In July 2004 the Bank issued euro 300 m of senior debt from the above Programme. The bonds are repayable within three years from their issue (2004/2007) and pay interest every three months. The interest rate is set at the three-month rate of euro (Euribor) plus 0,5%.

The bonds are listed on the Luxembourg Stock Exchange and their market value at 31 December, 2006 was euro 300,4 m, C£ 173,7 m (2005: euro 300,5 m, C£ 172,3 m).

### 31. LOAN CAPITAL

	2006 C£ '000	2005 C£ '000
Convertible debentures 2001/2006	-	8.754
Convertible debentures 2003/2010	-	6.796
Non-convertible debentures 2003/2007	<b>8.968</b>	15.000
Non-convertible debentures 2003/2009	-	30.000
Eurobonds due 2011	-	103.048
Eurobonds due 2016	<b>260.189</b>	-
Capital securities	<b>50.000</b>	50.000
	<b>319.157</b>	213.598
Equity element of convertible debentures (Note 34)	-	(444)
<b>Total loan capital</b>	<b>319.157</b>	213.154

The repayment date of the non-convertible debentures 2003/2007 falls in the period of "over three months but less than one year" from the balance sheet date and the repayment date of eurobonds due 2016 falls in the period of "over five years" from the balance sheet date. The capital securities are perpetual.

#### Convertible debentures 2001/2006

The convertible debentures 2001/2006 were repaid in full, in accordance with their terms of issue, on 30 November, 2006, plus accrued interest. The debentures paid interest every six months. Interest was fixed at 7% on nominal value for the first two years. Thereafter, interest was reset every six months based on the average interest rate of government bonds in the preceding six-monthly period.

## NOTES TO THE FINANCIAL STATEMENTS

### 31. LOAN CAPITAL (continued)

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

The convertible debentures 2003/2010 were redeemed at par on 15 September, 2006 in accordance with their terms of issue and the debenture holders were paid an amount equal to the nominal value of the debentures plus accrued interest. The debentures paid interest every six months. Interest was fixed at 7% on nominal value for the first year. Thereafter, interest was reset based on the higher of the average interest rate of government bonds plus 0,25% or the highest interest offered on yearly deposits plus 0,25%.

#### **Non-convertible debentures 2003/2007**

In April 2003 the Bank issued C£ 15 m non-convertible debentures due 2007. The debentures pay interest every six months on 30 June and 31 December of each year. Interest was fixed at 6,50% on nominal value until 31 December, 2004. Thereafter, the debentures pay floating interest equal to the weighted average base rate for the relevant six-monthly period plus 1%.

The Bank has the right to repurchase the debentures in the market, by special agreement or by offer to all debenture holders at any price. In July 2006, the Bank made an offer to repurchase the debentures according to their terms of issue, at the price of C£ 1.012 for each debenture of C£ 1.000, plus accrued interest. In October 2006, the purchase of 6.016 debentures was completed with the payment of the relevant amounts to the beneficiaries.

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

#### **Non-convertible debentures 2003/2009**

The non-convertible debentures 2003/2009 were fully redeemed on 15 September, 2006, in accordance with their terms of issue and an amount equal to the nominal value of the debentures plus accrued interest was paid to their holders. The debentures paid interest every six months. Interest was fixed at 7,25% on nominal value for the first year. Thereafter, the debentures paid floating interest. The floating interest rate was equal to the average interest rate of government bonds for one year plus 0,75% or the highest interest rate offered by the Bank for one year customer deposits plus 0,75%, whichever was higher.

#### **Eurobonds due 2011**

The Bank exercised the right to redeem the bonds on 28 November, 2006, in accordance to their terms of issue, and the nominal amount of the bonds plus accrued interest were paid to the beneficiaries. The bonds paid interest every three months in arrears on 28 February, 28 May, 28 August and 28 November in each year. Interest was set at 1,4% above the three-month rate of euro ("Euribor").

## NOTES TO THE FINANCIAL STATEMENTS

### 31. LOAN CAPITAL (continued)

#### **Eurobonds due 2016**

During 2004 the Bank set up a Euro Medium Term Note Programme for a total amount of euro 750 m, pursuant to which the Bank would have the ability to issue senior and / or subordinated debt in accordance to its needs. In July 2004 the Bank issued euro 300 m of senior debt from this Programme (Note 30).

In May 2006, after approval of the increase of the size of the Euro Medium Term Note Programme from euro 750 m to euro 1 bln, the Bank successfully completed a subordinated debt issue (Tier 2 capital) totalling euro 450 m. The issue was in the form of subordinated bond, maturing in 10 years. The Bank has the right to redeem the bond five years after the issue date. The interest rate is set at three month Euribor plus 0,75% increased by 1% if the bond is not redeemed within the first five years of issue.

The bond which constitutes unsecured, subordinated obligations of the Bank and which ranks for payment after the claims of the depositors and other creditors, is listed on the Luxembourg Stock Exchange and its market value at 31 December, 2006 was euro 448,6 m, C£ 259,4 m.

#### **Capital securities**

In June 2003 the Bank issued C£ 25 m capital securities, which were offered to a limited number of investors. In September 2003 the Bank issued an additional C£ 25 m capital securities, which were offered to the Bank's shareholders and to the public. The securities pay floating interest, which is revised at the beginning of each interest period. The floating interest rate is equal to the base rate at the beginning of the period plus 1,2%. The capital securities pay interest quarterly at 31 March, 30 June, 30 September and 31 December in each year.

The capital securities are perpetual, but can be repurchased in full at the option of the Bank at nominal value plus accrued interest on 30 June, 2008 or at any interest payment date thereafter, after approval from the Central Bank of Cyprus.

In case the capital securities are not repurchased by the Bank 10 years after their issue, then the holder has the right to exchange the securities with ordinary shares of the Bank at any interest payment date thereafter, at a discount of 10% on the average price of the ordinary share as this will be traded on the Cyprus Stock Exchange for a period of one month before the respective exchange date.

The capital securities constitute direct non-secured and subordinated obligations of the Bank. They rank for payment after the claims of depositors and other creditors.

## NOTES TO THE FINANCIAL STATEMENTS

### 32. OTHER LIABILITIES

	<b>2006</b> C£ '000	2005 C£ '000
Interest payable	<b>33.921</b>	29.150
Derivative financial instruments with negative fair value (Note 36)	<b>6.448</b>	3.152
Other liabilities	<b>75.757</b>	52.180
	<b>116.126</b>	84.482

### 33. DEFERRED TAX LIABILITIES

Deferred tax liabilities are calculated on all temporary differences under the liability method using effective tax rates (Note 12). Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority. The movement in deferred tax is as follows:

	<b>2006</b> C£ '000	2005 C£ '000
Balance 1 January	<b>4.520</b>	4.419
Debit in income statement (Note 12)	<b>116</b>	15
(Credit)/debit in property fair value reserves (Note 35)	<b>(18)</b>	86
	<b>4.618</b>	4.520

Deferred tax liabilities are recoverable as follows:

	<b>2006</b> C£ '000	2005 C£ '000
<b>Deferred tax liabilities</b>		
Differences between depreciation and wear and tear allowances	<b>722</b>	606
Revaluation of property	<b>3.896</b>	3.914
	<b>4.618</b>	4.520

The deferred tax charge in the income statement at 31 December 2006 of C£ 116.000 (2005: C£ 15.000) relates to differences between depreciation and wear and tear allowances.

## NOTES TO THE FINANCIAL STATEMENTS

### 34. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Share capital C£ '000	Share premium C£ '000	Total C£ '000
<b>1 January 2005</b>	304.011	152.450	2.949	155.399
Reinvestment of dividend	2.397	1.198	1.894	3.092
<b>31 December 2005 / 1 January 2006</b>	<b>306.408</b>	<b>153.648</b>	<b>4.843</b>	<b>158.491</b>
Equity element of convertible debentures repaid during the year	-	(444)	-	(444)
Shares issued through exercise of rights (a)	51.057	25.528	35.740	61.268
Shares issued according to public and private offers (b)	414.716	207.358	1.036.789	1.244.147
Shares in the process of being issued (c)	18.138	9.069	45.345	54.414
Share issue costs	-	-	(9.662)	(9.662)
<b>31 December 2006</b>	<b>790.319</b>	<b>395.159</b>	<b>1.113.055</b>	<b>1.508.214</b>

The total authorised share capital of the Bank at 31 December, 2005 was 400 m shares of a nominal value of C£ 0,50 each (C£ 200 m). On 15 June, 2006, following the approval of the Extraordinary General Meeting, the authorised share capital increased from C£ 200 m to C£ 250 m and following the approval of the Extraordinary General Meeting on 31 October, 2006, the authorised share capital increased to C£ 475 m, reaching a total of 950 m shares on 31 December, 2006 of a nominal value of C£ 0,50 each (C£ 475 m).

All issued shares are fully paid.

During 2006, the following changes took place in the share capital of the Bank:

- In June 2006 the issued share capital increased by 51.057.000 ordinary shares of a nominal value of C£ 0,50 from rights for the benefit of existing shareholders at the price of C£ 1,20 per share.
- In December 2006 the share capital increased by 414.716.000 ordinary shares of a nominal value of C£ 0,50 each. The increase resulted from the issue and allocation of ordinary shares to the shareholders of Marfin Financial Group Holdings S.A., the shareholders and holders of convertible bonds of Egnatia Bank S.A. and the shareholders of Laiki Bank (Hellas) S.A. who entered into exchange and transfer contracts for their shares at the price of C£ 3 per share (Note 23).
- The shares in the process of being issued relate to shares to be issued and allocated to the shareholders of Laiki Bank (Hellas) S.A. who will accept the private offer for the acquisition of minority holdings.

All issued ordinary shares carry the same rights.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 35. RESERVES

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
<b>Revenue reserves</b>		
Balance 1 January	<b>134.181</b>	112.614
Profit for the year	<b>78.416</b>	30.624
Transfer from property fair value reserves	<b>178</b>	63
Dividend paid (Note 45)	<b>(21.448)</b>	(9.120)
	<hr/>	<hr/>
Balance 31 December	<b>191.327</b>	134.181
<b>Property fair value reserves</b>		
Balance 1 January	<b>11.451</b>	11.776
Revaluation for the year (Note 27)	<b>-</b>	(176)
Transfer to revenue reserves	<b>(178)</b>	(63)
Deferred tax on revaluation (Note 33)	<b>18</b>	(86)
	<hr/>	<hr/>
Balance 31 December	<b>11.291</b>	11.451
<b>Available-for-sale financial assets and investments in subsidiary companies and associates fair value reserves</b>		
Balance 1 January	<b>79.124</b>	41.709
Transfer to income statement due to impairment	<b>-</b>	6.514
Revaluation for the year	<b>45.337</b>	30.901
	<hr/>	<hr/>
Balance 31 December	<b>124.461</b>	79.124
<b>Currency translation reserves</b>		
Balance 1 January	<b>114</b>	(136)
Exchange differences arising in the year	<b>315</b>	250
	<hr/>	<hr/>
Balance 31 December	<b>429</b>	114
	<hr/>	<hr/>
<b>Total reserves at 31 December</b>	<b>327.508</b>	224.870

## NOTES TO THE FINANCIAL STATEMENTS

### 35. RESERVES (continued)

According to the Companies Law and the Articles of Association of the Bank there is no restriction in the distribution of reserves. According to the regulations of the Central Bank of Cyprus the reserves arising from exchange differences are not available for distribution.

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

### 36. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative financial instruments for own trading with the purpose of increasing its earnings. The derivative financial instruments, used by the Bank, and the method of determining their fair value are as follows.

Forward foreign exchange contracts specify the rate at which two currencies will be exchanged at a future date. The exchange rate agreed is determined when the deal is made. Forward foreign exchange contracts are revalued daily (using the current exchange rates) by calculating the new forward rate until the settlement of the contract, based on the current market rates.

Currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a future date. The currency swaps are fairly valued (using the current exchange rates) by calculating the new swap points at the time of the revaluation.

Interest rate swaps are commitments to exchange one set of cash flows based on a fixed interest rate with one set of cash flows based on a floating interest rate. The cash flows are calculated on a fixed notional amount and for a fixed period of time. The fair value of interest rate swaps is calculated by comparing the present value of the discounted cash flows at the date of the revaluation with the current outstanding notional amount of the swap.

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised on the balance sheet, but they do not indicate the amounts of future cash flows or the fair value of the instruments and, therefore, do not present the Bank's exposure to credit and other market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms.

## NOTES TO THE FINANCIAL STATEMENTS

### 36. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional and fair value of derivatives were:

	2006			2005		
	Contract/ Notional amount C£ '000	Fair value		Contract/ Notional amount C£ '000	Fair value	
		Assets C£ '000	Liabilities C£ '000		Assets C£ '000	Liabilities C£ '000
<b>Trading derivatives:</b>						
<b>Foreign currency derivatives</b>						
Currency forwards	117.839	116	41	68.158	67	572
Currency swaps	732.703	7.107	5.541	230.708	2.820	1.825
<b>Interest rate derivatives</b>						
Interest rate swaps	681.649	843	866	227.764	569	755
		<b>8.066</b>	<b>6.448</b>		<b>3.456</b>	<b>3.152</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 37. CASH GENERATED FROM OPERATIONS

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Profit before tax	<b>88.103</b>	36.431
Adjustment for:		
Impairment of investments	-	6.514
Depreciation of property and equipment (Note 27)	<b>3.387</b>	4.184
Amortisation of computer software (Note 25)	<b>2.633</b>	2.602
Fair value gain on investment property (Note 26)	<b>(137)</b>	(138)
Exchange differences	<b>(2.926)</b>	(948)
Income from available-for-sale financial assets	<b>(30.760)</b>	(15.633)
Interest paid on loan capital	<b>9.059</b>	10.197
Dividend income	<b>(9.438)</b>	(5.119)
Profit on disposal of property and equipment (Note 27)	<b>(434)</b>	-
Profit on disposal of available-for-sale financial assets	<b>(74)</b>	-
	<hr/>	<hr/>
Profit before tax adjusted for non-cash items	<b>59.413</b>	38.090
Change in:		
Due to other banks	<b>62.503</b>	74.083
Customer deposits	<b>1.008.645</b>	730.019
Balances with subsidiary companies	<b>(29.302)</b>	99.434
Other liabilities	<b>31.644</b>	12.974
Retirement benefit obligations	<b>11.262</b>	11.521
Due from other banks	<b>(64.036)</b>	37.621
Financial assets at fair value through profit or loss	<b>(56.894)</b>	(39.353)
Advances to customers	<b>(574.267)</b>	(223.928)
Balances with subsidiary companies	<b>5.044</b>	(39.884)
Government bonds and treasury bills	<b>28.079</b>	(140.726)
Available-for-sale financial assets	<b>12.598</b>	(17.696)
Held-to-maturity financial assets	<b>(6.586)</b>	-
Other assets	<b>(5.906)</b>	(3.613)
	<hr/>	<hr/>
Cash generated from operations	<b>482.197</b>	538.542

## NOTES TO THE FINANCIAL STATEMENTS

### 37. CASH GENERATED FROM OPERATIONS (continued)

#### Non-cash transactions

The acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A. was effected through the exchange of shares, therefore, there was no effect on the cash flow statement other than the payment of expenses relating to the issue of share capital and expenses relating to this acquisition.

The acquisition of the minority holding in Laiki Bank (Hellas) S.A. was also effected through the exchange of shares and therefore it did not affect the cash flow statement.

### 38. CASH AND CASH EQUIVALENTS

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Cash and balances with the Central Bank (Note 14)	<b>370.702</b>	354.378
Due from other banks – due within three months (Note 15)	<b>1.367.776</b>	1.030.901
Government bonds and treasury bills – due within three months (Note 19)	<b>31.056</b>	20.119
	<b>1.769.534</b>	1.405.398
Exchange differences	-	2.926
	<b>1.769.534</b>	1.408.324

## NOTES TO THE FINANCIAL STATEMENTS

### 39. SEGMENTAL ANALYSIS

#### By geographical region (primary segment)

	Cyprus C£ '000	United Kingdom C£ '000	Eliminations C£ '000	Total C£ '000
<b>2006</b>				
External revenues	364.442	27.126	-	391.568
Revenues from other segments	9.557	16.274	(25.831)	-
<b>Total revenues</b>	<b>373.999</b>	<b>43.400</b>	<b>(25.831)</b>	<b>391.568</b>
Profit before tax	81.396	6.707		88.103
Tax				(9.687)
<b>Profit for the year</b>				<b>78.416</b>
Assets	7.120.757	840.825		7.961.582
Investments in associates	6.874	-		6.874
<b>Total assets</b>				<b>7.968.456</b>
<b>Liabilities</b>	<b>5.557.593</b>	<b>575.141</b>		<b>6.132.734</b>
<b>Other items</b>				
Capital expenditure	5.912	242		6.154
Depreciation of property and equipment (Note 27)	3.196	191		3.387
Amortisation of computer software (Note 25)	2.300	333		2.633
Provision for impairment of advances (Note 11)	14.367	789		15.156

## NOTES TO THE FINANCIAL STATEMENTS

### 39. SEGMENTAL ANALYSIS (continued)

#### By geographical segment (primary segment) (continued)

	<b>Cyprus</b> <b>C£ '000</b>	<b>United</b> <b>Kingdom</b> <b>C£ '000</b>	<b>Eliminations</b> <b>C£ '000</b>	<b>Total</b> <b>C£ '000</b>
2005				
External revenues	275.951	33.749	-	309.700
Revenues from other segments	3.155	4.023	(7.178)	-
<b>Total revenues</b>	<b>279.106</b>	<b>37.772</b>	<b>(7.178)</b>	<b>309.700</b>
Profit before tax	29.183	7.248		36.431
Tax				(5.807)
<b>Profit for the year</b>				<b>30.624</b>
Assets	4.730.424	587.471		5.317.895
Investments in associates	5.874	-		5.874
<b>Total assets</b>				<b>5.323.769</b>
<b>Liabilities</b>	<b>4.359.017</b>	<b>581.391</b>		<b>4.940.408</b>
<b>Other items</b>				
Capital expenditure	4.716	304		5.020
Depreciation of property and equipment (Note 27)	3.794	390		4.184
Amortisation of computer software (Note 25)	2.287	315		2.602
Impairment of investments	6.514	-		6.514
Provision for impairment of advances (Note 11)	27.730	(569)		27.161

Reconciliation with the amounts included in the income statement:

	<b>2006</b> <b>C£ '000</b>	2005 C£ '000
Total revenues	<b>391.568</b>	309.700
Interest expense per income statement	<b>(186.781)</b>	(145.670)
Fee and commission expense per income statement	<b>(1.752)</b>	(1.239)
Operating income per income statement	<b>203.035</b>	162.791

The Bank operates mainly in the banking sector and geographically in Cyprus and in the United Kingdom. Therefore, no analysis by business sector is presented and the primary segment is by geographical region.

## NOTES TO THE FINANCIAL STATEMENTS

### 40. CONTINGENCIES AND COMMITMENTS

#### Credit-related financial instruments

Credit-related financial instruments include commitments relating to documentary credits and guarantees, which are designed to meet the financial requirements of the Bank's customers. The credit risk on these transactions represents the contract amount. However, the majority of these facilities are offset by corresponding obligations of third parties.

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Acceptances	<b>63.886</b>	65.995
Guarantees	<b>307.998</b>	274.687
	<b>371.884</b>	340.682

#### Unutilised credit facilities

The amount of approved unutilised credit facilities was C£ 558.110.000 (2005: C£ 560.055.000).

#### Trustee services

The Bank acts as a trustee of approved investments of insurance companies according to the provisions of the Insurance Companies Laws of 1984 and 1990.

#### Capital commitments

Capital expenditure contracted at 31 December, 2006 amounted to C£ 6,7 m (2005: C£ 7,0 m).

#### Legal proceedings

As at 31 December, 2006 there were pending litigations against the Bank in connection with its activities. Based on legal advice the Board of Directors believes that there is adequate defence against all claims and it is not probable that the Bank will suffer any significant damage. Therefore, no provision has been made in the financial statements regarding these cases.

#### Operating lease commitments

The Bank leases various branches, offices and warehouses under non-cancelable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	<b>2006</b>	2005
	<b>C£ '000</b>	C£ '000
Less than one year	<b>1.023</b>	1.251
Over one but less than five years	<b>2.011</b>	2.312
Over five years	-	149
	<b>3.034</b>	3.712

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT

As other financial institutions the Bank is exposed to several risks. These are continuously monitored with various methods so that the concentration of unreasonable risks is avoided. The nature of these risks and the way the Bank deals with them are explained below.

#### **Credit risk**

Credit risk is the possibility of non-prompt repayment of existing and contingent obligations of the Bank's counterparties resulting in the loss of funds. Credit risk management focuses on ensuring a disciplined risk culture, risk transparency and intelligent risk taking.

Industry sector and sub-sector analyses supported by economic forecasts provide the main guideline to the credit policy that is reviewed at least semi-annually.

Limits of authority and segregation of duties in the lending processes are in place to maintain objectivity, independence and control over new and existing lending exposures.

Credit risk concentrations may arise at industry or customer level. Such concentrations are analysed and monitored on an ongoing basis to minimise any potential excessive exposure to a single industry, industry sub-sector or customer. Loan portfolio exposures are managed so as to adhere to the credit policy guidelines on limits set for each industry sector.

Balancing the risk-return relationship is vital for the continuing success of the Bank. This relationship is analysed at customer and product level by the internal pricing mechanism that has been developed to incorporate both the risk taken by the Bank as well as the expected return.

Customer quality rating is applied to new and existing customers. A customer-oriented internal rating system with clear-cut and objectively defined quality grades is maintained. The internal rating system evaluates each customer's and group of customers' repayment ability at least on a monthly basis. This ensures that the customers' rating reflects the fairly up-to-date default risk taken and acts as a warning sign for monitoring purposes. The ongoing quality evaluation is supported by periodic audits conducted by both the Credit Risk Management and Internal Audit Departments.

The internal rating system is complemented by credit scoring models for retail customers and Moody's Risk Advisor for medium and large size businesses. The Moody's Risk Advisor system rates the financial strength of a company based on its financial statements and on its qualitative characteristics, as well as on the industry sector in which it operates.

Changes in the quality of the loan portfolio are closely monitored so as to timely develop proper strategic moves in order to avoid any potential increase in the risks undertaken.

The customer internal rating system is the basis for developing internal probabilities of default that will assist in future credit risk taking decisions and credit risk monitoring.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Credit risk (continued)

Credit risk methodologies are adjusted to reflect the changing financial environment. The various credit risk assessment methods used are being revised at least annually or whenever it is deemed necessary and are adapted to fall in line with both the Bank's overall strategic and its short-term and long-term objectives.

#### Counterparty banks risk

The Bank runs the risk of loss of funds due to the possible untimely repayment of existing and future obligations by counterparty banks.

Within its daily operations the Bank transacts with banks and other financial organisations in Cyprus and abroad. By conducting these transactions the Bank is running the risk of losing funds due to the possible untimely repayment to the Bank of the existing and future obligations of the counterparty banks.

The counterparty limits are proposed by the Treasury and are examined by the Risk Management Division once a year. In general terms the maximum limits are determined by the bank scoring model as well as from the Central Bank of Cyprus Directives.

Assessments of counterparty risk are undertaken using a specialised bank and other financial organizations scoring model. The model used evaluates each Bank according to a set of quantitative and qualitative criteria. Regarding the quantitative criteria (capital adequacy, profitability, liquidity, etc.) the banks and other financial organisations are assessed using certain ratios, which are drawn from the software package of Bankscope. Qualitative criteria (previous good cooperation, management assessment) are provided on a judgemental basis, since these are according to the judgement of each user of the system and officer of Risk Management Division.

The exposure to any one borrower is further restricted by sub limits covering money market, capital market, foreign exchange operations, as well as, daily settlement risk limits. The positions are checked against the limits on a daily basis.

#### Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested in several counterparties.

All countries are assessed by Risk Management Division according to their size and their economic ratings (Moody's, Standard and Poor's). Existing country credit risk exposures are monitored and reviewed daily against approved limits. Review of limits occurs at least annually with the smaller and lower rated countries being subject to greater and more frequent analysis and assessment.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Interest rate risk

Interest rate risk is the risk of fluctuations in the value of financial instruments and in the Bank's net interest income as a result of adverse changes in the market interest rates. Interest rate risk arises from holding assets and liabilities, on and off-balance sheet positions, with different maturity dates or repricing dates.

The Bank's main measurement methodology is Present Value of a Basis Point methodology (PVBP) for measuring, monitoring and managing the interest rate risk in its trading and banking book. PVBP shows the effect on the Bank's net interest income and consequently to its profitability, from a one basis point change in the current interest rate yield curve of a specific currency.

The Bank uses exposure calculations and associated limit structures in PVBPs for monitoring:

- (a) Exposure in each currency per predefined time period.
- (b) Total exposure in each main currency.
- (c) Exposure in all currencies per predefined time period.
- (d) Total exposure in all periods and all currencies.

The Bank's interest rate risk exposures are mainly created from the retail activity and are usually hedged through the commencement of transactions in derivative products or interbank market. In addition, there is limited activity in the trading book, with positions in fixed interest rate bonds and interest rate futures.

At regular time intervals the Bank evaluates its interest rate risk exposure by calculating a "maximum potential loss" scenario at bank level. The maximum potential loss is calculated by assuming simultaneous shifts in the interest rate yield curves in all currencies in a direction that adversely affects the Bank's position.

The following tables summarise the Bank's exposure to interest rate risks. Included in the tables are the Bank's assets and liabilities at carrying amounts categorised by contractual repricing date for floating rate items and maturity date for fixed rate items.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Interest rate risk (continued)

	Up to 1 month C£ '000	3 months or less C£ '000	Over 3 months but less than 1 year C£ '000	Over 1 year but less than 5 years C£ '000	Over 5 years C£ '000	Non- interest bearing C£ '000	Total C£ '000
<b>2006</b>							
<b>Assets</b>							
Cash and balances with Central Bank	370.201	-	-	-	-	501	370.702
Due from other banks	1.196.864	175.427	84.306	-	-	-	1.456.597
Financial assets at fair value through profit or loss	6.918	105.345	-	-	-	6.628	118.891
Advances to customers	2.790.571	32.360	4.132	528	-	-	2.827.591
Balances with subsidiary companies	192.693	123.467	-	15.453	-	540	332.153
Government bonds and treasury bills	12.929	17.189	28.817	133.186	69.793	-	261.914
Available-for-sale financial assets	227.838	489.190	23.780	2.489	2.330	36.623	782.250
Held-to-maturity financial assets	-	2.195	4.391	-	-	-	6.586
Other assets	6.975	-	-	-	5.191	34.098	46.264
Investment in subsidiary companies	-	-	-	-	-	1.688.346	1.688.346
Investments in associates	-	-	-	-	-	6.874	6.874
Intangible assets	-	-	-	-	-	3.314	3.314
Investment property	-	-	-	-	-	1.522	1.522
Property and equipment	-	-	-	-	-	65.452	65.452
<b>Total assets</b>	<b>4.804.989</b>	<b>945.173</b>	<b>145.426</b>	<b>151.656</b>	<b>77.314</b>	<b>1.843.898</b>	<b>7.968.456</b>
<b>Liabilities</b>							
Due to other banks	118.091	51.497	4.319	-	-	-	173.907
Customer deposits	4.140.776	408.253	553.427	18.997	952	-	5.122.405
Senior debt	173.460	-	-	-	-	-	173.460
Loan capital	260.189	50.000	8.968	-	-	-	319.157
Balances with subsidiary companies	59.671	39.416	26.172	-	-	11	125.270
Other liabilities	27.120	-	-	-	-	94.735	121.855
Retirement benefit obligations	-	-	-	-	-	96.680	96.680
<b>Total liabilities</b>	<b>4.779.307</b>	<b>549.166</b>	<b>592.886</b>	<b>18.997</b>	<b>952</b>	<b>191.426</b>	<b>6.132.734</b>
<b>Net interest sensitivity gap</b>	<b>25.682</b>	<b>396.007</b>	<b>(447.460)</b>	<b>132.659</b>	<b>76.362</b>		

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Interest rate risk (continued)

	Up to 1 month C£ '000	3 months or less C£ '000	Over 3 months but less than 1 year C£ '000	Over 1 year but less than 5 years C£ '000	Over 5 years C£ '000	Non- interest bearing C£ '000	Total C£ '000
2005							
<b>Assets</b>							
Cash and balances with Central Bank	353.812	-	-	-	-	566	354.378
Due from other banks	889.762	143.539	22.385	-	-	-	1.055.686
Financial assets at fair value through profit or loss	21.354	37.187	-	-	-	3.456	61.997
Advances to customers	2.224.667	25.144	3.298	215	-	-	2.253.324
Balances with subsidiary companies	265.875	56.678	14.584	-	-	60	337.197
Government bonds and treasury bills	19.752	61.016	104.362	93.927	-	-	279.057
Available-for-sale financial assets	297.796	217.985	-	-	-	20.196	535.977
Other assets	3.718	-	-	-	6.511	28.628	38.857
Investment in subsidiary companies	-	-	-	-	-	329.993	329.993
Investments in associates	-	-	-	-	-	5.874	5.874
Intangible assets	-	-	-	-	-	4.014	4.014
Investment property	-	-	-	-	-	1.385	1.385
Property and equipment	-	-	-	-	-	66.030	66.030
<b>Total assets</b>	<b>4.076.736</b>	<b>541.549</b>	<b>144.629</b>	<b>94.142</b>	<b>6.511</b>	<b>460.202</b>	<b>5.323.769</b>
<b>Liabilities</b>							
Due to other banks	93.950	17.414	40	-	-	-	111.404
Customer deposits	3.106.402	335.655	641.460	29.019	1.224	-	4.113.760
Senior debt	171.833	-	-	-	-	-	171.833
Loan capital	6.352	153.047	53.755	-	-	-	213.154
Balances with subsidiary companies	57.629	50.950	38.406	7.587	-	-	154.572
Other liabilities	16.396	-	-	-	1.265	72.606	90.267
Retirement benefit obligations	-	-	-	-	-	85.418	85.418
<b>Total liabilities</b>	<b>3.452.562</b>	<b>557.066</b>	<b>733.661</b>	<b>36.606</b>	<b>2.489</b>	<b>158.024</b>	<b>4.940.408</b>
<b>Net interest sensitivity gap</b>	<b>624.174</b>	<b>(15.517)</b>	<b>(589.032)</b>	<b>57.536</b>	<b>4.022</b>		

A significant part of the interest rate exposure is hedged through interest rate swaps instruments.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Currency risk

Currency risk relates to the risk of fluctuations in the value of financial instruments and assets and liabilities due to changes in exchange rates. Currency risk arises from an open position, either overbought or oversold, in a foreign currency, creating exposure to a change in the relevant exchange rate. This may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or forward exchange derivatives including options.

The Bank enters into foreign exchange transactions in order to accommodate customer needs and for hedging its own exposure. It is the Bank's policy not to be involved in any foreign exchange forward exposure risk for any currency without hedging. To this effect, the Bank's Treasury engages only in limited active foreign exchange spot proprietary trading, within predefined and approved limits.

The Bank uses exposure calculations and associated limit structures for monitoring:

- (a) Open position by currency – net long / short position of each currency.
- (b) Total net short position.
- (c) Maximum loss limits – maximum level of losses resulting from foreign exchange fluctuations on a daily / monthly / yearly basis.

The Risk Management Division calculates the maximum potential loss for the open positions in different currencies by working on stress testing scenarios. These scenarios assume large fluctuations in all currencies in a way that could adversely affect the Bank profitability.

The following tables summarise the Bank's exposure to currency risk. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorised by currency. The tables also present the notional amount of foreign exchange derivatives, which are used to reduce the Bank's exposure to currency movements, categorised by currency.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Currency risk (continued)

	Cyprus Pound C€ '000	Euro C€ '000	United States Dollar C€ '000	Sterling Pound C€ '000	Australian Dollar C€ '000	Other currencies C€ '000	Total C€ '000
<b>2006</b>							
<b>Assets</b>							
Cash and balances with Central Bank	360.325	5.534	2.742	1.876	76	149	370.702
Due from other banks	70.209	167.939	1.062.100	87.245	16.298	52.806	1.456.597
Financial assets at fair value through profit or loss	5.848	79.596	18.590	14.484	371	2	118.891
Advances to customers	1.763.665	339.774	57.587	441.598	1.382	223.585	2.827.591
Balances with subsidiary companies	142.021	95.671	7.365	4.280	43	82.773	332.153
Government bonds and treasury bills	185.918	43.652	18.129	12.008	-	2.207	261.914
Available-for-sale financial assets	36.623	390.640	233.055	116.729	5.203	-	782.250
Held-to-maturity financial assets	-	-	6.586	-	-	-	6.586
Other assets	16.574	6.659	9.496	12.330	789	416	46.264
Investments in subsidiary companies	1.558.298	101.547	-	1.697	26.804	-	1.688.346
Investments in associates	6.874	-	-	-	-	-	6.874
Intangible assets	3.096	-	-	218	-	-	3.314
Investment property	1.522	-	-	-	-	-	1.522
Property and equipment	61.084	-	-	4.368	-	-	65.452
<b>Total assets</b>	<b>4.212.057</b>	<b>1.231.012</b>	<b>1.415.650</b>	<b>696.833</b>	<b>50.966</b>	<b>361.938</b>	<b>7.968.456</b>
<b>Liabilities</b>							
Due to other banks	34.100	41.654	52.145	45.021	2	985	173.907
Customer deposits	2.219.937	648.363	1.641.938	517.672	41.285	53.210	5.122.405
Senior debt	-	173.460	-	-	-	-	173.460
Loan capital	58.968	260.189	-	-	-	-	319.157
Balances with subsidiary companies	67.420	12.311	5.096	40.149	294	-	125.270
Other liabilities	76.144	3.848	4.608	36.444	695	116	121.855
Retirement benefit obligations	96.095	-	-	585	-	-	96.680
	2.552.664	1.139.825	1.703.787	639.871	42.276	54.311	6.132.734
<b>Shareholders' equity</b>	<b>1.835.722</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.835.722</b>
<b>Total liabilities and equity</b>	<b>4.388.386</b>	<b>1.139.825</b>	<b>1.703.787</b>	<b>639.871</b>	<b>42.276</b>	<b>54.311</b>	<b>7.968.456</b>
<b>Net on-balance sheet position</b>	<b>(176.329)</b>	<b>91.187</b>	<b>(288.137)</b>	<b>56.962</b>	<b>8.690</b>	<b>307.627</b>	
<b>Net notional position of derivative financial instruments</b>	<b>163.445</b>	<b>(90.334)</b>	<b>294.939</b>	<b>(45.167)</b>	<b>(8.951)</b>	<b>(313.931)</b>	
<b>Net currency position</b>	<b>(12.884)</b>	<b>853</b>	<b>6.802</b>	<b>11.795</b>	<b>(261)</b>	<b>(6.304)</b>	
<b>2005</b>							
<b>Total assets</b>	2.659.378	760.926	1.182.559	622.445	17.203	81.258	5.323.769
<b>Total liabilities and equity</b>	2.648.830	677.948	1.301.214	639.300	41.912	14.565	5.323.769
<b>Net on-balance sheet position</b>	10.548	82.978	(118.655)	(16.855)	(24.709)	66.693	
<b>Net notional position of derivative financial instruments</b>	(15.544)	(80.027)	122.426	17.676	23.400	(65.279)	
<b>Net currency position</b>	(4.996)	2.951	3.771	821	(1.309)	1.414	

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk

Liquidity risk may be defined as the risk that the bank, either does not have sufficient financial resources available to enable it to meet obligations as they fall due, or can secure them at excessive cost. The Bank recognises the nature of liquidity risk and manages the risk through a well-developed liquidity management structure comprising of a diverse range of controls, procedures and limits. The Bank has to comply with liquidity ratios set by both foreign and local banking regulators, as well as, with internal limits.

The Bank monitors and manages liquidity risk through the use of the following set of controls:

- (a) Balance in the Minimum Reserve Account as set by the local regulators.
- (b) Mismatch ratios between maturing assets and liabilities for time periods up to one month.
- (c) Ratio of liquid assets over total customer deposits.

A substantial portion of the Bank's assets is funded with customer deposits and bonds issued by the Bank. Savings and sight deposits cover immediate cash needs while long-term investment needs are usually covered by the issue of bonds and time deposits.

Although deposits may be withdrawn on demand with no advance notice, the large spread by number and type of depositors helps to ensure against unexpected fluctuations and constitutes a stable deposit base.

Long-term policy decisions, which affect the Bank's liquidity, rest with the Assets and Liabilities Committee (ALCO). To this effect, the Bank maintains adequate cash and cash equivalents in all major currencies.

The following tables analyse assets and liabilities of the Bank into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk (continued)

	On demand C£ '000	3 months or less C£ '000	Over 3 months but less than 1 year C£ '000	Over 1 year but less than 5 years C£ '000	Over 5 years C£ '000	Total C£ '000
<b>2006</b>						
<b>Assets</b>						
Cash and balances with Central Bank	264.619	25	-	-	106.058	370.702
Due from other banks	1.237.796	129.980	84.259	4.562	-	1.456.597
Financial assets at fair value through profit or loss	-	71.445	370	22.650	24.426	118.891
Advances to customers	561.342	107.567	149.198	627.883	1.381.601	2.827.591
Balances with subsidiary companies	157.969	170.264	-	3.920	-	332.153
Government bonds and treasury bills	-	31.056	20.821	132.543	77.494	261.914
Available-for-sale financial assets	-	31.713	88.314	577.682	84.541	782.250
Held-to-maturity financial assets	-	-	-	-	6.586	6.586
Other assets	18.295	3.381	4.068	11.141	9.379	46.264
Investments in subsidiary companies	-	-	-	-	1.688.346	1.688.346
Investments in associates	-	-	-	-	6.874	6.874
Intangible assets	-	-	-	-	3.314	3.314
Investment property	-	-	-	-	1.522	1.522
Property and equipment	-	-	-	-	65.452	65.452
<b>Total assets</b>	<b>2.240.021</b>	<b>545.431</b>	<b>347.030</b>	<b>1.380.381</b>	<b>3.455.593</b>	<b>7.968.456</b>
<b>Liabilities</b>						
Due to other banks	86.231	83.357	4.318	-	1	173.907
Customer deposits	2.404.797	2.093.779	595.059	28.298	472	5.122.405
Senior debt	-	-	173.460	-	-	173.460
Loan capital	-	-	8.968	260.189	50.000	319.157
Balances with subsidiary companies	33.287	59.343	23.920	8.075	645	125.270
Other liabilities	69.229	34.242	9.719	2.961	5.704	121.855
Retirement benefit obligations	-	-	-	-	96.680	96.680
<b>Total liabilities</b>	<b>2.593.544</b>	<b>2.270.721</b>	<b>815.444</b>	<b>299.523</b>	<b>153.502</b>	<b>6.132.734</b>
<b>Net liquidity gap</b>	<b>(353.523)</b>	<b>(1.725.290)</b>	<b>(468.414)</b>	<b>1.080.858</b>	<b>3.302.091</b>	<b>1.835.722</b>
<b>2005</b>						
<b>Total assets</b>	1.845.155	733.450	322.738	972.915	1.449.511	5.323.769
<b>Total liabilities</b>	1.272.305	2.424.104	638.318	357.845	247.836	4.940.408
<b>Net liquidity gap</b>	572.850	(1.690.654)	(315.580)	615.070	1.201.675	383.361

## NOTES TO THE FINANCIAL STATEMENTS

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### Fair value of assets and liabilities

The fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Differences therefore can arise between carrying values recorded under the historical cost and fair value. The definition of fair value assumes that the Bank is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted market prices or to prices prevailing for similar financial instruments.

With reference to the above, the carrying value of the Bank's assets and liabilities is not materially different from their fair value with the exception of held-to-maturity financial assets.

#### (a) Due from other banks

Due from other banks include inter-bank placements and items in the course of collection. The fair value of floating as well as fixed rate placements closely approximates their carrying value since their average maturity is between three to six months.

#### (b) Advances to customers

Advances to customers are net of provisions for impairment. The vast majority of advances earns interest at floating rates and hence its fair value approximates its book value.

#### (c) Held-to-maturity financial assets

The fair value of held-to-maturity financial assets amounts to C£ 196.000.000 (2005: C£ 226.865.000). Fair value for held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

#### (d) Deposits

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed as well as floating interest-bearing deposits closely approximates their carrying value since their average maturity is less than one year.

#### (e) Loan capital

Loan capital is floating rated and its fair value closely approximates its carrying value.

## NOTES TO THE FINANCIAL STATEMENTS

### 42. DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE BANK

The beneficial interest in the Bank's share capital owned by the directors, their spouses and minor children and by companies in which they hold directly or indirectly at least 20% of the voting rights in a general meeting was as follows:

	<b>Beneficial interest at 31 December, 2006</b>	<b>Beneficial interest at 20 February, 2007</b>
Platon E. Lanitis (including indirect)	4,02%	4,02%
Andreas Vgenopoulos	2,77%	2,57%
Eleftherios Chiliadakis	0,20%	0,14%
Manolis Xanthakis	0,08%	0,07%
Kyriacos Magiras	0,08%	0,06%
Constantinos Mylonas	0,03%	0,03%
Markos Foros	0,03%	0,02%
Christos Stylianides	0,01%	0,01%
Michael Louis	0,01%	0,01%
Neoclis Lysandrou	0,01%	0,01%

The percentages are based on the total issued share capital.

### 43. SHAREHOLDERS WITH MORE THAN 5% OF SHARE CAPITAL

	<b>Shareholding at 31 December, 2006</b>	<b>Shareholding at 20 February, 2007</b>
Dubai Financial Limited Liability Company	16,94%	17,12%
Morgan Stanley & Co International Ltd	(a)	5,24%

(a) As at 31 December, 2006 Morgan Stanley & Co International Ltd did not own more than 5% of the share capital.

The percentages are based on the total issued share capital.

## NOTES TO THE FINANCIAL STATEMENTS

### 44. RELATED PARTY TRANSACTIONS

	<b>2006</b>	2005	<b>2006</b>	2005
	<b>Number of Directors</b>	Number of Directors	<b>C£ '000</b>	C£ '000
Advances to Directors and their connected persons:				
More than 1% of the net assets of the Bank	1	3	<b>43.345</b>	52.238
Less than 1% of the net assets of the Bank	<b>10</b>	7	<b>1.663</b>	3.551
	<b>11</b>	10	<b>45.008</b>	55.789
Advances to other key management personnel and their connected persons			<b>1.174</b>	934
Total advances			<b>46.182</b>	56.723
Other contingencies and commitments for guarantees and letters of credit:				
Guarantees to Directors and their connected persons:				
More than 1% of the net assets of the Bank			<b>12.408</b>	15.585
Less than 1% of the net assets of the Bank			<b>1.800</b>	10
Total guarantees			<b>14.208</b>	15.595
Letters of credit to Directors and their connected persons:				
More than 1% of the net assets of the Bank			<b>6.220</b>	4.869
Less than 1% of the net assets of the Bank			-	450
Total letters of credit			<b>6.220</b>	5.319
Total advances and other liabilities			<b>66.610</b>	77.637
Tangible securities			<b>98.762</b>	91.314
Interest income			<b>2.330</b>	3.628
Deposits			<b>2.937</b>	4.323
Interest expense			<b>96</b>	115

## NOTES TO THE FINANCIAL STATEMENTS

### 44. RELATED PARTY TRANSACTIONS (continued)

There were no contingencies and commitments to other key management personnel of the Bank.

The total amount of tangible securities is presented aggregately in the preceding table. Therefore, it is possible that some individual facilities are not fully covered with tangible securities. The total amount of facilities that are unsecured at 31 December, 2006 equals to C£2.995.000 (2005: C£6.187.000).

Connected persons include the spouse, minor children and companies in which key management personnel hold directly or indirectly at least 20% of the voting rights in a general meeting.

The deposits by JCC Payment Systems Ltd, associate of the Bank, at 31 December, 2006 were C£ 16.113.000 (2005: C£ 5.591.000) and the interest on these deposits was C£ 524.000 (2005: C£ 182.000). In addition, the Bank during 2006 received dividend from JCC Payment Systems Ltd amounting to C£ 475.000 (2005: C£ 475.000). The deposits of the provident funds of the employees of the Bank, which are also regarded as related parties, were C£ 13.139.000 (2005: C£ 5.840.000).

#### **Other transactions with connected persons**

During 2006, the Bank purchased goods and received services amounting to C£ 109.000 from companies connected to Lanitis Group.

The above transactions are carried out as part of the normal activities of the Bank, on commercial terms.

## NOTES TO THE FINANCIAL STATEMENTS

### 44. RELATED PARTY TRANSACTIONS (continued)

#### Key management personnel compensation

	2006 C£ '000	2005 C£ '000
<b>Fees paid to Directors as members of the Board</b>	<b>19</b>	73
<b>Remuneration of Directors under executive role:</b>		
Salaries and other short-term benefits	183	380
Employer's social insurance contributions	15	49
Retirement benefits scheme expense	51	14
<b>Total remuneration of Directors under executive role</b>	<b>249</b>	443
<b>Consultancy services fees of Directors under non-executive role</b>	<b>128</b>	-
<b>Compensation of other key management personnel</b>		
Salaries and other short-term benefits	337	321
Employer's social insurance contributions	36	35
Retirement benefits scheme expense	104	99
<b>Total compensation of other key management personnel</b>	<b>477</b>	455
<b>Total compensation of key management personnel</b>	<b>873</b>	971

In addition to the above, the compensation of the members of the Board of Directors that retired during 2006 was:

	C£ '000
Fees as members of the Board	37
Consultancy services fees	71
Remuneration under executive role:	
Salaries and other short-term benefits	74
Employer's social insurance contributions	23
Retirement benefits scheme expense	8
Total remuneration under executive role	105
Pension (including employer's contributions)	164
Payments at the termination of service contract	700
<b>Total compensation</b>	<b>1.077</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 44. RELATED PARTY TRANSACTIONS (continued)

#### Key management personnel compensation (continued)

Key management personnel for 2006 include eleven Directors, five of which had executive duties, and the members of the executive management. For 2005 key management personnel include eleven Directors, two of which had executive duties, and five General Managers.

During 2006, two Executive Directors' total remuneration including contributions in retirement fund was in the range of C£ 100.000 to C£ 150.000. The remuneration of the three other Executive Directors are not included in the results as they were paid by the new subsidiaries acquired at the year end.

During 2005, an Executive Director's total remuneration including contributions in retirement fund was in the range of C£ 150.000 to C£ 200.000 and an Executive Director's total remuneration including contributions in retirement fund was in the range of C£ 250.000 to C£ 300.000.

Following the cessation of the ex-Chairman's executive duties on 30 September, 2005, a provision of C£ 500.000 was made for an amount due to him, as provided by his employment contract. Between 1 October, 2005 and 31 December, 2005, the ex-Chairman's pension amounted to C£ 41.000.

#### Transactions with subsidiary companies

##### (a) Income and expenses from transactions with subsidiary companies

	2006 C£ '000	2005 C£ '000
Interest income	12.101	14.228
Interest expense	6.064	7.119
Dividends received	8.963	4.644
Other income	845	603
Other expenses	494	360

##### (b) Year-end balances with subsidiary companies

	2006 C£ '000	2005 C£ '000
Placements	332.153	337.197
Deposits	125.270	154.572

Balances with subsidiary companies are represented from placements with subsidiary companies which carry interest rate equal to the base rate plus 1% and deposits from subsidiary companies with floating interest rate equal to base rate minus 0,50%.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. DIVIDEND

In July 2006 a dividend payment of C£ 21.448.000 was made, 6 cent per share of 50 cent nominal value (2005: C£ 9.120.000, 3 cent per share of 50 cent nominal value). The dividend has been accounted for in shareholders' equity as an appropriation of retained earnings (Note 35). An amount of C£ 3.092.000 from 2005 dividend, was re-invested in shares of the Bank (Note 34).

In the Annual General Meeting the Board of Directors has decided to propose a dividend of 36% (18 cent per share of 50 cent nominal value).

### 46. POST BALANCE SHEET EVENTS

On 5 January, 2007 Marfin Popular Bank Public Co Ltd announced that the shareholders of "Marfin Financial Group Holdings S.A." who have shares that were not exchanged within the framework of the public offer, have the right to exit either in cash or payment in kind. The alternatives are: (a) sale and transfer of shares of "Marfin Financial Group Holdings S.A." to the Bank at the price of euro 37,24 per share, (b) the exchange of each share with 5,7570 new shares of the Bank. The period for the exercise of the right above will expire on Tuesday, March 27, 2007.

On 5 January, 2007 414.716.000 new shares started trading on the Cyprus and Athens Stock Exchanges. These shares resulted from the increase in the Bank's share capital following the exchange with shares of Marfin Financial Group Holdings S.A. and Laiki Bank (Hellas) S.A., and with shares and convertible bonds of Egnatia Bank S.A..

On 10 January, 2007 Marfin Financial Group Holdings S.A., subsidiary of the Bank, announced the sale of its stake in "Marfin Bank ATE" to the Bank against a sum which is expected to reach euro 600 million. The transfer of shares will be effected provided that a corresponding decision is taken by the Board of Directors of Marfin Popular Bank Public Co Ltd.

Marfin Financial Group Holdings S.A. decided to propose to the Annual General Meeting, in addition to the approval of the annual financial statements, the following:

- (a) The change of the Company's name to Marfin Investment Group (MIG).
- (b) The distribution of euro 850 m in the form of dividend and return of share capital to the shareholders.
- (c) The increase in the share capital by euro 5 billion in order to finance the new activities. It is expected that the increase will be carried out with the waiver of rights of the major shareholder, provided that a corresponding decision is taken by the Board of Directors of Marfin Popular Bank Public Co Ltd.

Following the completion of the increase, the Group of Marfin Popular Bank Public Co Ltd will undertake the provision of investment banking services and consultancy services to Marfin Investment Group against the sum of 1% per annum on the latter's net worth.

## NOTES TO THE FINANCIAL STATEMENTS

### 46. POST BALANCE SHEET EVENTS (continued)

On 12 January, 2007, Piraeus Bank S.A. announced that its Board of Directors at an extraordinary meeting held on 11 January, 2007 resolved to proceed with the submission of a public offer to the shareholders of Marfin Popular Bank Public Co Ltd.

The aforementioned voluntary public offer aims at the acquisition of at least 40% and up to 100% of the share capital of the Bank and the consideration consists of 1 share of Piraeus Bank S.A. for every 5,70 shares of Marfin Popular Bank Public Co Ltd. Piraeus Bank S.A. shares offered in consideration will be derived from a share capital increase of Piraeus Bank S.A. in favor of the shareholders of the Bank.

On 12 January, 2007 the Bank announced that its Board of Directors at a meeting held on 11 January, 2007 decided to submit a public offer to the shareholders of Bank of Cyprus Public Company Ltd for the acquisition of a minimum 35% and a maximum 100% of the issued share capital of Bank of Cyprus Public Company Ltd. The consideration that will be offered for every ordinary share of Bank of Cyprus Public Company Ltd of nominal value C£ 0,50 is 1,241 ordinary shares of the Bank of nominal value C£ 0,50.

The full information on the public offer was included in the public offer document, which was prepared in accordance with the current legislation and was presented to the Cyprus Stock Exchange on 29 January, 2007 and was notified to the Securities and Exchange Commission along with equivalent Prospectus. The public offer document was also notified to the Board of Directors of Bank of Cyprus Public Company Ltd.

On 12 January, 2007 the Bank announced that its Board of Directors at a meeting held on 11 January, 2007 also decided to submit a public offer to the shareholders of Piraeus Bank S.A.

At a meeting held on 13 January, 2007 the Council of the Securities and Exchange Commission examined the developments on the announcement of Piraeus Bank S.A. to submit a public offer to the shareholders of Marfin Popular Bank Public Co Ltd, the announcement of Marfin Popular Bank Public Co Ltd to submit a public offer to the shareholders of Bank of Cyprus Public Company Ltd and the announcement of Marfin Popular Bank Public Co Ltd to submit a public offer to the shareholders of Piraeus Bank S.A.

The Securities and Exchange Commission decided that, pursuant to the Cyprus Stock Exchange Regulations, there is a public offer of Piraeus Bank S.A. for the acquisition of Marfin Popular Bank Public Co Ltd.

On 16 January, 2007 the Council of the Securities and Exchange Commission informed the investing public that it decided that in announcing the submission of public offers to the shareholders of Bank of Cyprus Public Company Ltd and Piraeus Bank S.A., Marfin Popular Bank Public Co Ltd acted in violation of Regulation 21(1) of the Cyprus Stock Exchange Regulations.

## NOTES TO THE FINANCIAL STATEMENTS

### 46. POST BALANCE SHEET EVENTS (continued)

Furthermore, the Cyprus Stock Exchange Council decided on 30 January, 2007 that it cannot examine the document of the public offer by Marfin Popular Bank Public Co Ltd for the acquisition of 35%-100% of the share capital of Bank of Cyprus Public Company Ltd, due to the fact that the announcement of Bank of Piraeus S.A. for the submission of a public offer for the acquisition of 40%-100% of the share capital of Marfin Popular Bank Public Co Ltd preceded, activating the Cyprus Stock Exchange Regulation 21. The Cyprus Stock Exchange Council decided that under the circumstances the public offer of Marfin Popular Bank Public Co Ltd that followed, is an action prohibited by the regulation above.

On 1 February, 2007 an agreement was signed between the Bank and the Holy Archbishopric of Cyprus for the sale and transfer to the latter 17.375.000 shares representing 7,17% of the share capital and 3.301.000 warrants of Hellenic Bank Public Company Ltd for the amount of C£ 35.947.000. The transfer of the shares is expected to be completed within the next three months, after receiving the necessary approvals.

Furthermore, on the same date the Bank agreed to sell and transfer to Aspis Holdings Public Co Ltd 4.643.000 ordinary shares of Universal Life Insurance Public Co Ltd representing 35% of its share capital for the total amount of C£ 13.928.000. The transfer of the shares is expected to be completed after Aspis Holdings Public Co Ltd secures the necessary approvals.

On 2 February, 2007, Laiki Investments E.P.E.Y. Public Co Ltd decided to submit a competitive public offer to the shareholders of Cytrustees Investment Public Company Ltd for the acquisition of a minimum 50% plus one share of the issued share capital of Cytrustees Investment Public Company Ltd. The consideration that will be offered for every ordinary share of Cytrustees Investment Public Company Ltd of nominal value C£ 0,67 is euro 2,43 in cash. The public offer is subject to the approvals from the relevant Authorities.

On 8 February, 2007 the Bank announced that an Extraordinary General Meeting will be held on 12 March, 2007.

On 20 February, 2007 the Group announced the completion of an investment banking deal for the acquisition of a shareholding (64,28%) in the Cyprus Tourism Development Public Company Ltd, subsidiary of Louis Group and owner of the Cyprus Hilton hotel in Nicosia. The deal is subject to due diligence results, satisfactory to the buyers and approvals of the applicable supervisory authorities.

### 47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 February, 2007.

Independent Auditor's Report on pages 6 to 7.