

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

Board of Directors and Other Officers

Report of the Board of Directors

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BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Soud Ba'alaway	- 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 Theocli		(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)
Andreas Philippou		(retired 19 October, 2006)
Loizos Hadjicostis		(appointed 21 November, 2006 and retired 21 December, 2006)

BOARD OF DIRECTORS AND OTHER OFFICERS (continued)

Board of Directors (continued)

George Psimolophitis

(retired 15 June, 2006)

Anthony Townsend

(retired 15 June, 2006)

Group Executive Committee

Andreas Vgenopoulos - Chairman and Coordinator

Cyprus Executive Committee

Christos Stylianides - Coordinator

Panayiotis Kounnis

Petros Petrou

Takis Phidia

Rodoula Hadjikyriakou

International Executive Committee

Eleftherios Chiliadakis - Coordinator

Michalis Louis

Efthimios Bouloutas

Sayanta Basu

Demetris Spanodemos

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 consolidated financial statements of Marfin Popular Bank Public Co Ltd Group (the "Group") for the year ended 31 December, 2006.

Principal activities

The principal activities of the Group are the provision of banking, financial and insurance services.

The Group operates through subsidiary companies, branches and representative offices in Cyprus and abroad.

During 2006, the Group acquired 95,30% of the share capital of Marfin Financial Group Holdings S.A., 86,44% of the total voting rights of Egnatia Bank S.A. and 86,25% of the total share capital of Egnatia Bank S.A., which are incorporated in Greece. Additionally, the Bank acquired 95,23% of the ordinary share capital of the Serbian bank Centrobanka a.d., later renamed to Laiki Bank a.d. Details on these acquisitions are presented in Note 52 of the consolidated financial statements.

Results for the year

The results for 2006 are presented in the consolidated income statement on page 8. The Group profit before provision for impairment of advances reached C£ 151,6 m compared to C£ 106,2 m in 2005. After provision for impairment of advances of C£ 47,4 m and share of results of associates of C£ 1,5 m, profit before tax reached C£ 105,7 m against C£ 61,2 m in 2005. After tax (C£ 17,8 m) and minority interest (C£ 1,8 m), net profit attributable to the equity holders of the Bank reached C£ 86,1 m against C£ 42,8 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 net profit for the year is transferred to reserves.

Share capital

Following the approval of the Extraordinary General Meeting on 15 June, 2006 the authorized 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 authorized share capital was further increased to C£ 475 m.

In June 2006 the issued fully paid 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., 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. 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 41 of the financial statements.

REPORT OF THE BOARD OF DIRECTORS (continued)

Risk management

As any other financial institution, the Group is exposed to risks. The nature of these risks and the Group's risk management policies are explained in Note 48 of the financial statements.

Post balance sheet events

Post balance sheet events are disclosed in Note 55 of the financial statements.

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 Annual 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 Fors and Manolis Xanthakis.

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

Kikis 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 also elected as Chairman.

Andreas Philippou and Rena Rouvitha Panou retired from the Board on 19 October 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.

REPORT OF THE BOARD OF DIRECTORS (continued)

Board of Directors (continued)

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.

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 51 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.

Treasury shares

With the acquisition of Marfin Financial Group Holdings S.A., 35.319.000 ordinary shares of Marfin Popular Bank Public Co Ltd of a nominal value of C£ 0,50 each, came in the possession of the Group. These shares are owned by Marfin Financial Group Holdings S.A. and represent 4,5% of the total share capital of Marfin Popular Bank Public Co Ltd, as this is presented in Note 41 of the financial statements.

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 Consolidated Financial Statements

1. We have audited the consolidated financial statements of Marfin Popular Bank Public Co Ltd (the Company) and its subsidiaries (the Group) on pages 8 to 115 which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

2. The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Auditor's Responsibility (continued)

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

Opinion

6. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group 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 consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 5 is consistent with the consolidated financial statements.

PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 20 February, 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	2005	<i>Supplementary information (Note 56)</i>	
		C£ '000	C£ '000	2006 <i>Euro '000</i>	2005 <i>Euro '000</i>
Interest income	4	458.856	358.868	793.592	620.663
Interest expense	4	(248.731)	(185.600)	(430.181)	(320.995)
Net interest income		210.125	173.268	363.411	299.668
Fee and commission income	5	65.524	53.689	113.323	92.856
Fee and commission expense	5	(3.542)	(2.984)	(6.125)	(5.162)
Net fee and commission income		61.982	50.705	107.198	87.694
Profit on disposal and revaluation of securities	6	7.800	738	13.490	1.275
Foreign exchange income		13.675	12.234	23.651	21.159
Other income	7	21.578	20.564	37.319	35.565
Operating income		315.160	257.509	545.069	445.361
Staff costs	11	(106.797)	(94.128)	(184.706)	(162.794)
Depreciation, amortisation and impairment	12	(11.914)	(19.653)	(20.606)	(33.989)
Administrative expenses	13	(44.832)	(37.545)	(77.536)	(64.935)
Profit before provision for impairment of advances		151.617	106.183	262.221	183.643
Provision for impairment of advances	14	(47.397)	(46.398)	(81.973)	(80.245)
Profit before share of profit from associates		104.220	59.785	180.248	103.398
Share of profit from associates	29	1.475	1.420	2.551	2.457
Profit before tax		105.695	61.205	182.799	105.855
Tax	15	(17.766)	(17.305)	(30.726)	(29.929)
Profit for the year		87.929	43.900	152.073	75.926
Attributable to:					
Minority interest		1.857	1.139	3.211	1.970
Equity holders of the Bank	42	86.072	42.761	148.862	73.956
		87.929	43.900	152.073	75.926
Earnings per share – for profit attributable to the equity holders of the Bank					
Earnings per share – cent	16	25,8	14,0	44,6	24,2

The notes on pages 14 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2006

	Note			<i>Supplementary information (Note 56)</i>	
		2006 C£ '000	2005 C£ '000	2006 Euro '000	2005 Euro '000
Assets					
Cash and balances with Central Banks	17	611.916	432.091	1.058.308	747.302
Due from other banks	18	2.403.761	1.365.173	4.157.305	2.361.066
Financial assets at fair value					
through profit or loss	19	479.684	172.890	829.615	299.014
Advances to customers	20	6.948.350	3.995.698	12.017.171	6.910.559
Reinsurance assets	38	12.380	15.817	21.411	27.356
Corporate bonds and debentures	23	5.093	6.303	8.808	10.901
Government bonds and treasury bills	24	471.608	339.005	815.645	586.310
Available-for-sale financial assets	25	944.718	544.546	1.633.889	941.791
Held-to-maturity financial assets	26	27.499	-	47.560	-
Other assets	27	146.221	77.874	252.889	134.684
Tax refundable		24.539	10.490	42.441	18.142
Deferred tax assets	40	20.885	1.776	36.121	3.071
Investments in associates	29	12.366	5.880	21.388	10.170
Intangible assets	30	779.262	46.246	1.347.733	79.982
Investment property	31	38.202	15.110	66.071	26.133
Property and equipment	32	136.496	89.832	236.069	155.364
Total assets		13.062.980	7.118.731	22.592.424	12.311.845
Liabilities					
Due to other banks	34	440.095	122.538	761.144	211.930
Customer deposits	35	9.373.738	5.726.421	16.211.880	9.903.845
Senior debt	36	304.018	171.833	525.801	297.186
Loan capital	37	365.224	213.154	631.655	368.650
Insurance contract liabilities	38	303.752	256.367	525.340	443.387
Other liabilities	39	287.204	126.857	496.719	219.397
Current tax liabilities		92.613	15.063	160.174	26.052
Deferred tax liabilities	40	16.840	7.290	29.124	12.608
Retirement benefit obligations	11	114.961	96.634	198.824	167.129
Total liabilities		11.298.445	6.736.157	19.540.661	11.650.184
Share capital and reserves attributable to the Bank's equity holders					
Share capital	41	395.159	153.648	683.428	265.734
Share premium	41	1.113.055	4.843	1.925.029	8.376
Treasury shares	41	(105.957)	-	(183.253)	-
Reserves	42	280.716	188.348	485.498	325.748
		1.682.973	346.839	2.910.702	599.858
Minority interest		81.562	35.735	141.061	61.803
Total equity		1.764.535	382.574	3.051.763	661.661
Total equity and liabilities		13.062.980	7.118.731	22.592.424	12.311.845

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 115 are an integral part of these consolidated financial statements.

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

	Note	Attributable to equity holders of the Bank				Revenue reserves C£ '000	Minority interest C£ '000	Total C£ '000
		Share capital C£ '000	Share premium C£ '000	Treasury shares C£ '000	Fair value and currency translation reserves C£ '000			
Balance at 1 January 2005		152.450	2.949	-	13.507	136.275	34.904	340.085
Revaluation of available-for-sale financial assets	42	-	-	-	4.350	-	(15)	4.335
Revaluation of property	42	-	-	-	(168)	-	-	(168)
Deferred tax	42	-	-	-	74	-	-	74
Defence tax on deemed distribution	42	-	-	-	-	(6)	(5)	(11)
Exchange differences arising in the year	42	-	-	-	675	-	(288)	387
Transfer from fair value reserves to revenue reserves	42	-	-	-	(132)	132	-	-
Profit recognised directly in equity		-	-	-	4.799	126	(308)	4.617
Profit for the year		-	-	-	-	42.761	1.139	43.900
Total recognised profit for 2005		-	-	-	4.799	42.887	831	48.517
Dividend	42,53	-	-	-	-	(9.120)	-	(9.120)
Reinvestment of dividend	41,53	1.198	1.894	-	-	-	-	3.092
		1.198	1.894	-	-	(9.120)	-	(6.028)
Balance at 31 December 2005 / 1 January 2006		153.648	4.843	-	18.306	170.042	35.735	382.574
Revaluation and transfer to results on disposal of available-for-sale financial assets	42	-	-	-	24.192	-	27	24.219
Revaluation of property	42	-	-	-	1.134	-	-	1.134
Deferred tax	42	-	-	-	(144)	-	-	(144)
Defence tax on deemed distribution	42	-	-	-	-	(47)	(35)	(82)
Exchange differences arising in the year	42	-	-	-	2.609	-	270	2.879
Transfer from fair value reserves to revenue reserves	42	-	-	-	(178)	178	-	-
Acquisition of subsidiaries		-	-	-	-	-	69.670	69.670
Change in minority interest from changes in shareholding in subsidiaries		-	-	-	-	-	(25.962)	(25.962)
Profit recognised directly in equity		-	-	-	27.613	131	43.970	71.714
Profit for the year		-	-	-	-	86.072	1.857	87.929
Total recognised profit for 2006		-	-	-	27.613	86.203	45.827	159.643
Exercise of rights	41	25.528	35.740	-	-	-	-	61.268
Issue of shares according to public and private offers	41	207.358	1.036.789	-	-	-	-	1.244.147
Share issue costs	41	-	(9.662)	-	-	-	-	(9.662)
Shares in the process of being issued	41	9.069	45.345	-	-	-	-	54.414
Dividend	42,53	-	-	-	-	(21.448)	-	(21.448)
Equity element of convertible debentures repaid	41	(444)	-	-	-	-	-	(444)
Treasury shares acquired	41	-	-	(105.957)	-	-	-	(105.957)
		241.511	1.108.212	(105.957)	-	(21.448)	-	1.222.318
Balance at 31 December 2006		395.159	1.113.055	(105.957)	45.919	234.797	81.562	1.764.535

The notes on pages 14 to 115 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006	2005	<i>Supplementary information (Note 56)</i>	
		C£ '000	C£ '000	<i>2006</i>	<i>2005</i>
				<i>Euro '000</i>	<i>Euro '000</i>
Cash generated from operations	44	569.912	534.110	985.663	923.743
Tax paid		(15.509)	(13.779)	(26.823)	(23.831)
Net cash from operating activities		554.403	520.331	958.840	899.912
Cash flows from investing activities					
Purchase of property and equipment	32	(6.732)	(11.316)	(11.643)	(19.571)
Purchase of computer software	30	(2.596)	(2.215)	(4.490)	(3.831)
Purchase of investment property	31	(3)	-	(5)	-
Proceeds from disposal of property and equipment	32	2.131	443	3.686	766
Proceeds from disposal of computer software		14	30	24	53
Additions less proceeds from redemption of available-for-sale financial assets		(251.117)	(137.576)	(434.307)	(237.937)
Income received from available-for-sale financial assets		30.370	15.634	52.525	27.039
Dividend received from investments in associates	29	475	475	821	821
Acquisition of subsidiaries net of cash acquired	52(c)	669.808	-	1.158.433	-
Net cash from/(used in) investing activities		442.350	(134.525)	765.044	(232.660)
Cash flows from financing activities					
Dividend paid		(21.448)	(6.029)	(37.094)	(10.427)
Interest paid on loan capital		(9.042)	(10.197)	(15.638)	(17.636)
Share issue costs	41	(9.662)	-	(16.710)	-
Net proceeds from the exercise of rights	41	61.268	-	105.963	-
Proceeds from the issue of loan capital		260.190	-	449.998	-
Repayment of loan capital		(154.630)	-	(267.433)	-
Net cash from/(used in) financing activities		126.676	(16.226)	219.086	(28.063)
Effects of exchange rate changes		-	4.418	-	7.641
Net increase in cash and cash equivalents		1.123.429	373.998	1.942.970	646.830
Cash and cash equivalents at beginning of year		1.774.556	1.400.558	3.069.095	2.422.265
Cash and cash equivalents at end of year	45	2.897.985	1.774.556	5.012.065	3.069.095

The notes on pages 14 to 115 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED 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 activities of the Group, which are unchanged from last year, are the provision of banking, financial and insurance services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and IFRSs as issued by the International Accounting Standards Board (IASB). The consolidated 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 consolidated financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Law and Regulations. The consolidated 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 and financial assets, liabilities and all derivative financial instruments held at fair value through profit or loss.

The preparation of the consolidated 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 Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised IFRSs

In the current year, the Group 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 from 1 January, 2006 did not have a material effect on the Group's consolidated 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 consolidated financial statements, the following accounting standards have been issued but are not applicable in the preparation of these consolidated financial statements:

(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 Group assessed the impact of IFRS 7 and the amendment to IAS 1 and the additional disclosures required. The Group 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 Group is in the process of assessing the implications of IFRS 8 and will apply IFRS 8 as from 1 January, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised IFRSs (continued)

- (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 Group'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 Group's operations.

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

The Group assesses whether an embedded derivative needs to be separated from the host contract and accounted for as a derivative when the Group 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 Group 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 Group intends to apply this Interpretation from 1 January, 2007.

- (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 an entity's own equity instruments and share-based payment arrangements involving equity instruments of the parent. The Group 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 Group's operations.

Consolidation

- (a) **Subsidiaries**

Subsidiaries are those entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies. Usually in these entities there is a shareholding of more than 50% of the voting rights. The consolidated financial statements consolidate the financial statements of the Bank and its subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

(a) Subsidiaries (continued)

Subsidiaries are consolidated from the acquisition date, that is, the date on which control is transferred to the Group and are no longer consolidated from the date on which control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group treats transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are entities over which the Group has significant influence but not control. Usually, in these entities the Group has a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under this method the Group's share of post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

(a) Functional and presentation currency

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

(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, except in the cases of qualifying net investment hedges and qualifying cash flow hedges where foreign exchange gains and losses are recognised in reserves.

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 the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are recognised 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.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Group companies (continued)

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognised in the foreign exchange reserves in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of overseas subsidiaries prior 31 December, 2004, are translated in Cyprus pounds at the rate of exchange ruling at the date of acquisition. From 1 January, 2005, goodwill and fair value adjustments arising from the acquisition of overseas subsidiaries are treated as assets and liabilities of the overseas subsidiary and translated at the closing rate.

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 Group 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.

In cases where this is imposed by the local authorities, the Group adopts the policy of non-accrual of income for non performing loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (except for those classified as insurance 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.

Insurance contracts

Through its insurance subsidiaries, the Group issues insurance contracts to customers. Under these contracts the Group accepts significant insurance risk, by agreeing to compensate the contract holder on the occurrence of a specified, uncertain future event.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts (continued)

(a) Premiums

Gross insurance premiums for general insurance business are recognized in the income statement over the period covered by the related insurance contract. The proportion of premiums which relates to periods of risk extending beyond the end of the year is reported as unearned premium and is calculated on a daily basis.

Life insurance business premiums are recognised in the income statement when receivable.

Reinsurance premiums are recognised in the income statement in the same accounting period as the insurance premiums to which they relate.

(b) Claims and reinsurance recoveries

Gross insurance claims for general insurance business include paid claims and provisions for outstanding claims. The provisions for outstanding claims are based on the estimated ultimate cost of all claims that have occurred but not settled at the balance sheet date, whether reported or not. They also include a reduction for the expected value of salvage and other recoveries. Provisions for claims incurred but not reported (IBNR) are made on an estimated basis, using previous years' experience and taking into account anticipated future changes and developments. The level of IBNR is revised on a yearly basis in accordance with prior year's data.

Gross insurance claims for life insurance reflect the total cost of claims arising during the year, including claim handling costs and any policy holder bonuses allocated in anticipation of a bonus declaration.

(c) Liabilities for life insurance contracts

The technical reserves for non-unit-linked liabilities (long-term business provision) are calculated based on annual actuarial estimates. The technical reserves for unit-linked liabilities are at least the element of any surrender or transfer value which is calculated by reference to the relevant fund.

(d) Reinsurance contracts

Reinsurance contracts are contracts entered into by the Group's insurance subsidiaries, under which the Group is compensated for losses incurred under insurance contracts issued by the Group's insurance subsidiaries. The reinsurance contracts entered into by the Group's insurance subsidiaries, in which the issuer of the insurance contract is another insurer (inwards reinsurance) are included in reinsurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Insurance contracts (continued)

(d) Reinsurance contracts (continued)

Any amounts recovered from reinsurers, that derive from the reinsurance contracts of the Group, are recognized in assets. The amounts recovered from or to reinsurers are calculated based on the amounts related with the reinsurance contracts and are based on the terms of each reinsurance contract. The reinsurance liabilities are mainly premiums payable for reinsurance contracts and are recognized as expenses on an accrual basis.

The Group evaluates its reinsurance assets for impairment. If there is objective evidence that the reinsurance assets have incurred an impairment, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the reduction in its value in the income statement.

(e) Residual value and recovery of claims paid

The insurance contracts allow the general insurance companies to sell (usually destroyed) property that is obtained through the settlement of a claim. Also the insurance companies have the right of legal action against third parties that are considered responsible for an accident which had as a result the payment of a claim by the Group, for the partial payment or full payment of all of the expenses of the claim. Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the sale of the destroyed property in the first case and the valuation of the amount that can be recovered in the case of a legal action against the relevant third party in the second case.

(f) Value of life policies in force

A value is placed on life insurance contracts that are in force at the balance sheet date. The value of the life policies in force is determined by discounting future earnings expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as recent experience and general economic conditions. Movements in the value of inforce policies are included in the income statement in "Other income".

(g) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed by the Group's insurance companies to ensure the adequacy of liabilities that arise from their operations. In performing these tests, current best estimates of operational and investment income and operational and administration expenses are based on past experience and financial results.

NOTES TO THE CONSOLIDATED 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 Group operates defined retirement benefit plans in Cyprus, the United Kingdom and Greece. A defined benefit plan is a plan that defines an amount of lump sum or pension benefit to be provided upon retirement which is determined 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 Group's obligation and the fair value of the plan assets, are amortised over the expected average remaining working lives of the participating employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits (continued)

Certain Group companies operate defined contribution plans. A defined contribution plan is a plan under which the company and the employees pay fixed contributions into a separate fund.

The benefits provided to the employees participating in defined contribution plans are based on the return of the fund. Each fund is governed by specified regulations as agreed between the two parties and in compliance with relevant statutory obligations. The contributions of the Group to the defined contribution plans are charged to the income statement in the year in which they arise.

The Group has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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 Central Banks, including the minimum reserve requirement 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 Group 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,
- (e) other objective evidence that leads to the conclusion that the Group will not collect the full amount due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advances to customers (continued)

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 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 Group's right to collect any written off amounts in the future. Such future recoveries of amounts that were written off in the past are recognised in the Group's income statement upon recovery.

Investments

The Group 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 unless they are designated as accounting hedges in which case hedge accounting is applied. 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. Investment in corporate bonds and debentures acquired directly from the issuer are classified in this category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

(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 Group 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 Group 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.

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 Group'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 Group 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase agreements

The Group enters into agreements for purchases (sales) of investments and to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price.

Investments sold subject to repurchase agreements (repos) continue to be recognized on balance sheet and are measured according to their classification. The proceeds from the sale of the investments are reported as liabilities to either banks or customers. Investments purchased, on condition that they will be resold in the future (reverse repos), are not recognized in the balance sheet. The amounts paid for purchase thereof are recognized as receivables from other banks or customers. The difference between the sale and repurchase consideration is recognized as interest income or expense during the repurchase agreement period using the effective interest rate method.

The Group enters into share purchase agreements with a commitment to resell them (stock reverse repos) through the Athens Derivatives Exchange. The acquired shares are then sold in the Athens Stock Exchange. The shares are not recognized as assets but the commitment to resell the shares is recognized as a liability in the balance sheet, and is measured at the fair value of the securities that the Group is committed to repurchase and return to the Athens Derivatives Exchange Clearing House.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally 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 and hedge accounting

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.

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.

The Group uses derivative financial instruments for hedging risks that arise from changes in interest rates and exchange rates. The Group applies fair value hedges or cash flow hedges to these derivatives that meet certain criteria. For derivatives that do not meet the criteria for hedge accounting, any profit or loss arising from the changes in fair values is recorded in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

A hedge relationship for the purposes of applying hedge accounting exists when:

- At the inception of the hedge, the Group designates and documents the hedging relationship as well as its risk management objective and strategy for undertaking the hedge.
- The hedge is expected to be highly effective in offsetting changes in fair values or cash flows attributed to the hedged risk, pursuant to the documented risk management strategy for the said hedge relationship.
- For cash flow hedges, the forecast transaction that is the subject of the hedge is highly probable and must present an exposure to variations in cash flows that could ultimately affect the results.
- The effectiveness of the hedge can be reliably measured.
- The hedge is assessed as highly effective throughout the period.

For fair value hedges that meet the criteria for hedge accounting, any profit or loss from the revaluation of the derivative at fair value is recognized in the income statement. Any profit or loss of the hedged instrument that is due to the hedged risk, adjusts the book value of the hedged instrument and is recognized in the income statement, irrespective of the classification of the financial instrument (e.g. available-for-sale financial instruments).

For cash flow hedges that meet the criteria of hedge accounting, the part of the profit or loss from the derivative that is designated as an active hedge is recognized directly in reserves and the part that is designated as a non-active hedge is recognized in the income statement. Any profit or loss that has been recognized directly into reserves is transferred to the income statement in the period when the hedged transaction affects the results.

Hedge accounting is discontinued when the hedging instrument expires or is sold, is terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting. In case a hedged transaction is no longer expected to be realized, the net accumulated profit or loss that has been recognized into the reserves will be transferred to the income statement.

When derivative instruments are used for hedges of net investments in foreign operations and the criteria for hedge accounting as set out by IAS 39 are met, changes in the fair value of the hedging instrument are recognized in reserves.

Investment property

Investment property includes land and buildings, owned by the Group with the intention of earning rentals or for capital appreciation or both, and are not used by the Group. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in the balance sheet in "Intangible assets". Goodwill is tested for impairment annually and whenever there are indications of impairment and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using the country of operation and economic segment as the allocation bases.

Other intangible assets

The other intangible assets represent the estimated value of the existing branch network and the estimated value of the customer base of a subsidiary acquired (Notes 30 and 52). The other intangible assets are shown at cost (initial recognition amount) less accumulated amortisation and any accumulated impairment losses. They are amortised on a straight line basis during their useful economic life that does not exceed the two years.

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Group 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.

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, amortisation and impairment" in the income statement.

Leases

(a) A Group company as a lessee

Operating lease

Leases where 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.

Finance lease

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognized in property and equipment and the corresponding rental obligations are included in liabilities.

Finance leases are stated at an amount equal to the lower of the fair value of the leased assets and the present value of minimum lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

(a) A Group company as a lessee (continued)

Finance lease (continued)

Minimum lease payments are apportioned between the finance charge and the outstanding liability so as to produce a constant periodic rate on the remaining balance of the liability. The corresponding rental obligation, net of finance charges, is included in liabilities. The part of the financial cost that relates to finance leases is recognized in the income statement.

(b) A Group company as a lessor

Operating lease

Assets leased out under operating leases are carried on the Group's financial statements and are depreciated over their useful economic lives. Payments received under operating leases are recorded in the income statement on a straight line basis.

Finance lease and hire purchase

When assets are leased out under finance lease / hire purchase, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. The present value of the receivable is recognized in the balance sheet under «Advances to customers». Lease income and hire purchase fees are recognized in the income statement in a systematic manner, based on installments receivable during the year so as to provide a constant periodic rate using the net investment method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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.

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 Group 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group 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.

Share capital

(a) Share issue costs

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

(b) Dividends 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 53.

(c) Treasury shares

Where the Company or other members of the Group purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

Provisions

Provisions are recognised when the Group 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 Group 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit-related transactions

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. The Group 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 Group is awaiting reimbursement from the customer are shown on the balance sheet, less any necessary provisions.

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 primary segment of the Group is by business class. There are three major classes of business:

- (a) Banking services, which include the activities of the banks.
- (b) Insurance services, which include the activities of the life insurance and general insurance subsidiaries of the Group.
- (c) Financial and other services, which include the activities of all other subsidiaries of the Group.

The secondary geographical segments of the Group are analysed as follows:

- (a) Operations in Cyprus, which incorporate the activities of all Group companies in Cyprus.
- (b) Operations in Greece.
- (c) Operations in other countries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting (continued)

The costs of each Group company are apportioned based on the relevant geographical segment above.

The pricing of the transactions between the Group companies is on an arm's-length basis.

Comparatives

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

NOTES TO THE CONSOLIDATED 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 Group 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 Group reviews its loan portfolio to assess impairment at least quarterly. In determining whether an impairment loss should be recorded in the income statement, the Group 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 Group 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 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.

(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 Group uses its judgement to select a variety of methods 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 CONSOLIDATED FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

(c) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates as shown in Note 30.

For the life insurance and general insurance businesses, if the revised estimated net margin at 31 December, 2009 was 10% lower than management's estimates at 31 December, 2006, the Group would not have to recognise any impairment against goodwill. If the revised estimated after-tax rate applied to the discounted cash flows was 10% higher than management's estimates at 31 December, 2006, the Group would not have to recognise any impairment of goodwill.

For the subsidiary company in Serbia, if the revised estimated net margin at 31 December, 2009 was 20% lower than management's estimates at 31 December, 2006, the Group would not have to recognize any impairment against goodwill. If the revised after-tax rate applied to the discounted cash flows was 10% higher than the management's estimates at 31 December, 2006, the Group would not have to recognize any impairment of goodwill.

(d) Value of life policies in force

The value of life policies in force is determined in consultation with qualified actuaries as stated in Note 2. The value of life policies in force is calculated by discounting future profits that are expected to emerge from in force business at a discount rate that includes a risk margin. The risk margin reflects the uncertainty in expected future profits. Projections of profit are based on prudent assumptions relating to macroeconomic fundamentals, future mortality, persistency and level of administrative and selling expenses, and average return on investments. The assumptions used in the actuarial valuation are shown in Note 30. The assumptions and valuation method are reviewed on each reporting date. Any changes in the estimates and assumptions made are likely to have an effect on the value of life policies in force.

(e) Life insurance business

The estimate for future benefits for long term life insurance contracts is determined by an actuarial valuation by using appropriate assumptions such as mortality rates, returns on investments made to cover the future insurance claims, the growth in administrative expenses and the maintainability of insurance policies. Mortality rates used are based on international standardised tables that reflect past experience. The average return of investment estimate is established by using current returns, as well as, predictions for the performance of the economy and capital markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical accounting estimates and assumptions (continued)

(e) Life insurance business (continued)

The assumptions and valuation method are reviewed on each reporting date. Any adjustments are reflected in the insurance contract liabilities in the balance sheet.

An estimate for gross claims relating to short term general and health insurance contracts, is made at the balance sheet date, whether reported or not. The estimate takes into account past experience and related insurance market trends.

(f) Insurance policy claims

Insurance liabilities for claims are calculated by using information relating to the claim. The Group assesses each claim separately and the estimated liability is based on the facts of each claim, experience and other relevant factors, on a case-by-case basis.

The Group is liable for all events covered by the policy even if the loss is discovered after the policy's expiry date. A provision is made for claims incurred but not yet reported (IBNR). The method employed to estimate the total cost of claims incurred but not reported is disclosed in Note 48.

(g) 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 11. According to the relevant Group's accounting policy for retirement benefits, any changes in the assumptions are likely to have an effect on the level of the unrecognised actuarial gain or loss.

(h) Tax

The Group 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical judgements in applying Group accounting policies

(a) Held-to-maturity financial assets

The Group 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 Group's intention and ability to hold investments to maturity. If the Group 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£ 3.049.000 with a corresponding credit in the fair value reserve within equity.

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

The Group follows the guidance in IAS 39 to determine if an investment has been impaired. This decision requires critical judgement. In making this judgement, the Group 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 Group will not suffer significant losses in the 2007 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. NET INTEREST INCOME

	2006 C£ '000	2005 C£ '000
Interest income		
Interest from advances to customers	297.601	260.497
Interest from other banks	117.504	67.587
Interest from bonds and other interest	43.751	30.784
	458.856	358.868
 Interest expense		
Interest on customer deposits	194.259	150.342
Interest to other banks	41.326	22.487
Interest on loan capital and other interest	13.146	12.771
	248.731	185.600

5. NET FEE AND COMMISSION INCOME

	2006 C£ '000	2005 C£ '000
Fee and commission income		
Banking related fees and commissions	57.658	49.591
Portfolio and other management fees	3.039	1.976
Other fees and commissions	4.827	2.122
	65.524	53.689
 Fee and commission expense		
Fees paid	1.785	1.545
Commissions paid	1.757	1.439
	3.542	2.984

6. PROFIT ON DISPOSAL AND REVALUATION OF SECURITIES

	2006 C£ '000	2005 C£ '000
Profit/(loss) on disposal of financial assets at fair value through profit or loss	702	(844)
Profit on disposal of available-for-sale financial assets	536	-
Profit on revaluation of financial assets at fair value through profit or loss	6.562	1.582
	7.800	738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. OTHER INCOME

	2006 C£ '000	2005 C£ '000
Net premiums and other income from insurance contracts (Note 8)	65.878	61.823
Net benefits, claims and other expenses from insurance contracts (Note 9)	(95.438)	(69.745)
Net income from assets backing policyholders liabilities (Note 10)	44.192	24.177
Income from insurance operations	14.632	16.255
Dividend from available-for-sale financial assets	476	51
Dividend from financial assets at fair value through profit or loss	316	293
Fair value gain on investment property	1.003	509
Profit on disposal of property and equipment (Note 32)	453	47
Other income	4.698	3.409
	21.578	20.564

8. NET PREMIUMS AND OTHER INCOME FROM INSURANCE CONTRACTS

	2006 C£ '000	2005 C£ '000
Long-term insurance contracts without fixed terms	33.152	31.389
Long-term insurance contracts with fixed and guaranteed terms	2.804	2.390
Long-term insurance contracts with discretionary participating feature (DPF)	2.024	2.180
Short-term insurance contracts:		
Premiums receivable	40.590	36.274
Change in unearned premiums provision	(1.375)	(1.498)
Premium revenue arising from insurance contracts issued	77.195	70.735
Short-term reinsurance contracts:		
Premiums payable	(14.758)	(13.152)
Change in unearned premiums provision	536	676
Long-term reinsurance contracts	(2.082)	(2.134)
Premium revenue ceded to reinsurers on contracts issued	(16.304)	(14.610)
Net premium revenue	60.891	56.125
Other income from insurance contracts:		
Policy administration and asset management	3.514	3.015
Surrender benefits	258	378
Change in the value of life policies in force (Note 30)	1.215	2.305
	65.878	61.823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. NET BENEFITS, CLAIMS AND OTHER EXPENSES FROM INSURANCE CONTRACTS

	2006 C£ '000	2005 C£ '000
Insurance benefits	70.826	48.581
Insurance contracts claims	20.029	19.933
Insurance contracts claims recovered from reinsurers	(5.299)	(6.874)
Commission paid and other expenses from insurance contracts	9.882	8.105
	95.438	69.745
 <i>Insurance benefits</i>		
Long-term insurance contracts without fixed terms (unit-linked):		
Death benefits	17.029	21.380
Change in unit price	44.922	20.801
Long-term insurance contracts with discretionary participating feature (DPF):		
Death benefits	4.790	4.966
Interest credited	104	1.175
Long-term insurance contracts with fixed and guaranteed terms:		
Death, maturity and surrender benefits	322	421
Increase/(decrease) in liabilities	3.659	(162)
	70.826	48.581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. NET BENEFITS, CLAIMS AND OTHER EXPENSES FROM INSURANCE CONTRACTS (continued)

Insurance claims

	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
2006			
Current year claims	18.320	(5.791)	12.529
Additional cost for prior year claims	1.709	492	2.201
	20.029	(5.299)	14.730
2005			
Current year claims	17.433	(6.456)	10.977
Additional cost for prior year claims	2.500	(418)	2.082
	19.933	(6.874)	13.059

10. NET INCOME FROM ASSETS BACKING POLICYHOLDER LIABILITIES

	2006 C£ '000	2005 C£ '000
Interest income	6.198	5.895
Profit from disposal and revaluation of securities	36.105	16.629
Dividend	821	507
Fair value gain on investment property	105	45
Other income	963	1.101
	44.192	24.177

11. STAFF COSTS

	2006 C£ '000	2005 C£ '000
Salaries and employer's contributions	86.327	76.438
Retirement benefit costs:		
Defined benefit plans	16.700	14.973
Defined contribution plans	391	187
Other staff costs	3.379	2.530
	106.797	94.128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. STAFF COSTS (continued)

Defined Benefit Plans

The amounts recognised in the balance sheet with respect to the defined benefit plans include as at 31 December, 2006 amounts relating to the plans of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A, and are shown below:

	2006	2005
	C£ '000	C£ '000
Present value of funded obligations	19.153	11.705
Fair value of plan assets	(7.730)	(5.215)
	11.423	6.490
Present value of unfunded obligations	93.223	115.640
Unrecognised actuarial gain/(loss)	10.315	(25.496)
Retirement benefit obligations in the balance sheet	114.961	96.634

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

	2006	2005
	C£ '000	C£ '000
Current service cost	9.226	8.417
Interest cost on plan liabilities	8.036	6.599
Expected return on plan assets	(3.065)	(265)
Actuarial loss recognised in the year	2.503	222
	16.700	14.973

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

	2006	2005
	C£ '000	C£ '000
Balance 1 January	96.634	83.887
Total expenses charged in the income statement	16.700	14.973
Payments to departing members	(3.040)	(1.790)
Contributions paid	(587)	(425)
Retirement benefit obligations from the acquisition of subsidiaries	5.241	-
Exchange differences	13	(11)
Balance at 31 December	114.961	96.634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. STAFF COSTS (continued)

Defined Benefit Plans (continued)

The principal assumptions used in the actuarial valuations were:

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

12. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	2006 C£ '000	2005 C£ '000
Depreciation of property and equipment (Note 32)	6.450	7.264
Amortisation of computer software (Note 30)	3.517	3.575
Amortisation of other intangible assets (Note 30)	1.947	-
Impairment of goodwill (Note 30)	-	8.814
	11.914	19.653

13. ADMINISTRATIVE EXPENSES

	2006 C£ '000	2005 C£ '000
Occupancy costs	4.001	3.563
Computer maintenance costs	4.521	3.834
Marketing and sales expenses	7.055	7.471
Operating lease rentals	6.749	6.650
Printing and stationery expenses	2.456	2.135
Telephone expenses	1.810	1.531
Auditors' remuneration	314	300
Other administrative expenses	17.926	12.061
	44.832	37.545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. PROVISION FOR IMPAIRMENT OF ADVANCES

	2006	2005
	C£ '000	C£ '000
Provision for impairment of advances for the year (Note 22)	77.029	64.279
Release of provision and recoveries (Note 22)	(29.632)	(17.881)
	47.397	46.398

15. TAX

	2006	2005
	C£ '000	C£ '000
Current year tax		
Cyprus corporation tax	11.307	7.366
Defence tax	28	22
Overseas tax	5.452	5.227
Deferred tax (Note 40)	(1.097)	(1.305)
Total current year tax	15.690	11.310
Prior years' tax	2.076	5.995
Total tax charge	17.766	17.305

The profit of the Bank and its subsidiaries in Cyprus is subject to corporation tax at the rate of 10%. The profit from overseas operations is subject to taxation at the tax rates applicable in the countries in which the profit is derived. In Greece, the tax rate applicable is 29%, in the United Kingdom and Australia 30%, in Guernsey 20% and in Serbia 10%.

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. TAX (continued)

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

	2006	2005
	C£ '000	C£ '000
Profit before tax	105.695	61.205
Tax calculated at the applicable tax rates	10.570	6.121
Tax effect of expenses not deductible for tax purposes	1.197	2.971
Tax effect of income not subject to tax	(924)	(1.145)
Tax effect of different tax rates in other countries	4.847	3.363
Total current year tax	15.690	11.310

16. EARNINGS PER SHARE

Earnings per share was calculated by dividing profit attributable to the equity holders of the Bank with the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares held as treasury shares.

	2006	2005
	C£ '000	C£ '000
Profit attributable to the equity holders of the Bank	86.072	42.761
	2006	2005
	'000	'000
Weighted average number of ordinary shares in issue during the year	333.125	305.167
Earnings per share – cent	25,8	14,0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. CASH AND BALANCES WITH CENTRAL BANKS

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

	2006	2005
	C£ '000	C£ '000
Cash in hand	64.230	69.773
Balances with Central Banks other than obligatory reserves for liquidity purposes	348.658	221.577
Obligatory reserves for liquidity purposes	199.028	140.741
	<hr/>	<hr/>
Cash and balances with Central Banks (Note 45)	611.916	432.091
	<hr/>	<hr/>

18. DUE FROM OTHER BANKS

	2006	2005
	C£ '000	C£ '000
Items in course of collection from other banks	66.693	37.966
Placements with other banks	2.337.068	1.327.207
	<hr/>	<hr/>
	2.403.761	1.365.173
	<hr/>	<hr/>
Maturity analysis		
Repayable on demand	1.629.382	895.176
Three months or less	622.230	422.752
Over three months but less than one year	144.657	47.245
Over one but less than five years	7.492	-
	<hr/>	<hr/>
	2.403.761	1.365.173
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 C£ '000	2005 C£ '000
Debt securities	230.923	83.144
Equity securities	235.786	85.182
Derivative financial instruments with positive fair value (Note 43)	12.975	4.564
	479.684	172.890
 Debt securities		
Listed on the Cyprus Stock Exchange	46.268	23.255
Listed on other Stock Exchanges	87.220	58.089
Not listed	97.435	1.800
	230.923	83.144
 Equity securities		
Listed on the Cyprus Stock Exchange	65.610	35.263
Listed on other Stock Exchanges	135.305	49.563
Not listed	34.871	356
	235.786	85.182

The carrying amounts of the above financial assets are classified as follows:

	2006 C£ '000	2005 C£ '000
Held for trading	253.113	74.742
Designated at fair value through profit or loss at inception	226.571	98.148
	479.684	172.890

Financial assets at fair value through profit or loss are presented as part of "Cash generated from operations" in the cash flow statement (Note 44).

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).

Financial assets designated at fair value through profit or loss at inception are those whose 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. The investment strategy is to invest available cash resources in equity securities as part of a long-term capital growth strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The value of financial assets and liabilities related to customer insurance contracts is determined at their fair value. If financial assets linked with insurance contract liabilities were not designated at inception as fair value through profit or loss they would have been classified as available-for-sale and any change in fair value would have been recognized in fair value reserves in equity. The designation of financial assets and liabilities linked with customer insurance contracts as fair value through profit or loss allows the recognition of fair value changes in the income statement.

20. ADVANCES TO CUSTOMERS

	2006 C£ '000	2005 C£ '000
Advances to customers	6.844.270	3.936.572
Instalment finance and leasing (Note 21)	472.275	378.741
	7.316.545	4.315.313
Provision for impairment of advances (Note 22)	(368.195)	(319.615)
	6.948.350	3.995.698

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

	2006 C£ '000	2005 C£ '000
Maturity analysis		
Repayable on demand	1.011.156	986.769
Three months or less	1.104.747	806.229
Over three months but less than one year	893.293	309.427
Over one but less than five years	1.734.482	888.767
Over five years	2.572.867	1.324.121
	7.316.545	4.315.313
Analysis by sector		
Trade	1.308.901	782.897
Manufacturing	510.899	382.483
Tourism	470.510	379.632
Property and construction	1.060.453	749.798
Personal, professional and home loans	3.000.156	1.548.396
Other sectors	965.626	472.107
	7.316.545	4.315.313
Analysis by geographical area		
Cyprus	2.887.182	2.461.783
Greece	3.633.568	1.334.810
Other countries	795.795	518.720
	7.316.545	4.315.313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INSTALMENT FINANCE AND LEASING

	2006 C£ '000	2005 C£ '000
Gross investment in hire purchase and finance leases	555.768	449.380
Unearned finance income	(83.493)	(70.639)
	<hr/>	<hr/>
Present value of minimum hire purchase and finance lease payments (Note 20)	472.275	378.741
Provision for impairment of hire purchase and finance leases	(56.412)	(43.139)
	<hr/>	<hr/>
	415.863	335.602
	<hr/>	<hr/>
Gross investment in hire purchase and finance leases		
Three months or less	88.801	88.268
Over three months but less than one year	107.781	93.545
Over one but less than five years	263.761	208.583
Over five years	95.425	58.984
	<hr/>	<hr/>
	555.768	449.380
	<hr/>	<hr/>
Present value of minimum hire purchase and finance lease payments		
Three months or less	83.329	76.577
Over three months but less than one year	92.686	80.088
Over one but less than five years	219.718	176.082
Over five years	76.542	45.994
	<hr/>	<hr/>
	472.275	378.741
	<hr/>	<hr/>

The most important terms of the hire purchase contracts are as follows:

- The hirer pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase the goods.
- The hirer pays monthly instalments including interest on the amount outstanding.
- The hirer is responsible for any loss or damage incurred on the goods concerned.

The most important terms of the finance lease contracts are as follows:

- The lessee undertakes the equipment under lease for the rental period concerned and pays during that period rentals and any other amounts that are payable in accordance with the terms of the contract.
- The rentals and any other amounts payable are subject to interest.
- The lessee is obliged to maintain the equipment in good condition and to compensate the owner for any damage or fault occurred.
- Upon expiry of the agreement, the lessee can either return the equipment to the owner or pay a minimal annual nominal fee in exchange for the right to continue to use the equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. PROVISION FOR IMPAIRMENT OF ADVANCES

	Provisions C£ '000	Suspension of income C£ '000	Total C£ '000
2006			
Balance 1 January	248.866	70.749	319.615
Provision for impairment of advances from the acquisition of subsidiaries	63.719	-	63.719
Provision for impairment of advances for the year (Note 14)	77.029	-	77.029
Release of provision and recoveries	(29.632)	(9.409)	(39.041)
Advances written-off	(62.626)	(18.335)	(80.961)
Exchange differences	1.027	-	1.027
Suspension of income for the year	-	26.807	26.807
	<hr/>		
Balance 31 December	298.383	69.812	368.195
	<hr/>		
2005			
Balance 1 January	218.349	54.509	272.858
Provision for impairment of advances for the year (Note 14)	64.279	-	64.279
Release of provision and recoveries	(17.881)	(8.099)	(25.980)
Advances written-off	(15.650)	(2.238)	(17.888)
Exchange differences	(231)	-	(231)
Suspension of income for the year	-	26.577	26.577
	<hr/>		
Balance 31 December	248.866	70.749	319.615
	<hr/>		

The total amount of non-performing loans, including accumulated income suspended, amounts to C£ 548.816.000 (2005: C£ 498.014.000). The total amount of non-performing loans excluding accumulated income suspended amounts to C£ 479.004.000 (2005: C£ 427.265.000).

23. CORPORATE BONDS AND DEBENTURES

This amount comprises of non-quoted bonds and debentures in Cypriot companies acquired directly from the issuer and is measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. GOVERNMENT BONDS AND TREASURY BILLS

	Held for trading C£ '000	Held-to- maturity C£ '000	Available- for-sale C£ '000	Total C£ '000
2006				
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	1.843	185.918	10.750	198.511
Other government bonds and treasury bills	62.612	43.008	167.477	273.097
	64.455	228.926	178.227	471.608
Maturity analysis				
Three months or less	2.891	31.056	510	34.457
Over three months but less than one year	2.225	21.134	12.556	35.915
Over one but less than five years	34.387	146.852	83.890	265.129
Over five years	24.952	29.884	81.271	136.107
	64.455	228.926	178.227	471.608
Listed on the Cyprus Stock Exchange	1.843	185.918	3.236	190.997
Listed on other Stock Exchanges	57.484	42.829	160.407	260.720
Not listed	5.128	179	14.584	19.891
	64.455	228.926	178.227	471.608
Movement for the year				
Balance 1 January		220.921	64.515	
Government bonds and treasury bills from the acquisition of subsidiaries		42.559	94.233	
Additions		92.901	29.839	
Redemptions		(131.800)	(9.677)	
Amortisation of premium/discount		4.272	2	
Exchange differences		73	(1.597)	
Revaluation		-	912	
Balance 31 December		228.926	178.227	
2005				
Government bonds and treasury bills eligible for rediscounting with the Central Bank of Cyprus	37.924	218.364	10.446	266.734
Other government bonds and treasury bills	15.645	2.557	54.069	72.271
	53.569	220.921	64.515	339.005
Maturity analysis				
Three months or less	-	20.119	-	20.119
Over three months but less than one year	3.521	107.011	2.510	113.042
Over one but less than five years	32.709	72.549	16.260	121.518
Over five years	17.339	21.242	45.745	84.326
	53.569	220.921	64.515	339.005
Listed on the Cyprus Stock Exchange	37.924	218.364	3.823	260.111
Listed on other Stock Exchanges	14.492	2.464	60.692	77.648
Not listed	1.153	93	-	1.246
	53.569	220.921	64.515	339.005
Movement for the year				
Balance 1 January		127.687	40.325	
Additions		156.134	26.318	
Redemptions		(60.900)	(2.318)	
Amortisation of premium/discount		(1.999)	-	
Exchange differences		(1)	456	
Revaluation		-	(266)	
Balance 31 December		220.921	64.515	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 C£ '000	2005 C£ '000
Debt securities	855.731	519.611
Equity securities	88.987	24.935
	944.718	544.546
Listed on the Cyprus Stock Exchange	89.271	18.940
Listed on other Stock Exchanges	811.129	515.781
Not listed	44.318	9.825
	944.718	544.546
Movement for the year		
Balance 1 January	544.546	385.248
Available-for-sale financial assets from the acquisition of subsidiaries	135.257	-
Additions	428.630	215.104
Redemptions	(175.612)	(77.528)
Revaluation for the year	23.452	4.601
Amortisation of premium/discount	(26)	(319)
Exchange differences	(11.529)	17.440
	944.718	544.546

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

The Group 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 Group 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 a sale agreement was signed for the disposal of this investment (Note 55).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. HELD-TO-MATURITY FINANCIAL ASSETS

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

	2006	2005
	C£ '000	C£ '000
Movement for the year		
Balance 1 January	-	-
Held-to-maturity financial assets from the acquisition of subsidiaries	20.913	-
Additions	6.586	-
	<hr/>	<hr/>
Balance 31 December	27.499	-
	<hr/>	<hr/>
Maturity analysis		
Three months or less	869	-
Over three months but less than one year	1.316	-
Over one but less than five years	2.922	-
Over five years	22.392	-
	<hr/>	<hr/>
	27.499	-
	<hr/>	<hr/>

27. OTHER ASSETS

	2006	2005
	C£ '000	C£ '000
Interest receivable	61.519	30.689
Receivables arising from insurance and reinsurance contracts (Note 28)	10.559	10.670
Non-current financial assets held for sale	3.044	11.684
Hedging derivative financial instruments with positive fair value (Note 43)	118	-
Other assets	70.981	24.831
	<hr/>	<hr/>
	146.221	77.874
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. RECEIVABLES ARISING FROM INSURANCE AND REINSURANCE CONTRACTS

	2006 C£ '000	2005 C£ '000
Amounts due from contract holders	7.550	5.781
Provision for impairment of receivables from contract holders	(783)	(200)
Amounts due from agents, brokers and intermediaries	3.957	5.268
Provision for impairment of receivables from agents, brokers and intermediaries	(256)	(660)
Amounts due from reinsurers	291	481
Provision for impairment of receivables from reinsurers	(200)	-
	10.559	10.670

29. INVESTMENTS IN ASSOCIATES

	2006 C£ '000	2005 C£ '000
Balance 1 January	5.880	4.935
Share of profit after tax	1.475	1.420
Dividend from investment in associates	(475)	(475)
Investments in associates from the acquisition of subsidiaries	5.486	-
	12.366	5.880

The summary financial information of the associates is as follows:

	2006				Issued share capital C£ '000
	Assets C£ '000	Liabilities C£ '000	Revenues C£ '000	Profit C£ '000	
JCC Payment Systems Ltd	29.661	6.676	10.685	4.925	1.000
Interinvest S.A.	14.540	255	(a)	(a)	12.894
Aris Capital Management LLC	788	643	(a)	(a)	4
	2005				
	Assets C£ '000	Liabilities C£ '000	Revenues C£ '000	Profit C£ '000	Issued share capital C£ '000
JCC Payment Systems Ltd	23.568	3.988	10.017	4.735	1.000

- (a) No information is presented regarding the revenues and profit of Interinvest S.A. and Aris Capital Management LLC, which are associated companies through the acquisition of Marfin Financial Group Holdings S.A. as the acquisition was completed at the end of 2006 (Note 52).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. INTANGIBLE ASSETS

	Goodwill C£ '000	Computer software C£ '000	Value of policies in force C£ '000	Other (1) C£ '000	Total C£ '000
At 1 January 2005					
Cost or valuation	46.145	19.172	22.053	-	87.370
Accumulated amortisation and impairment	(21.024)	(12.218)	-	-	(33.242)
Net book value	25.121	6.954	22.053	-	54.128
Year ended 31 December 2005					
Net book value at the beginning of the year	25.121	6.954	22.053	-	54.128
Additions	-	2.215	-	-	2.215
Disposals	-	(32)	-	-	(32)
Amortisation charge (Note 12)	-	(3.575)	-	-	(3.575)
Impairment charge (Note 12)	(8.814)	-	-	-	(8.814)
Change in the value of life policies in force (Note 8)	-	-	2.305	-	2.305
Exchange differences	(12)	31	-	-	19
Net book value at the end of the year	16.295	5.593	24.358	-	46.246
At 31 December 2005					
Cost or valuation	25.109	21.439	24.358	-	70.906
Accumulated amortisation and impairment	(8.814)	(15.846)	-	-	(24.660)
Net book value	16.295	5.593	24.358	-	46.246
Year ended 31 December 2006					
Net book value at the beginning of the year	16.295	5.593	24.358	-	46.246
Goodwill from business acquisitions (Note 52(d))	647.407	-	-	-	647.407
Intangible assets from the acquisition of subsidiaries	42.831	4.596	-	3.768	51.195
Additions (2)	35.011	2.596	-	-	37.607
Disposals	-	(14)	-	-	(14)
Amortisation charge (Note 12)	-	(3.517)	-	(1.947)	(5.464)
Change in the value of life policies in force (Note 8)	-	-	1.215	-	1.215
Exchange differences	789	13	-	268	1.070
Net book value at the end of the year	742.333	9.267	25.573	2.089	779.262
At 31 December 2006					
Cost or valuation	751.147	39.295	25.573	4.178	820.193
Accumulated amortisation and impairment	(8.814)	(30.028)	-	(2.089)	(40.931)
Net book value	742.333	9.267	25.573	2.089	779.262

(1) The category "Other" included in "Other intangible assets" relate to the estimated value for the existing branch network and the estimated value for the client base of the Group subsidiary in Serbia which was acquired in 2006 (Note 52).

(2) The additions to goodwill during the year ended 31 December, 2006 relate to the acquisition of the minority interest of Laiki Bank (Hellas) S.A. (Note 54(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. INTANGIBLE ASSETS (continued)

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the country of operation and the business segment for impairment test purposes. The analysis of goodwill is presented below:

	Life insurance business C£ '000	General insurance business C£ '000	Banking and financial business C£ '000	Total C£ '000
Cyprus	9.610	5.114	-	14.724
Greece	-	-	718.927	718.927
Serbia	-	-	8.682	8.682
Total	<u>9.610</u>	<u>5.114</u>	<u>727.609</u>	<u>742.333</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations relating to the insurance business of the Group in Cyprus are:

	Life insurance business	General insurance business
Net profit margin	11,2%	7,7%
Profit growth rate	3%	3%
Discount rate	12%	12%

Key assumptions used for the impairment test for goodwill for the Group's subsidiary in Serbia are:

Deposit growth rate during 2007	106,1%
Advances growth rate during 2007	157,5%
Profit growth rate after 2009	3%
Discount rate	20%

The first impairment test for goodwill in relation to the acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A. that was completed on 22 December, 2006 will take place during 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. INTANGIBLE ASSETS (continued)

Impairment test for goodwill (continued)

Management determines the budgeted net profit margin based on past performance and its expectations for the market development. The weighted average profit growth rate used is consistent with the macroeconomic forecasts for the country of operation. The pre-tax discount rate used does not include the tax effects and reflects specific risks relating to the CGU.

The impairment tests for goodwill show no impairment of goodwill during 2006. The impairment of goodwill for the year ended 31 December, 2005 is analysed as follows:

	C£ '000
Impairment of goodwill relating to the acquisition of the subsidiary company Laiki Attalos Securities S.A.	4.614
Impairment of goodwill relating to the acquisition of Paneuropean Insurance group	<u>4.200</u>
	<u>8.814</u>

The impairment of goodwill relating to the acquisition of Laiki Attalos Securities S.A. during 2005 was derived after the change in the Athens Stock Exchange climate and the reduction in the trading volume which resulted in a significant reduction in the company's operations.

The impairment of goodwill during 2005 relating to the acquisition of Paneuropean Insurance Group, in the life insurance and general insurance businesses, was resulted from the management expectations for low business volume growth rate, in the absence of any recent evidence of increasing penetration, which is defined as the ratio of total market insurance premiums over gross domestic product.

Value of life policies in force

The value of life policies in force is determined in consultation with qualified actuaries and is calculated by discounting future profits that are expected to emerge from in-force business at a discount rate that includes a risk margin. The risk margin is designed to reflect uncertainties in expected profit. Projections of profits that will emerge from policies are based on prudent assumptions relating to long-term economic conditions, future mortality, persistency and level of administrative and selling expenses, and average return on investments. The key assumptions used in the actuarial valuation are: risk discount rate (net of tax) of 9,25% (2005: 9%), average return on investments (gross of tax) of 5,5% (2005: 5,5%) and inflation rate of 3,5% (2005: 3,5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. INVESTMENT PROPERTY

	2006	2005
	C£ '000	C£ '000
Balance 1 January	15.110	-
Transfer from the category «Property and equipment» (Note 32)	-	14.556
Investment property from the acquisition of subsidiaries	14.968	-
Additions	3	-
Transfer from the category «Non-current assets held for sale»	7.013	-
Fair value gains (Notes 7 and 10)	1.108	554
	<hr/>	<hr/>
Balance 31 December	38.202	15.110
	<hr/>	<hr/>

The investment properties are revalued 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£ 968.000 (2005: C£ 964.000) is also included, that concerns income from operating lease rentals from investment properties held by the Group.

At 31 December, 2006 there were contractual obligations to purchase, construct or develop investment property amounting to C£ 4.526.000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. PROPERTY AND EQUIPMENT

	Property C£ '000	Equipment C£ '000	Total C£ '000
At 1 January 2005			
Cost or valuation	90.788	59.985	150.773
Accumulated depreciation	(7.139)	(42.410)	(49.549)
Net book value	83.649	17.575	101.224
Year ended 31 December 2005			
Net book value at the beginning of the year	83.649	17.575	101.224
Additions	7.425	3.891	11.316
Disposals	(241)	(155)	(396)
Transfer to the category «Investment property» (Note 31)	(14.556)	-	(14.556)
Transfer to the category «Non-current financial assets held for sale»	(404)	-	(404)
Revaluation of property (Note 42)	(168)	-	(168)
Depreciation charge (Note 12)	(1.622)	(5.642)	(7.264)
Exchange differences	83	(3)	80
Net book value at the end of the year	74.166	15.666	89.832
At 31 December 2005			
Cost or valuation	82.781	62.633	145.414
Accumulated depreciation	(8.615)	(46.967)	(55.582)
Net book value	74.166	15.666	89.832
Year ended 31 December 2006			
Net book value at the beginning of the year	74.166	15.666	89.832
Property and equipment from the acquisition of subsidiaries	36.817	9.474	46.291
Additions	2.531	4.201	6.732
Disposals	(1.514)	(164)	(1.678)
Revaluation of property (Note 42)	1.134	-	1.134
Depreciation charge (Note 12)	(1.638)	(4.812)	(6.450)
Exchange differences	523	112	635
Net book value at the end of the year	112.019	24.477	136.496
At 31 December 2006			
Cost or valuation	135.261	96.282	231.543
Accumulated depreciation	(23.242)	(71.805)	(95.047)
Net book value	112.019	24.477	136.496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. PROPERTY AND EQUIPMENT (continued)

Included within the property of the Group is an amount of C£ 2.304.000 (2005: C£ 679.000) which represents buildings under construction.

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

	2006	2005
	C£ '000	C£ '000
Net book value	1.678	396
Profit on disposal of property and equipment (Note 7)	453	47
	<hr/>	<hr/>
Proceeds from disposal of property and equipment	2.131	443
	<hr/>	<hr/>

At 31 December, 2004 a valuation of the Group's property was performed by independent professional valuers. The fair value of the Group'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 of the Group's property were credited to property fair value reserves. Decreases that offset previous increases of the same asset are charged against those reserves. All other decreases are charged to the consolidated income statement.

Included within the property of the Group is an amount of C£ 14.859.000 (2005: C£ 14.268.000) 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£ 71.262.000 (2005: C£ 35.107.000). The net book value of property and equipment which relates to land and is not depreciated is C£ 47.687.000 (2005: C£ 31.535.000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. NET ASSETS ATTRIBUTABLE TO LIFE POLICY HOLDERS

	2006	2005
	C£ '000	C£ '000
Deposits with banks	89.945	55.063
Financial assets at fair value through profit or loss	137.297	123.768
Advances to policy holders	18.224	18.810
Balances recoverable from reinsurers and other assets	6.211	5.149
Investment property	15.930	15.835
Liabilities	(3.233)	(2.895)
	264.374	215.730

The aforementioned assets and liabilities attributable to life policy holders of the insurance subsidiaries of the Group are included in the respective assets and liabilities of the consolidated balance sheet.

34. DUE TO OTHER BANKS

	2006	2005
	C£ '000	C£ '000
Maturity analysis		
Repayable on demand	108.791	47.366
Three months or less	324.321	74.968
Over three months but less than one year	6.010	204
Over one but less than five years	971	-
Over five years	2	-
	440.095	122.538
Analysis by geographical area		
Cyprus	130.179	64.201
Greece	259.550	47.202
Other countries	50.366	11.135
	440.095	122.538

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. CUSTOMER DEPOSITS

	2006 C£ '000	2005 C£ '000
Maturity analysis		
Repayable on demand	3.698.606	2.022.234
Three months or less	4.209.939	2.917.693
Over three months but less than one year	1.036.927	688.286
Over one but less than five years	427.665	93.431
Over five years	601	4.777
	9.373.738	5.726.421
Analysis by geographical area		
Cyprus	4.842.203	3.875.406
Greece	3.974.759	1.382.377
Other countries	556.776	468.638
	9.373.738	5.726.421

36. SENIOR DEBT

Debentures Marfin Popular Bank Public Co Ltd

During 2004 the Bank set up a Euro Medium Term Note Programme for a total amount of euro 750 m. In 2006 an increase in the amount of the existing programme to euro 1 billion was approved. 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 through 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).

Debentures AS SBM Pank

AS SBM Pank is a subsidiary company of Marfin Financial Group Holdings S.A. in Esthonia operating in the banking sector.

In April 2005 AS SBM Pank issued euro 2.283.000 debentures due in April 2007. The debentures pay fixed interest rate at 4,75% annually on their nominal value. Interest is paid every six months on 20 April and 20 October of each year until their maturity. The debentures are listed on the Talin Stock Exchange (Esthonia) and their market value at 31 December, 2006 was euro 1.963.000, C£ 1.135.000. In August 2006, AS SBM Pank repurchased debentures of book value equal to euro 320.000

In October 2005 AS SBM Pank issued euro 716.000 debentures due in October 2007. The debentures pay fixed interest rate at 4,25% annually on their nominal value. Interest is paid annually on 11 October of each year until their maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. SENIOR DEBT (continued)

Debentures AS SBM Pank (continued)

In October 2005 AS SBM Pank issued euro 720.000 debentures due in October 2007. The debentures pay fixed interest rate at 4,25% annually on their nominal value. Interest is paid annually on 19 October of each year until their maturity.

Debentures Egnatia Leasing S.A.

In November 2004, Egnatia Leasing S.A., subsidiary of Egnatia Bank S.A. issued euro 40 m debentures. The debentures pay six-monthly interest rate for euro (Euribor) plus 1,55%. Capital will be repaid in parts until November 2009 and interest is paid every six months on 11 May and 11 November of each year.

The issuing company has the right to recall the debentures on every interest payment date by paying the debenture holders the total of capital and accrued interest.

Debentures Egnatia Finance Plc

In August 2005, Egnatia Finance Plc, subsidiary of Egnatia Bank S.A., issued euro 200 m debentures. The debentures pay three-monthly interest rate for euro (Euribor) plus 0,55%. Interest is paid on 11 February, 11 May, 11 August and 11 November of each year.

The debentures are listed on the Luxemburg Stock Exchange and their market value at 31 December, 2006 was euro 200,9 m, C£ 116,2 m.

37. LOAN CAPITAL

	2006 C£ '000	2005 C£ '000
Convertible debentures 2001/2006	-	8.754
Convertible debentures 2003/2010	-	6.796
Convertible debentures 2003/2013		
Egnatia Bank S.A.	202	-
Non-convertible debentures 2003/2007	8.968	15.000
Non-convertible debentures 2003/2009	-	30.000
Non-convertible debentures 2005/2015		
Egnatia Bank S.A.	46.256	-
Eurobonds due 2011	-	103.048
Eurobonds due 2016	257.298	-
Capital securities	50.000	50.000
Preference shares Egnatia Bank S.A.	2.500	-
	365.224	213.598
Equity element of convertible debentures (Note 41)	-	(444)
Total loan capital	365.224	213.154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. LOAN CAPITAL (continued)

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. The repayment date of the convertible debentures 2003/2013, the non-convertible debentures 2005/2015 and the eurobonds due 2016 falls in the period of “over five years” from the balance sheet date. The capital securities and the preference shares 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.

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%.

Convertible debentures 2003/2013 Egnatia Bank S.A.

In January 2003 Egnatia Bank S.A. issued euro 30 m convertible debentures due 2013. The debentures pay interest every three months on 31 March, 30 June, 30 September and 31 December. Interest is equal to the three-monthly rate of euro (Euribor) plus 1,75% until repurchase date and thereafter 3,25% to maturity.

The debenture holders have the right to convert one debenture into one share.

The Bank has the right to repurchase the debentures after the end of the fifth year.

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

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 is 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 nominal value 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. LOAN CAPITAL (continued)

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 the 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.

Non-convertible debentures 2005/2015 Egnatia Bank S.A.

In May 2005, Egnatia Bank S.A. issued euro 80 m non-convertible debentures due on 4 May, 2015. The debentures pay interest every three months on 4 February, 4 May, 4 August and 4 November. Interest is set at 1,1% above the three-month rate of euro (Euribor) until its redemption date and after this day interest will be set at 2,4% above Euribor.

Egnatia Bank S.A. has the right to redeem the bond in whole on or after 4 May, 2010.

The debentures are not secured and they rank for payment after the claims of depositors and other creditors and are listed on the Luxembourg Stock Exchange and their market value at 31 December, 2006 was euro 81,2 m, C£ 47 m.

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 1,41% above the three-month rate of euro (Euribor).

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 36).

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 billion, the Bank successfully completed a subordinated debt issue (Tier 2 capital) totaling euro 450 m. The issue was in the form of subordinated bond, maturing in 10 years. The Bank has the right to redeem the bonds after five years from the issue date. The interest rate is set at three-monthly rate of euro (Euribor) plus 0,75%, increased by 1% if the bond is not redeemed within the first five years of issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. LOAN CAPITAL (continued)

Eurobonds due 2016 (continued)

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 443,6 m, C£ 256,5 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 interest 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 unsecured and subordinated obligations of the Bank. They rank for payment after the claims of depositors and other creditors.

Preference shares Egnatia Bank S.A.

The preference shares of Egnatia Bank S.A. are non-convertible and have the right to:

- (a) to receive the minimum dividend as stated in article 28, paragraph 2, of the articles of association in priority to ordinary shareholders and the right to receive any additional benefit that the ordinary shareholders will be entitled to receive,
- (b) to receive a cumulative amount in the future if in any period a dividend is not distributed or if the Bank pays an amount that is less than 6% of the paid up share capital in one or more financial periods,
- (c) first right to the net asset amount in priority to ordinary shareholders in case of liquidation and in any excess of any amount over the share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS

	2006 C£ '000	2005 C£ '000
Gross		
Short-term insurance contracts:		
Claims incurred and reported	17.482	20.982
Claims incurred but not reported	3.071	2.392
Unearned premiums	15.924	14.556
Long-term insurance contracts:		
With fixed and guaranteed terms	19.736	16.245
With discretionary participating features	42.156	41.752
Without fixed terms (unit-linked)	205.383	160.440
	303.752	256.367
Recoverable from reinsurers		
Short term insurance contracts:		
Claims incurred and reported	5.723	9.830
Claims incurred but not reported	1.228	1.016
Unearned premiums	4.557	4.018
Long-term insurance contracts:		
With fixed and guaranteed terms	130	233
With discretionary participating features	95	171
Without fixed terms (unit-linked)	647	549
	12.380	15.817
Net		
Short-term insurance contracts:		
Claims incurred and reported	11.759	11.152
Claims incurred but not reported	1.843	1.376
Unearned premiums	11.367	10.538
Long-term insurance contracts:		
With fixed and guaranteed terms	19.606	16.012
With discretionary participating features	42.061	41.581
Without fixed terms (unit-linked)	204.736	159.891
	291.372	240.550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

Movement in insurance contract liabilities and reinsurance assets

Claims

	2006			2005		
	Gross C£ '000	Reinsurance C£ '000	Net C£ '000	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
Notified claims	20.982	(9.830)	11.152	20.513	(8.719)	11.794
Incurred but not reported	2.392	(1.016)	1.376	1.753	(651)	1.102
Balance 1 January	23.374	(10.846)	12.528	22.266	(9.370)	12.896
Cash paid for claims settled in the year	(22.476)	9.128	(13.348)	(15.333)	4.369	(10.964)
Increase in liabilities arising from:						
Current year claims	17.947	(5.725)	12.222	13.925	(5.427)	8.498
Prior year claims	1.709	492	2.201	2.501	(419)	2.082
Exchange differences	(1)	-	(1)	15	1	16
Balance 31 December	20.553	(6.951)	13.602	23.374	(10.846)	12.528
Notified claims	17.482	(5.723)	11.759	20.982	(9.830)	11.152
Incurred but not reported	3.071	(1.228)	1.843	2.392	(1.016)	1.376
Balance 31 December	20.553	(6.951)	13.602	23.374	(10.846)	12.528

Unearned premium provision

	2006			2005		
	Gross C£ '000	Reinsurance C£ '000	Net C£ '000	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
Balance 1 January	14.556	(4.018)	10.538	13.068	(3.359)	9.709
Increase in the year	1.918	(539)	1.379	1.488	(659)	829
Release in the year	(550)	-	(550)	-	-	-
Balance 31 December	15.924	(4.557)	11.367	14.556	(4.018)	10.538

Long-term insurance contracts with fixed and guaranteed terms

	2006			2005		
	Gross C£ '000	Reinsurance C£ '000	Net C£ '000	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
Balance 1 January	16.245	(233)	16.012	16.284	(236)	16.048
Liabilities released for payments on death, surrender and other terminations in the year	(677)	198	(479)	45	-	45
Other movements	4.168	(95)	4.073	(84)	3	(81)
Balance 31 December	19.736	(130)	19.606	16.245	(233)	16.012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

Long-term insurance contracts with discretionary participating features

	2006			2005		
	Gross C£ '000	Reinsurance C£ '000	Net C£ '000	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
Balance 1 January	41.752	(171)	41.581	40.543	(175)	40.368
Liabilities released for payments on death, surrender and other terminations in the year	(4.562)	148	(4.414)	34	4	38
Other movements	4.966	(72)	4.894	1.175	-	1.175
Balance 31 December	42.156	(95)	42.061	41.752	(171)	41.581

Long-term insurance contracts without fixed terms

	2006			2005		
	Gross C£ '000	Reinsurance C£ '000	Net C£ '000	Gross C£ '000	Reinsurance C£ '000	Net C£ '000
Balance 1 January	160.440	(549)	159.891	139.337	(562)	138.775
Liabilities released for payments on death, surrender and other terminations in the year	(17.496)	390	(17.106)	302	13	315
Changes in unit prices	62.439	(488)	61.951	20.801	-	20.801
Balance 31 December	205.383	(647)	204.736	160.440	(549)	159.891

Estimation of long term insurance policy obligations – Sensitivity Analysis

For long-term life insurance contracts, an actuarial valuation is carried out to estimate the future liabilities from the payment of benefits as per insurance contract terms. The principal assumptions used for the valuation are as follows:

- (a) **Mortality**
An appropriate base table of standard mortality is used, which reflects the best historical estimate of mortality.
- (b) **Persistency**
Persistency rates are reviewed annually taking into account the Group's experience by contract type.
- (c) **Investment returns**
The average investment returns estimate is calculated using the present return for each investment class, as well as, expectations about the performance of the economy and the capital markets.
- (d) **Administration expenses**
The current level of expenses in combination with the expected inflation rate is taken as an appropriate expense base.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS (continued)

Estimation of long term insurance policy obligations – Sensitivity Analysis (continued)

The effect of the percentage change in the above parameters on the insurance liabilities level as at the balance sheet date is:

	Change	Effect on insurance liabilities C£ '000
(a) Insurance contracts with no fixed terms and share in profits		
Improvement in mortality	-7,5%	(178)
Worsening of mortality	+7,5%	(262)
Decrease of investment returns	-1%	5.119
Increase of investment returns	+1%	(4.247)
(b) Insurance contracts with fixed and guaranteed terms		
Improvement in mortality	-7,5%	(7)
Worsening of mortality	+7,5%	10
Decrease of investment returns	-1%	10
Increase of investment returns	+1%	(7)
Increase in renewal expenses	+10%	6
Decrease in renewal expenses	-10%	(5)
Increase in expenses' inflation	+1%	3
Decrease in expenses' inflation	-1%	(2)

39. OTHER LIABILITIES

	2006 C£ '000	2005 C£ '000
Interest payable	52.030	34.502
Derivative financial instruments with negative fair value (Note 43)	9.245	3.666
Other liabilities	225.929	88.689
	287.204	126.857

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are calculated on all temporary differences under the liability method using effective tax rates (Note 15). 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 tax authority. The movement in deferred tax is as follows:

	2006	2005
	C£ '000	C£ '000
Balance 1 January	5.514	6.878
Deferred tax assets from the acquisition of subsidiaries	(8.557)	-
Credit in income statement (Note 15)	(1.097)	(1.305)
Debit/(credit) in property fair value reserves (Note 42)	144	(74)
Exchange differences	(49)	15
	(4.045)	5.514

Deferred tax assets and liabilities are recoverable as follows:

	2006	2005
	C£ '000	C£ '000
Deferred tax liabilities		
Differences between depreciation and wear and tear allowances	1.195	606
Revaluation of property	4.103	3.968
Value of policies in force	2.531	2.646
Financial assets	2.044	-
Provisions for liabilities	6.011	-
Other temporary differences	956	70
	16.840	7.290
Deferred tax assets		
Finance lease contracts	52	887
Tax losses	627	136
Provision for impairment of advances	2.837	-
Retirement benefit obligations	1.273	-
Intangible assets	1.547	-
Investment in subsidiaries	10.136	-
Other temporary differences	4.413	753
	20.885	1.776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The credit relating to deferred tax in the income statement include the following temporary differences:

	2006	2005
	C£ '000	C£ '000
Differences between depreciation and wear and tear allowances	(116)	15
Value of policies in force	116	(48)
Finance lease contracts	(1.194)	112
Tax losses	458	-
Other temporary differences	1.833	1.226
	1.097	1.305

41. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares '000	Share capital C£ '000	Share premium C£ '000	Treasury shares C£ '000	Total C£ '000
1 January 2005	304.011	152.450	2.949	-	155.399
Reinvestment of dividend	2.397	1.198	1.894	-	3.092
31 December 2005 / 1 January 2006	306.408	153.648	4.843	-	158.491
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)
Treasury shares acquired (d)	-	-	-	(105.957)	(105.957)
31 December 2006	790.319	395.159	1.113.055	(105.957)	1.402.257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

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 nominal 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 nominal 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:

- (a) 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.
- (b) 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 52).
- (c) 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.
- (d) Treasury shares acquired are ordinary shares of the Bank, which were held by Marfin Financial Group Holdings S.A. at 31 December, 2006. These shares are deducted from equity. Gains or losses from the disposal or extinguishments of treasury shares are taken to reserves. The total number of treasury shares at the end of 2006 was 35.319.000.

The insurance subsidiary companies of the Group held as at 31 December, 2006 a total of 7.239.000 (2005: 6.471.000) shares of the Bank, a percentage of 0,9% (2005: 2,1%) as part of their financial assets which are invested for the benefit of insurance policy holders. These investments are fair valued through profit or loss.

All issued ordinary shares carry the same rights.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. RESERVES

	2006 C£ '000	2005 C£ '000
Revenue reserves		
Balance 1 January	170.042	136.275
Profit for the year attributable to equity holders of the Bank	86.072	42.761
Transfer from property fair value reserves	178	132
Dividend paid (Note 53)	(21.448)	(9.120)
Defence tax on deemed distribution	(47)	(6)
	234.797	170.042
Property fair value reserves		
Balance 1 January	14.733	14.959
Revaluation for the year (Note 32)	1.134	(168)
Transfer to revenue reserves	(178)	(132)
Deferred tax on revaluation (Note 40)	(144)	74
	15.545	14.733
Available-for-sale financial assets fair value reserves		
Balance 1 January	6.578	2.228
Revaluation for the year and transfer to profit on disposal	24.192	4.350
	30.770	6.578
Currency translation reserves		
Balance 1 January	(3.005)	(3.680)
Exchange differences arising in the year	2.609	675
	(396)	(3.005)
Total reserves at 31 December	280.716	188.348

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments for own trading with the purpose of increasing its earnings. The Group primarily uses derivative financial instruments to hedge risks stemming from interest rate and foreign exchange fluctuations. The derivative financial instruments, used by the Group, 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 settlement, 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.

Furthermore, the Group deals in equity futures and foreign exchange and equity options as well as forward rate agreements, foreign exchange and index forwards.

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 Group'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 CONSOLIDATED FINANCIAL STATEMENTS

43. 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
Trading derivatives:						
Foreign currency derivatives						
Currency forwards	316.562	202	176	178.626	147	643
Currency swaps	1.081.692	7.922	7.506	502.867	3.608	2.250
Other (OTC, etc.)	62.197	283	52	-	-	-
		8.407	7.734		3.755	2.893
Interest rate derivatives						
Interest rate swaps	989.257	4.121	866	322.966	809	773
		4.121	866		809	773
Index/equity derivatives						
Futures	3.180	-	-		-	-
Options	10.609	101	-		-	-
Bond futures	(7.574)	199	-		-	-
Other (OTC, Credit default swaps, etc.)	38.561	147	586		-	-
		447	586		-	-
Total trading derivatives (Note 19)		12.975	9.186		4.564	3.666
Hedging derivatives:						
Derivatives designated as fair value hedges						
Currency forwards	9.136	-	11		-	-
Options	20	-	20		-	-
Interest rate futures (EUREX)	40.510	-	-		-	-
Futures	23.761	-	-		-	-
Bond futures	(5.782)	90	-		-	-
		90	31		-	-
Derivatives designated as cash flow hedges						
Options	471	28	28		-	-
		28	28		-	-
Total hedging derivatives (Note 27)		118	59		-	-
Total derivatives (Note 39)		13.093	9.245		4.564	3.666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. CASH GENERATED FROM OPERATIONS

	2006	2005
	C£ '000	C£ '000
Profit before tax	105.695	61.205
Adjustments for:		
Share of results of associates after tax (Note 29)	(1.475)	(1.420)
Minority interest	(1.857)	(1.139)
Depreciation of property and equipment (Note 32)	6.450	7.264
Amortisation of intangible assets (Note 30)	5.464	3.575
Impairment of goodwill (Note 30)	-	8.814
Fair value gain on investment property (Note 31)	(1.108)	(554)
Increase in the value of life policies in force (Note 30)	(1.215)	(2.305)
Exchange differences	(4.418)	(911)
Income from available-for-sale financial assets	(30.370)	(15.634)
Interest paid on loan capital	9.042	10.197
Profit on disposal of property and equipment (Note 32)	(453)	(47)
Profit on disposal of available-for-sale financial assets	(536)	-
	85.219	69.045
Change in:		
Due to other banks	188.461	52.816
Customer deposits	1.128.539	1.089.575
Insurance contract liabilities	47.386	24.869
Other liabilities	42.169	16.401
Retirement benefit obligations	13.086	12.747
Due from other banks	(131.777)	22.271
Financial assets at fair value through profit or loss	(102.852)	(48.676)
Advances to customers	(755.863)	(505.550)
Reinsurance assets	3.437	(2.115)
Corporate bonds and debentures	1.210	664
Government bonds and treasury bills	56.763	(168.649)
Available-for-sale financial assets	10.931	(17.372)
Held-to-maturity financial assets	(6.586)	-
Other assets	(10.211)	(11.916)
Cash generated from operations	569.912	534.110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. 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 consolidated cash flow statement other than the movement described in Note 52.

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 consolidated cash flow statement.

45. CASH AND CASH EQUIVALENTS

	2006 C£ '000	2005 C£ '000
Cash and balances with Central Banks (Note 17)	611.916	432.091
Due from other banks – due within three months (Note 18)	2.251.612	1.317.928
Government bonds and treasury bills – due within three months (Note 24)	34.457	20.119
	2.897.985	1.770.138
Exchange differences	-	4.418
	2.897.985	1.774.556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. SEGMENTAL ANALYSIS

By business class (primary segment)

	Banking services C£ '000	Insurance services C£ '000	Financial and other services C£ '000	Eliminations C£ '000	Total C£ '000
2006					
External revenues	494.112	114.049	54.710	-	662.871
Revenues from other group companies	49.519	3.415	1.278	(54.212)	-
Total revenues	543.631	117.464	55.988	(54.212)	662.871
Profit before tax	77.054	9.671	18.970		105.695
Tax					(17.766)
Profit for the year					87.929
Assets	11.850.006	328.595	872.013		13.050.614
Investments in associates	12.360	-	6		12.366
Total assets					13.062.980
Liabilities	10.820.696	319.288	158.461		11.298.445
Other items					
Share of results of associates after tax (Note 29)	1.475	-	-		1.475
Capital expenditure	8.148	11	1.169		9.328
Depreciation of property and equipment (Note 32)	5.947	275	228		6.450
Amortisation of computer software and other intangibles (Note 30)	5.099	31	334		5.464
Provision for impairment of advances (Note 14)	35.883	88	11.426		47.397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. SEGMENTAL ANALYSIS (continued)

By business class (primary segment) (continued)

	Banking services C£ '000	Insurance services C£ '000	Financial and other services C£ '000	Eliminations C£ '000	Total C£ '000
2005					
External revenues	376.307	87.940	51.591	-	515.838
Revenues from other group companies	30.896	4.413	1.009	(36.318)	-
Total revenues	407.203	92.353	52.600	(36.318)	515.838
Profit before tax	49.333	5.572	6.300		61.205
Tax					(17.305)
Profit for the year					43.900
Assets	6.341.823	297.261	473.767		7.112.851
Investments in associates	5.874	-	6		5.880
Total assets					7.118.731
Liabilities	6.442.600	273.794	19.763		6.736.157
Other items					
Share of results of associates after tax (Note 29)	1.420	-	-		1.420
Capital expenditure	8.271	155	5.105		13.531
Depreciation of property and equipment (Note 32)	6.694	282	288		7.264
Amortisation of computer software (Note 30)	3.270	26	279		3.575
Impairment of goodwill (Note 30)	-	4.200	4.614		8.814
Provision for impairment of advances (Note 14)	35.533	-	10.865		46.398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. SEGMENTAL ANALYSIS (continued)

By geographical segment

	Cyprus C£ '000	Greece C£ '000	Other countries C£ '000	Total C£ '000
2006				
Total revenues	487.966	114.273	60.632	662.871
Capital expenditure	7.043	1.600	685	9.328
Assets	5.844.804	5.982.317	1.235.859	13.062.980
Liabilities	5.567.467	4.446.838	1.284.140	11.298.445
2005				
Total revenues	382.881	89.362	43.595	515.838
Capital expenditure	9.833	2.809	889	13.531
Assets	4.741.714	1.653.441	723.576	7.118.731
Liabilities	4.601.162	1.423.978	711.017	6.736.157

Reconciliation with the amounts included in the income statement:

	2006 C£ '000	2005 C£ '000
Total revenues	662.871	515.838
Interest expense per income statement	(248.731)	(185.600)
Fee and commission expense per income statement	(3.542)	(2.984)
Net benefits, claims and other expenses from insurance contracts (Note 8)	(95.438)	(69.745)
Operating income per income statement	<u>315.160</u>	<u>257.509</u>

47. 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 Group'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.

	2006 C£ '000	2005 C£ '000
Acceptances	73.707	67.533
Guarantees	569.619	365.398
	<u>643.326</u>	<u>432.931</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. CONTINGENCIES AND COMMITMENTS (continued)

Unutilised credit facilities

The amount of approved unutilised credit facilities was C£ 972.781.000 (2005: C£ 860.207.000).

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£ 6,8 m (2005: C£ 7,4 m).

Legal proceedings

As at 31 December, 2006 there were pending litigations against the Group 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 Group will suffer any significant damage. Therefore, no provision has been made in the financial statements regarding these cases.

Operating lease commitments

The Group 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:

	2006	2005
	C£ '000	C£ '000
Less than one year	1.435	1.568
Over one but less than five years	10.639	3.384
Over five years	22.634	780
	<hr/> 34.708	<hr/> 5.732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT

As all other financial institutions the Group is exposed to several risks. These risks are continuously monitored with various methods so that the concentration of unreasonable risks is avoided. The nature of these risks and the way they are dealt with by each Group (Laiki, Egnatia, Marfin) are explained below.

Credit risk

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

Laiki Group

Industry sector and sub-sector analyses supported by economic forecasts provide the main guidelines for setting 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 the 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 in order to minimise any potential excessive exposure to a single industry, industry sub-sector or individual 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 to the continuing success of the Laiki Group. 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 Laiki Group 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 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 determining internal probabilities of default that will assist in future credit risk taking decisions and credit risk monitoring.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Credit risk (continued)

Laiki Group (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 the Laiki Group's overall strategy and the short-term and long-term objectives of the Risk Management Division.

Egnatia Group

The Egnatia Group, aiming to minimise the credit risk that it undertakes, has put in place strategies and methodologies that define the activities and the limits of all counterparties, based on their credit ability. The analysis of a counterparty's credit ability is performed by considering country risk, the business sector, quantitative and qualitative characteristics, the securities offered and the type of the transaction carried out.

The methods for assessing credit quality are differentiated according to the type of the counterparty in the following main categories: central governments (for buy and hold strategies of bonds), financial institutions, large-size businesses (with reliable financial statements), small and one-man businesses and private individuals. The main constituent of credit risk comes from the lending portfolio and is due to the inability of counterparties to repay their debt. The Egnatia Group has developed, in collaboration with specialised companies, a series of credit rating models that aim to provide methods for a comprehensive treatment of the peculiarities of all types of customers.

The assessment of large-size businesses is being implemented with the use of the Moody's Risk Advisor, which considers both quantitative characteristics (financial analysis), as well as qualitative characteristics (business analysis). The quantitative analysis is based on the analysis of the company's financial statements, which are either publicly available or are collected by the Egnatia Group. The business analysis is based on the company's qualitative characteristics and the industry in which it operates. The Risk Management Division of the Egnatia Group has formed Greek industry segments with companies of similar characteristics and has incorporated them in the Moody's Risk Advisor model.

For the assessment of smaller businesses the ICAP Research and Investment Company S.A., Business Advisors model is being used. It mainly considers the qualitative characteristics of the companies but also their business relationship with the Egnatia Group.

For the assessment of private individuals, the Egnatia Group has developed two rating models. The first one considers the qualitative and financial characteristics of the customer during the approving process and the second one is based on the business relationship and overall cooperation of the customer with the Egnatia Group.

During the approving process, the total credit risk of each counterparty, or group of connected counterparties, is considered and the credit limits that have been approved by the various divisions of the Egnatia Group are pooled together.

In order to set credit limits, securities or personal guarantees provided are being considered, as they can reduce the overall credit risk exposure of the Egnatia Group. The monitoring of the counterparties' credit quality and the credit exposures coupled with the corresponding credit limits, is carried out on an on going basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Credit risk (continued)

Marfin Group

A fundamental principle of the Marfin Group's credit policy is to undertake carefully selected and calculated credit risks against an expected return, in order to optimise the investment of the available funds and to protect the interests of its depositors and shareholders.

In order to achieve this goal, the management of the Marfin Group focuses on the proper management of credit risk, having first set the right infrastructure and procedures.

The customers are businesses (large, medium and small-size businesses) of the private and public sectors, as well as retail customers with business activities.

The methods for evaluating the credit ability of counterparties (credit rating) are differentiated depending in which of the above categories the customer belongs to and are based both on quantitative and qualitative characteristics.

The Marfin Group has developed a system for rating credit facilities (risk rating), in which both the credit ability of the counterparty, as well as the quality and sufficiency of the securities offered are admeasured. This rating is the outcome of the combination of the customer's credit ability (credit rating) and the result of a second model which calculates the credit risk of every customer/limit, based on the recovery given default ratio.

In addition, the Marfin Group offers a wide range of standardized loan products, which are addressed both to retail customers (housing loans, overdraft accounts, personal loans), as well as to freelance businessmen (working capital, business premises loans and business equipment loans). For the credit rating of this customer type, a credit scoring model has been developed and used.

The total credit risk undertaken, categorized by customer, by customer type, by customer economic group and by credit facility/product type is being monitored by the Marfin Group's Credit Division.

Counterparty banks risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Counterparty banks risk (continued)

Laiki Group

The counterparty limits are proposed by the Treasuries and are examined by the Risk Management Division on a consolidated basis once a year. The limits are initially determined on a Group basis to reflect the level of risk which is acceptable by the Laiki Group and are then apportioned to the different departments of Treasury maintained by the Laiki Group in Cyprus and abroad according to the needs and the volume of operations of each Treasury. In general terms, the maximum size of limits is determined by the bank scoring model, as well as, by the directives of the Central Bank of Cyprus.

Assessments of counterparty risk are undertaken using a specialised bank and other financial organisations 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 financial organisations are assessed using certain ratios, which are drawn from the software package of Bankscope. Qualitative criteria (previous good cooperation, management assessment, etc) 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.

Egnatia Group

The Risk Management Division of Egnatia Group measures and monitors the credit risk which stems from the Treasury's transactions with counterparty banks or from commercial operations and sets limits for this purpose.

On an annual basis a review of the counterparty banks takes place on a group basis. During the limit setting procedure a limit is determined for each bank which is shared between the Treasury and commercial transactions of Egnatia Group. The Risk Management Division of Egnatia Group assesses the existing limits and any relevant proposals for renewals, determines the size of acceptable risk and proposes the new limits to the responsible general manager. The final approval is given by the Executive Committee.

The assessment of banks is based on their credit worthiness from recognised rating agencies, their financial strength and their qualitative elements as well as the credit rating of the country of residence. The Egnatia Group's policy is to transact with investment grade banks with certain exemptions in the case of smaller banks where there is a special business relationship scope for maintaining limits with them.

The counterparty limit set by the Risk Management Division of Egnatia Group is allocated to money market limit, foreign exchange limit, interest rate swaps and settlement limit.

The utilisation of approved counterparty limits is monitored daily by the Back Office and any excesses are reported to the Risk Management Division of Egnatia Group for further actions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Counterparty banks risk (continued)

Marfin Group

Counterparty risk is monitored on a Group basis. The responsibility for approving limits has been delegated to the Risk Management Committee, which approves relevant limits per counterparty and per product further to the proposals of Treasury and Risk Management Unit of Marfin Group. The methodology and the level of relevant limits is based mostly on the credit worthiness of each counterparty as well as the relevant limits set by regulators.

The allocation of approved limits is the responsibility of Risk Management Unit of Marfin Group, which undertakes the daily responsibility of controlling and monitoring the limits as to the total exposure to each counterparty. Moreover, it has the responsibility of informing and reporting to the Management the level of counterparty risk maintained by Marfin Group.

Country risk

The Group 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.

Laiki Group

All countries are assessed by Laiki Group Risk Management according to their size and their economic ratings (Moody's, Standard & 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.

Egnatia Group

Within the framework of country risk management Egnatia Group monitors the counterparty commercial transactions, money market placements, etc. Against the above risks, unified and specific country limits have been set which are analysed and monitored daily. The country risk is assessed based on the economic and credit rating of the country from the International Country Risk Guide, from international rating agencies such as Moody's and Standard & Poor's and the economic and political conditions prevailing in the country.

Marfin Group

There is no specific risk management framework system for assessing country risk since this risk is already included in the counterparty risk which is examined during the process of assessing the counterparty's credit worthiness.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Interest rate risk

Interest rate risk is the risk of fluctuations in the value of financial instruments and in the Group'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.

Laiki Group

Laiki Group's main measurement methodology is the Present Value of a Basis Point methodology (PVBP) for measuring, monitoring and managing interest rate risk in its trading and banking book. PVBP shows the effect on the Laiki Group'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.

Laiki Group 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.

Laiki Group'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 bonds and futures.

At regular time intervals Laiki Group evaluates its interest rate risk exposure by calculating a "maximum potential loss" scenario at bank level and at consolidated 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 Laiki Group's position.

Egnatia Group and Marfin Group

Both Groups monitor systematically the interest rate risk, on a unified basis, according to the guidelines of regulatory authorities as well as the internally set regulations.

In order to assess the exposure to interest rate risk the Static Repricing Gap methodology has been set in place. According to the specific methodology, all interest rate sensitive assets and liabilities are bucketed in time bands per currency, according to their remaining time to maturity (fixed interest rate assets/liabilities) or their next repricing (floating interest rate assets/liabilities) and their difference is the gap which is calculated for every time band. The Static Repricing Gap is used in order to assess the level of sensitivity of all assets and liabilities of the Groups (on and off balance sheet).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Interest rate risk (continued)

Egnatia Group and Marfin Group (continued)

In addition, the Groups use a variety of derivative instruments for hedging any interest rate risks that arise from balance sheet management. Specifically, they use Interest Rate Swaps, in order to hedge future interest rate cash flows arising from long term deposits and long term loans.

The following tables summarise the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts categorised by contractual repricing date for floating rate items and maturity date for fixed rate items. These tables include in the interest net open position, the positions stemming from the life insurance policy contract liabilities and the assets which relate to the above insurance policy contracts. These positions are not positions of the Group but positions of the owners of the insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Interest rate risk (continued)

2006	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
Assets							
Cash and balances with Central Banks	588.125	-	90	20	-	23.681	611.916
Due from other banks	2.035.147	220.439	144.243	29	-	3.903	2.403.761
Financial assets at fair value through profit or loss	11.686	133.221	52.335	23.595	25.171	233.676	479.684
Advances to customers	5.138.804	940.551	286.582	457.816	119.569	5.028	6.948.350
Reinsurance assets	-	-	1.872	-	-	10.508	12.380
Corporate bonds and debentures	3.857	-	1.236	-	-	-	5.093
Government bonds and treasury bills	24.189	31.461	57.238	245.406	113.028	286	471.608
Available-for-sale financial assets	261.781	515.162	41.128	9.693	26.854	90.100	944.718
Held-to-maturity financial assets	332	20.154	5.824	1.189	-	-	27.499
Other assets	8.385	109	56	5.348	5.201	172.546	191.645
Investments in associates	-	-	-	-	-	12.366	12.366
Intangible assets	-	-	-	-	-	779.262	779.262
Investment property	-	-	-	-	-	38.202	38.202
Property and equipment	-	-	-	-	-	136.496	136.496
Total assets	8.072.306	1.861.097	590.604	743.096	289.823	1.506.054	13.062.980
Liabilities							
Due to other banks	257.771	153.507	6.916	20.246	54	1.601	440.095
Customer deposits	7.041.970	1.284.110	968.010	39.693	1.495	38.460	9.373.738
Senior debt	173.459	115.550	15.009	-	-	-	304.018
Loan capital	260.391	93.365	8.968	-	-	2.500	365.224
Insurance contract liabilities	-	-	-	-	-	303.752	303.752
Other liabilities	31.535	239	50	1.499	99	363.235	396.657
Retirement benefit obligations	-	-	-	-	49	114.912	114.961
Total liabilities	7.765.126	1.646.771	998.953	61.438	1.697	824.460	11.298.445
Net interest sensitivity gap	307.180	214.326	(408.349)	681.658	288.126		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE 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							
Assets							
Cash and balances with Central Banks	430.870	-	90	20	-	1.111	432.091
Due from other banks	1.120.596	200.284	44.164	-	-	129	1.365.173
Financial assets at fair value through profit or loss	24.600	54.267	11.306	542	-	82.175	172.890
Advances to customers	2.976.322	473.325	186.496	334.480	25.075	-	3.995.698
Reinsurance assets	-	-	-	-	-	15.817	15.817
Corporate bonds and debentures	1.160	-	-	5.143	-	-	6.303
Government bonds and treasury bills	26.490	61.109	118.475	119.990	12.784	157	339.005
Available-for-sale financial assets	299.660	219.950	-	-	-	24.936	544.546
Other assets	4.206	77	39	904	10.489	74.425	90.140
Investments in associates	-	-	-	-	-	5.880	5.880
Intangible assets	-	-	-	-	-	46.246	46.246
Investment property	-	-	-	-	-	15.110	15.110
Property and equipment	-	-	-	-	-	89.832	89.832
Total assets	4.883.904	1.009.012	360.570	461.079	48.348	355.818	7.118.731
Liabilities							
Due to other banks	93.950	28.548	40	-	-	-	122.538
Customer deposits	4.421.740	533.897	732.260	37.299	1.225	-	5.726.421
Senior debt	171.833	-	-	-	-	-	171.833
Loan capital	6.352	153.047	53.755	-	-	-	213.154
Insurance contract liabilities	-	-	-	-	-	256.367	256.367
Other liabilities	16.635	272	41	948	15.064	116.250	149.210
Retirement benefit obligations	-	-	-	-	-	96.634	96.634
Total liabilities	4.710.510	715.764	786.096	38.247	16.289	469.251	6.736.157
Net interest sensitivity gap	173.394	293.248	(425.526)	422.832	32.059		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE 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.

Laiki Group, Egnatia Group and Marfin Group

The three Groups enter into foreign exchange transactions in order to accommodate customer needs and for hedging their own exposure. The Group's Treasuries enter mainly into spot foreign exchange transactions in the spectrum of predefined and approved limits as well as into derivative products in less degree.

The Groups use 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 (sum of short positions in all currencies).
- (c) Maximum loss limits – maximum level of losses resulting from foreign exchange fluctuations on a daily/monthly/yearly basis.

The Groups calculate the maximum potential loss from the open positions in different currencies by working on stress testing scenarios. These scenarios assume large fluctuations in all currencies that the Groups are exposed in a way that could adversely affect the three Groups profitability.

The following tables summarise the Group's exposure to currency risk. Included in the tables are the Group'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 Group's exposure to currency movements, categorised by currency. These tables include in the currency net open position, the positions stemming from the life insurance policy contract liabilities and the assets which relate to the above insurance policy contracts. These positions are not positions of the Group but positions of the owners of the insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Currency risk (continued)

2006	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
Assets							
Cash and balances with Central Banks	360.941	209.661	4.443	2.877	4.854	29.140	611.916
Due from other banks	133.036	698.699	1.346.698	101.025	49.877	74.426	2.403.761
Financial assets at fair value through profit or loss	111.160	294.180	51.195	15.999	1.021	6.129	479.684
Advances to customers	2.016.551	3.630.502	328.567	442.235	204.728	325.767	6.948.350
Reinsurance assets	12.181	199	-	-	-	-	12.380
Corporate bonds and debentures	5.093	-	-	-	-	-	5.093
Government bonds and treasury bills	191.018	230.843	35.531	12.008	-	2.208	471.608
Available-for-sale financial assets	60.818	463.692	298.248	116.729	5.203	28	944.718
Held-to-maturity financial assets	-	20.482	6.587	-	-	430	27.499
Other assets	40.582	115.816	13.756	13.352	2.936	5.203	191.645
Investments in associates	6.880	4.140	1.346	-	-	-	12.366
Intangible assets	723.573	53.078	-	218	180	2.213	779.262
Investment property	23.234	14.968	-	-	-	-	38.202
Property and equipment	69.661	49.709	-	10.320	1.500	5.306	136.496
Total assets	3.754.728	5.785.969	2.086.371	714.763	270.299	450.850	13.062.980
Liabilities							
Due to other banks	36.930	282.139	52.349	45.094	696	22.887	440.095
Customer deposits	2.233.409	3.587.583	2.265.757	618.314	335.199	333.476	9.373.738
Senior debt	-	302.053	-	-	-	1.965	304.018
Loan capital	44.897	320.327	-	-	-	-	365.224
Insurance contract liabilities	302.918	834	-	-	-	-	303.752
Other liabilities	107.848	226.859	12.598	38.167	7.253	3.932	396.657
Retirement benefit obligations	108.172	6.204	-	585	-	-	114.961
	2.834.174	4.725.999	2.330.704	702.160	343.148	362.260	11.298.445
Minority interest	13.112	64.725	-	-	-	3.725	81.562
Shareholders' equity	1.682.973	-	-	-	-	-	1.682.973
Total liabilities and equity	4.530.259	4.790.724	2.330.704	702.160	343.148	365.985	13.062.980
Net on balance sheet position	(775.531)	995.245	(244.333)	12.603	(72.849)	84.865	
Net notional position of derivative financial instruments	169.917	(441.526)	269.393	1.844	74.795	(74.423)	
Net currency position	(605.614)	553.719	25.060	14.447	1.946	10.442	
2005							
Total assets	2.800.434	1.953.430	1.529.186	577.585	221.491	36.605	7.118.731
Total liabilities and equity	2.880.033	1.602.595	1.586.777	635.514	313.090	100.722	7.118.731
Net on balance sheet position	(79.599)	350.835	(57.591)	(57.929)	(91.599)	(64.117)	
Net notional position of derivative financial instruments	(15.544)	(288.738)	71.273	69.563	114.060	49.961	
Net currency position	(95.143)	62.097	13.682	11.634	22.461	(14.156)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk may be defined as the risk that the Group, 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.

Laiki Group, Egnatia Group and Marfin Group

The three Groups recognise the nature of liquidity risk and manage the risk through a well-developed liquidity management structure comprising of a diverse range of controls, procedures and limits. The Groups have to comply with liquidity ratios set by both foreign and local banking regulators, as well as, with internal limits.

The Groups monitor and manage liquidity risk through the use of the following set of controls:

- (a) Balance in the Minimum Reserve Account as set by the local regulators, where the Groups are present.
- (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 three Groups' assets is funded with customer deposits and bonds. 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.

The following tables analyse assets and liabilities of the Group into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. These tables include in the net liquidity gap positions stemming from the life insurance policy contract liabilities and the assets which relate to the above insurance policy contracts. These positions are not positions of the Group but positions of the owners of the insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE 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
2006						
Assets						
Cash and balances with Central Banks	453.226	52.522	-	110	106.058	611.916
Due from other banks	1.629.382	622.230	144.657	7.492	-	2.403.761
Financial assets at fair value through profit or loss	57.276	149.961	14.916	96.872	160.659	479.684
Advances to customers	787.454	1.097.688	884.279	1.700.374	2.478.555	6.948.350
Reinsurance assets	-	4.449	7.931	-	-	12.380
Corporate bonds and debentures	-	-	-	5.093	-	5.093
Government bonds and treasury bills	-	34.457	35.915	265.129	136.107	471.608
Available-for-sale financial assets	757	58.541	104.329	618.395	162.696	944.718
Held-to-maturity financial assets	-	869	1.316	2.922	22.392	27.499
Other assets	27.206	56.246	39.291	38.090	30.812	191.645
Investments in associates	6	-	-	-	12.360	12.366
Intangible assets	-	-	-	-	779.262	779.262
Investment property	-	-	-	-	38.202	38.202
Property and equipment	-	-	-	-	136.496	136.496
Total assets	2.955.307	2.076.963	1.232.634	2.734.477	4.063.599	13.062.980
Liabilities						
Due to other banks	108.791	324.321	6.010	971	2	440.095
Customer deposits	3.698.606	4.209.939	1.036.927	427.665	601	9.373.738
Senior debt	-	-	177.738	126.280	-	304.018
Loan capital	-	-	8.968	303.756	52.500	365.224
Insurance contract liabilities	-	16.603	32.930	47.046	207.173	303.752
Other liabilities	112.968	130.240	95.968	32.427	25.054	396.657
Retirement benefit obligations	-	-	3	4.486	110.472	114.961
Total liabilities	3.920.365	4.681.103	1.358.544	942.631	395.802	11.298.445
Net liquidity gap	(965.058)	(2.604.140)	(125.910)	1.791.846	3.667.797	1.764.535
2005						
Total assets	1.948.632	1.291.811	557.306	1.482.574	1.838.408	7.118.731
Total liabilities	2.131.194	3.051.214	747.870	359.207	446.672	6.736.157
Net liquidity gap	(182.562)	(1.759.403)	(190.564)	1.123.367	1.391.736	382.574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE 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 and fair values. The definition of fair value assumes that the Group 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 Group'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 approximately within one month.

(b) Advances to customers

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

(c) Held-to-maturity financial assets

The fair value of held-to-maturity financial assets amounts to C£ 259.474.000 (2005: C£ 229.421.000). 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 CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Insurance risk

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

For a portfolio of insurance contracts, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed the carrying amount of the insurance liabilities. The Group has developed its insurance underwriting strategy to diversify the type and geographical location of insurance risks accepted.

(a) Long-term life insurance contracts

For contracts where death is the insured risk, the main source of uncertainty is that epidemics such as AIDS and wide-ranging lifestyle changes (eating, smoking and exercise habits), could result in future mortality being significantly worse than in the past.

This risk is taken into account when the periodical adjustment of the mortality risk charges takes place, in accordance with the provisions of the insurance contracts.

The Group manages this risk through reinsurance arrangements and its underwriting strategy. The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits and to reflect the medical history of the applicant.

The table below presents the concentration of insured benefits before reinsurance arrangements across five bands of insured benefits per individual life assured, at the balance sheet date:

	2006		2005	
	C£ 'm		C£ 'm	
Benefits assured (C£'000)				
0 – 200	2.510	81,0%	2.188	83,9%
200 – 400	379	12,2%	272	10,4%
400 – 800	149	4,8%	101	3,9%
800 – 1.000	31	1,0%	22	0,8%
Over 1.000	31	1,0%	25	1,0%
	3.100		2.608	

The risk is concentrated in the lower value band of up to C£ 200.000. This has not materially changed from last year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Insurance risk (continued)

(b) Short-term life insurance contracts

These contracts are mainly team contracts renewable annually, issued to employers to insure their commitments to their employees for death and disability.

The insurance risk is affected by the factors affecting long-term life insurance contracts, as mentioned above. Additionally it depends on the industry in which each insured party operates.

The following tables analyse the aggregated insured benefits for short-term life insurance contracts before and after reinsurance arrangements at the balance sheet date by industry sector (disability benefits under the terms of the insurance contract are equal or smaller than death benefits).

Industry	2006			
	Total benefits			
	Before reinsurance C£ '000		After reinsurance C£ '000	
Government & Semi-Governmental Organisations	534.582	53,9%	75.425	49,3%
Financial	336.097	33,9%	41.545	27,2%
Retail	31.655	3,2%	8.947	5,9%
Tourism	34.825	3,5%	8.451	5,5%
Shipping	10.404	1,1%	2.893	1,9%
Manufacturing	10.819	1,1%	3.867	2,5%
Construction	17.575	1,7%	5.973	3,9%
Other	15.898	1,6%	5.783	3,8%
	991.855		152.884	

Industry	2005			
	Total benefits			
	Before reinsurance C£ '000		After reinsurance C£ '000	
Government & Semi-Governmental Organisations	523.927	55,0%	75.611	49,9%
Financial	309.974	32,5%	41.893	27,6%
Retail	29.482	3,1%	8.600	5,7%
Tourism	27.140	2,9%	7.587	5,0%
Shipping	18.643	2,0%	4.302	2,8%
Manufacturing	17.410	1,8%	3.677	2,4%
Construction	14.685	1,5%	5.234	3,5%
Other	11.448	1,2%	4.676	3,1%
	952.709		151.580	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Insurance risk (continued)

(c) General business - frequency and severity of claims

The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the book amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy aims to ensure that only acceptable risks are undertaken by the Group. There are in place underwriting instructions and limits that facilitate the Group's objective. Furthermore, the Group has an internal Risk & Survey Department, which is responsible for the proactive compliance of its clients with specific safety standards. The department is also responsible to inform large clients for the risks that their properties may face, through proactive seminars.

The Group has in place a conservative reinsurance program, which includes proportional, excess of loss and catastrophe coverage. All reinsurance companies are at least A rated by Standard & Poor's or similar rating agencies. The objective of the reinsurance program is to reduce the Group's exposure within acceptable limits. The annual reinsurance program is reviewed and approved by the Reinsurance Committee of the Board of Directors.

The claims handling strategy of the Group aims to ensure that the company deals efficiently and effectively with every claim from the time it occurs in order to proceed with a speedy settlement and to avoid adverse developments and increased cost.

(d) General business - sources of uncertainty in the estimation of future claim payments

The provisions for outstanding claims are based on the estimated cost of all claims incurred but not settled at the balance sheet date, regardless of whether they have been reported, less the expected subrogation value and other recoveries.

For the calculation of the cost of the reported claims that have not been paid yet, the Group evaluates each claim separately case-by-case and their estimated cost is based on the facts of each claim, on the information available and on the information available from the settlement of claims with similar characteristics in previous periods.

The estimation of provision for claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company because for the latter, the events of the claim are to a great extent known.

The provisions for claims incurred but not reported are made based on previous years' experience and taking into account anticipated future changes and developments.

The following table presents the development of the incurred claims per accident year and reported year and it is indicative of the estimation of the expected cost of claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. FINANCIAL AND INSURANCE RISK MANAGEMENT (continued)

Insurance risk (continued)

(d) General business - sources of uncertainty in the estimation of future claim payments (continued)

Claims' Development Table	2006 C£ '000	2005 C£ '000	2004 C£ '000	2003 C£ '000
Motor and Fire – Gross claims				
Year of accident				
2003	12.629	12.030	11.835	10.744
2004	10.035	9.219	7.784	-
2005	11.660	10.874	-	-
2006	9.947	-	-	-
Motor and Fire – Net claims				
Year of accident				
2003	8.001	7.821	7.697	7.003
2004	8.914	8.280	6.991	-
2005	7.670	6.796	-	-
2006	7.517	-	-	-

49. 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:

	Beneficial interest at 31 December, 2006	Beneficial interest at 20 February, 2007
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.

50. SHAREHOLDERS WITH MORE THAN 5% OF SHARE CAPITAL

	Shareholding at 31 December, 2006	Shareholding at 20 February, 2007
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 Bank's share capital.

The percentages are based on the total issued share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. RELATED PARTY TRANSACTIONS

	2006	2005	2006	2005
	Number of Directors	Number of Directors	£ '000	£ '000
Advances to Directors and their connected persons:				
More than 1% of the net assets of the Group	1	3	45.499	56.568
Less than 1% of the net assets of the Group	10	7	2.296	3.551
	11	10	47.795	60.119
Advances to other key management personnel and their connected persons			2.042	934
Total advances			49.837	61.053
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 Group			14.284	16.818
Less than 1% of the net assets of the Group			1.800	10
Total guarantees			16.084	16.828
Letters of credit to Directors and their connected persons:				
More than 1% of the net assets of the Group			6.222	4.871
Less than 1% of the net assets of the Group			-	450
Total letters of credit			6.222	5.321
Total advances and other liabilities			72.143	83.202
Tangible securities			103.544	95.675
Interest income			2.335	3.687
Deposits			3.945	4.323
Interest expense			162	115

There were no contingencies and commitments to other Group key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. RELATED PARTY TRANSACTIONS (continued)

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£ 4.138.000 (2005: C£ 6.768.000).

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 associates of the Group at 31 December, 2006 were C£ 18.125.000 (2005: C£ 5.591.000), and the interest on these deposits was C£ 524.000 (2005: C£ 182.000). During 2006 the Group received dividend of C£ 475.000 (2005: C£ 475.000) from associated companies. The deposits of the provident funds of the employees of the Group, 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 Group 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 Group, on commercial terms.

Group key management personnel compensation

	2006 C£ '000	2005 C£ '000
Fees paid to Directors as members of the Board	20	98
Remuneration of Directors under executive role:		
Salaries and other short-term benefits	183	380
Employer's social insurance contributions	15	49
Retirement benefits scheme expense	51	14
Total remuneration of Directors under executive role	249	443
Consultancy services fees of Directors under non-executive role	128	-
Compensation of other key management personnel		
Salaries and other short-term benefits	337	321
Employer's social insurance contributions	36	35
Retirement benefits scheme expense	104	99
Total compensation of other key management personnel	477	455
Total compensation of key management personnel	874	996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. RELATED PARTY TRANSACTIONS (continued)

Group key management personnel compensation (continued)

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	47
Consultancy services fees	71
Remuneration under executive role:	
Salaries and other short-term benefits	152
Employer's social insurance contributions	23
Retirement benefits scheme expense	8
Total remuneration under executive role	183
Pension (including employer's contributions)	164
Payments at the termination of service contract	700
Total compensation	1.165

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS

(a) Acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A.

The Group 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 22 December, 2006 was determined to be 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 Group 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 on 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 on 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 subsidiaries which operate in Romania and in Cyprus.

There has been no material effect on the income and the net profit of the Group from the acquisition of Marfin and Egnatia for the year ended 31 December, 2006 as the acquisition date was set to be the 22 December, 2006.

The details regarding the net assets acquired are as follows:

	Marfin	Egnatia
	C£ '000	C£ '000
Consideration for acquisition:		
- Fair value of shares issued	910.783	327.263
- Costs directly related to the acquisition	3.046	978
	913.829	328.241
Total consideration for acquisition	(457.850)	(144.706)
Fair value of net assets acquired	455.979	183.535
Goodwill		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS (continued)

(a) Acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A. (continued)

The acquisition of the Marfin and Egnatia Groups was effected 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's shares for each Marfin's share and 1,2090 Bank's shares for each Egnatia's 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 acquisition as well as in the improved prospects and the success of the new structure.

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. If the quoted price of the shares of the Bank at the date of completion of the transaction had been used, then the total cost of the acquisition would have been C£ 1,722 m and the goodwill resulting from the acquisition would have been greater by C£ 480 m.

The goodwill is attributable to the prospects that the new financial Group has, as it will be offering the total range of banking and investment products and services, with material presence both in Greece and in Cyprus as well as internationally and with significant prospects for further growth. Additionally, with the restructuring of the new Group it is anticipated that operating synergies will be maximized and operating costs will be restricted through the reduction of administration costs, the restructuring of the branch network, the application of effective evaluation measures and the rationalization of costs and the income synergies that will arise from the development of cross-selling.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS (continued)

(a) Acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A. (continued)

The assets and liabilities acquired at the acquisition date were as follows:

	Marfin		Egnatia	
	Fair value C€ '000	Book value C€ '000	Fair value C€ '000	Book value C€ '000
Cash and cash equivalents	292.300	292.300	387.289	387.289
Due from other banks	136.423	136.423	39.782	39.782
Financial assets at fair value				
through profit or loss	194.025	194.025	9.917	9.917
Government bonds and treasury bills	106.553	106.553	68.474	68.474
Advances to customers	579.485	579.485	1.585.497	1.585.497
Available-for-sale financial assets	84.680	84.680	50.553	50.553
Held-to-maturity financial assets	457	457	20.456	20.456
Investments in associates	5.486	5.486	-	-
Other investments (a)	105.957	105.957	-	-
Intangible assets	42.997	42.997	4.398	4.398
Investment property	3.921	3.921	11.047	11.047
Property and equipment	10.663	10.663	32.842	32.842
Other assets	51.752	51.752	38.650	38.650
Due to other banks	(112.123)	(112.123)	(214.539)	(214.539)
Customer deposits	(872.054)	(872.054)	(1.612.905)	(1.612.905)
Senior debt	(1.978)	(1.978)	(128.581)	(128.581)
Loan capital	-	-	(48.958)	(48.958)
Other liabilities	(128.375)	(128.375)	(72.842)	(72.842)
	<u>500.169</u>	<u>500.169</u>	<u>171.080</u>	<u>171.080</u>
Net assets				
Minority interest (b)	<u>(42.319)</u>		<u>(26.374)</u>	
Net assets acquired	<u>457.850</u>		<u>144.706</u>	
Acquisition expenses		(3.046)		(978)
Cash and cash equivalents of the acquired subsidiaries		<u>292.300</u>		<u>387.289</u>
Cash inflow at acquisition		<u>289.254</u>		<u>386.311</u>

(a) Other investments represent investment in shares of Marfin Popular Bank Public Co Ltd which are held as treasury shares (Note 41).

(b) Minority interest includes the minority interest of the Group as well as the minority interests included in the consolidated financial statements of Marfin and Egnatia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS (continued)

(a) Acquisition of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A.
(continued)

As the acquisition of Marfin and Egnatia was completed at the end of the accounting year ended 31 December, 2006, the aforementioned information is based on initial accounting determined provisionally according to IFRS 3. The Group is in the process of completing the fair valuation of the net assets acquired, including intangible assets, and the purchase price allocation. The accounting will be completed within twelve months from the date of acquisition and as a result any adjustment to the preliminary values and to the purchase price allocation will be recognized within a period of twelve months from the acquisition date according to the provisions of IFRS 3.

(b) Acquisition of Centrobanka a.d. (Laiki Bank a.d.)

On 20 January, 2006 the Group 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.

	C£ '000
Cash consideration for acquisition	19.209
Acquisition expenses	59
	19.268
Total consideration for acquisition	19.268
Fair value of net assets acquired	(11.835)
	7.433
Goodwill	

Goodwill is attributable to securing a banking license in Serbia achieved through the acquisition, which will allow the Group to take advantage both of the significant growth margins of the Serbian banking sector as well as the prospects of the Serbian economy.

In September 2006, the Bank acquired 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 for an extra shareholding of 2,41% bringing its total shareholding to 95,23%. Goodwill arising on the additional share acquired amounted to C£ 460.000. Respectively, minority interest decreases by C£ 276.000 compared to the amount detailed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS (continued)

(b) Acquisition of Centrobanka a.d. (Laiki Bank a.d.) (continued)

	Fair value C£ '000	Book value C£ '000
Cash and cash equivalents	14.246	14.246
Available-for-sale financial assets	24	24
Advances to customers	32.196	31.708
Other assets	3.439	3.261
Intangible assets	3.800	32
Property and equipment	2.786	3.625
Due to other banks	(4.925)	(4.925)
Customer deposits	(33.819)	(33.819)
Other liabilities	(4.659)	(3.831)
	13.088	10.321
Net assets	13.088	10.321
Minority interest	(1.253)	
	11.835	
Net assets acquired		
		C£ '000
Cash paid in January		(19.268)
Cash paid in September		(735)
Cash and cash equivalents of the acquired subsidiary		14.246
Cash outflow from the acquisition		(5.757)

As far as the acquisition of Laiki Bank a.d. is concerned, the Group recognized C£ 3.768.000 intangible assets which relate to the estimated value for the existing branch network and the estimated value for the client base (Note 30). For the period from 20 January, 2006 to 31 December, 2006 the acquired business suffered a loss of C£ 6.284.000. The Group's results were charged with amortisation of intangible assets amounting to C£ 1.947.000 (Note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. BUSINESS ACQUISITIONS (continued)

(c) Cash inflow from business acquisitions

	C£ '000
Cash inflow from the acquisition of Marfin	289.254
Cash inflow from the acquisition of Egnatia	386.311
Cash outflow from the acquisition of Laiki Bank a.d.	<u>(5.757)</u>
Acquisition of subsidiaries net of cash acquired per cash flow statement	<u>669.808</u>

(d) Goodwill from business acquisitions

	C£ '000
Goodwill from the acquisition of Marfin (Note 52(a))	455.979
Goodwill from the acquisition of Egnatia (Note 52(a))	183.535
Goodwill from the acquisition and the increase in percentage holding in Laiki Bank a.d. (Note 52(b))	<u>7.893</u>
Total (Note 30)	<u>647.407</u>

53. 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 42). An amount of C£ 3.092.000 from 2005 dividend, was re-invested in shares of the Bank (Note 41).

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54. INVESTMENTS IN SUBSIDIARY COMPANIES

The main subsidiary companies of the Group, 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
Pan-European 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 subsidiaries. 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 also consolidates it as a subsidiary.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54. INVESTMENTS 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.

On 31 December, 2006 the provisions of the public offers were fulfilled and the procedures were completed for the purchase of the shares and convertible bonds of Marfin Financial Group Holdings S.A. and Egnatia Bank S.A. The Group acquired 95,30% and 86,44% of the total voting rights of Marfin and Egnatia respectively (Note 52).

(b) Restructuring of the shareholdings in Laiki Bank (Hellas) S.A. and the subsidiaries 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 and the subsidiaries in Greece changed as follows: Laiki Hellas 80%, Laiki Leasing S.A. 80%, Laiki Factoring S.A. 80%, Laiki A.E.D.A.K. 78%, Laiki Attalos Securities S.A. 75%, Laiki Life S.A. 80% and Laiki Insurance Agency E.P.E. 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 in Note 52. 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 and the subsidiaries in Greece changed as follows:

	Shareholding 31.12.2006	Shareholding 31.12.2005
Laiki Bank (Hellas) S.A.	100%	78%
Laiki Leasing S.A.	100%	89%
Laiki Factoring S.A.	100%	89%
Laiki A.E.D.A.K.	98%	87%
Laiki Attalos Securities S.A.	94%	82%
Laiki Life S.A.	100%	89%
Laiki Insurance Agencies E.P.E.	100%	89%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

54. INVESTMENTS 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.). In September 2006, the Bank took up the new shares issued by Laiki Bank a.d. increasing its shareholding to 92,82% and proceeded with a bid to acquire any remaining shares in the company. This resulted in the Bank acquiring an extra shareholding of 2,41% bringing its total shareholding to 95,23% (Note 52).

55. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55. POST BALANCE SHEET EVENTS (continued)

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 one 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55. POST BALANCE SHEET EVENTS (continued)

On 1 February, 2007 an agreement was signed between the Bank and the Holy Archdiocese 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.

56. SUPPLEMENTARY INFORMATION

The consolidated income statement for the year ended 31 December, 2006 and 31 December, 2005 the consolidated balance sheet as at 31 December, 2006 and 31 December, 2005, as well as the consolidated cash flow for the year ended 31 December, 2006 and 31 December, 2005, in euro, constitute supplementary information. According to paragraph 57 of IAS 21 "The Effects of Changes in Foreign Exchange Rates", the supplementary information is displayed in Euro by applying an exchange rate to both current year and comparative amounts that equals to the parity issued by the Central Bank of Cyprus as at the balance sheet date of the current year (that is CYP 1 = Euro 1,7295 on 31 December, 2006) according to Circular No. 25 of the Institute of Certified Public Accountants of Cyprus.

57. 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.