



Bank of Cyprus Group

Financial Statements

for the year ended 31 December 2007

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Bank of Cyprus Group Directors and Executives

<p>Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)</p>	<p>Eleftherios P. Ioannou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Christos S. Pantzaris Vassilis G. Rologis Costas Z. Severis Theodoros Aristodemou Christakis G. Christofides Evdokimos Xenophontos Andreas Pittas Anna Diogenous</p> <p>George M. Georgiades Andreas J. Jacovides Christos Mouskis Manthos Mavrommatis Andreas Eliades Charilaos G. Stavrakis Yiannis Kypri Costas Hadjipapas</p>
<p>Group Executive Management</p>	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Charilaos G. Stavrakis CHIEF EXECUTIVE OFFICER CYPRUS AND DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri GROUP CHIEF GENERAL MANAGER</p>
<p>Group General Managers</p>	<p>Antonis Jacouris GENERAL MANAGER INTERNATIONAL BUSINESS AND OPERATIONS</p> <p>Vassos Shiarly GENERAL MANAGER DOMESTIC BANKING</p> <p>Christis Hadjimitsis GENERAL MANAGER FINANCE AND STRATEGY</p> <p>Nicolas Karydas GENERAL MANAGER RISK MANAGEMENT</p>
<p>Secretary</p>	<p>Yiannis Kypri</p>
<p>Legal Advisers</p>	<p>Chryssafinis & Polyviou</p>
<p>Independent Auditors</p>	<p>Ernst & Young</p>
<p>Registered Office</p>	<p>Group Headquarters 51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY - 1398 Nicosia, Cyprus Telephone: +357 22842100, Telefax: +357 22336258</p>

Bank of Cyprus Public Company Ltd

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

(in accordance with the provisions of Law 190(I)/2007 on Transparency Requirements)

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2007, declare that, to the best of our knowledge,

- (a) the financial statements
 - (i) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, and
 - (ii) give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole, and
- (b) the Directors' report includes a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Eleftherios P. Ioannou	Chairman
Andreas Artemis	Vice Chairman
Christos S. Pantzaris	Non Executive Director
Vassilis G. Rologis	Non Executive Director
Costas Z. Severis	Non Executive Director
Theodoros Aristodemou	Non Executive Director
Christakis G. Christofides	Non Executive Director
Evdokimos Xenophontos	Non Executive Director
Andreas Pittas	Non Executive Director
Anna Diogenous	Non Executive Director
George M. Georgiades	Non Executive Director
Andreas J. Jacovides	Non Executive Director
Christos Mouskis	Non Executive Director
Manthos Mavrommatis	Non Executive Director
Andreas Eliades	Executive Director
Charilaos G. Stavrakis	Executive Director
Yiannis Kypri	Executive Director
Costas Hadjipapas	Non Executive Director
Christis Hadjimitsis	Group General Manager Finance and Strategy

27 February 2008

Bank of Cyprus Public Company Ltd

Directors' Report

The Board of Directors submit to the shareholders their Report together with the audited consolidated financial statements for the year ended 31 December 2007.

Activities

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiaries in Cyprus and abroad during the year continued to be the provision of banking and financial services, insurance business and property and hotel business.

During the year the Group commenced banking operations in Romania and Russia and leasing operations in Romania. Also during 2007 the Group increased its participation in Cytrustees Investment Public Company Ltd to 49,98% and in Interfund Investments Plc to 22,83%. All Group companies and branches are set out in Note 44 of the financial statements.

Financial results

Profit after tax for 2007 recorded an increase of 55% compared to 2006. There was a significant improvement in all of the Group's performance indicators in 2007 compared to 2006, with return on equity increasing to 27,6%, cost to income ratio improving to 43,6% and impaired loans to total loans, improving to 3,8%. Both the Group's banking operations in Cyprus and Greece as well as the insurance operations contributed to the improvement.

Group Financial Highlights			
	Change	2007	2006
		<i>C£000</i>	<i>C£000</i>
Profit before tax	+52%	340.842	224.523
Profit after tax and minority interest	+55%	283.956	183.106
Earnings per share	+53%	50,8 cent	33,3 cent
Cost/income	-3,1 p.p.*	43,6%	46,7%
Return on equity	+5,9 p.p.*	27,6%	21,7%

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

Group Financial Footings			
	Change	2007	2006
		<i>C£000</i>	<i>C£000</i>
Loans	+32,0%	11.073.923	8.390.650
Deposits	+21,5%	14.736.594	12.130.360
Equity	+29,7%	1.173.585	904.621

The improvement of profitability is the result of the following:

- Increase of business volumes (32% in loans and 22% in deposits).
- Increase of income (increase of net interest income by 23%, net fee and commission income by 15% and net insurance income by 25%).
- Containment of cost growth at rates that are lower than those of the growth of business volumes.
- Further improvement of loan quality, with a resultant decrease in the annual provision charge to about the equivalent of 0,3% of gross loans.

Bank of Cyprus Public Company Ltd

Directors' Report

Dividends

The Board of Directors proposes the payment of a final dividend of €0,25 (C£0,15) per share. An interim dividend of C£0,11 per share amounting to C£61.861 thousand, was paid in December 2007. The total dividend for year 2007 amounts to the equivalent of C£0,26 (2006: C£0,17) per share.

Future developments

The Group sets its strategic priorities for the three years 2008-2010, aiming to take advantage of its strategic advantages and create shareholder value on a sustainable basis. The leading position of the Group in Cypriot banking, its critical role in the establishment of Cyprus as an international financial centre for businesses from Russia and other countries of Eastern Europe, its particularly successful presence in Greece and its entry into new markets with excellent prospects for profitable expansion represent its key growth drivers.

The strategic priorities of the Group for the three years 2008-2010 are to focus on the following four directions:

1. Capitalise on opportunities in Cyprus
 - Enhancement of its domestic banking market position with particular focus on the retail and small and medium-sized enterprises sectors.
 - Further strengthening of the Group's leading position in the profitable sector of banking services to international companies based in Cyprus.
 - Enhancement of the insurance business through the introduction and marketing of new products, exploiting the Group's brand and wide customer base.
2. Enhancement of presence in Greece via expansion and gradual network maturity
 - Expansion of the Group's branch network to 220 branches by 2010 (from 135 at 27 February 2008).
 - Significant enhancement of profitability through the maturity of the approximately 880.000 client relationships of the Group in Greece, which offer improved pricing and cross-selling opportunities and taking advantage of the particularly cost efficient structure of the operations.
 - Increasing fee and commission income through the enhancement of asset management services.
 - Maintaining the growth rates of its insurance business, in terms of both production and profitability.
3. Operational merger of the operations in Cyprus and Greece under the 'One Bank' concept

The Group aims to achieve further improvements in network efficiency, by benefiting from the synergies arising from the adoption of a common currency (as of 1 January 2008), a common language and common legislative framework in its two main markets through the operational merger of its Cyprus and Greek operations. Specifically the Group will proceed to:

 - Consolidate the information technology systems under a common IT platform.
 - Create centralised services in the areas of human resources, internet banking, telephone banking, asset management and investment services, international banking services, product launching and support services, aiming to decrease the cost and time required for product development.

Bank of Cyprus Public Company Ltd

Directors' Report

Future developments *(continued)*

4. Expansion into new markets

The objective of the expansion into new markets aims in the long-term continuation of its high growth rates and is based on its strategic advantages in order to minimise risk and create value for shareholders. Countries that have been targeted are those where the Group has existing client relationships, that have significant population, strong macroeconomic environment, low banking sector penetration, and brand recognition for Bank of Cyprus, thus providing very good prospects for the Group. The experience of the Group's successful expansion into the competitive Greek market and the existing client relationships constitute the Group's competitive advantage.

Dynamic expansion of operations in Romania

The Group entered the Romanian market in March 2007 by offering leasing services. In July 2007, the Group started banking operations by offering services to corporate clients. The Group aims to increase its branch network to 40 branches/business centres by 2010 and to benefit from opportunities available in the project financing sector.

Dynamic expansion of operations in Russia

Russia is a large market where the Group commenced operations in August 2007 and aims to further enhance its loan portfolio and branch network in this country over the next three years.

Commencement of operations in Ukraine in 2008

In November 2007, Bank of Cyprus signed an agreement for the acquisition of 95% of the share capital of the Ukrainian bank AvtoZAZBank for about €52 million (C£30 million). The agreement is subject to the relevant approvals being obtained by the supervisory authorities in Ukraine. The acquisition is expected to be completed within the first half of 2008.

AvtoZAZBank operates through a network of 26 branches located in four main regions of Ukraine. Bank of Cyprus aims to provide full banking services in Ukraine, leveraging on its significant number of client relationships established via the international banking sector in Cyprus with businesses operating in this country.

Selective acquisitions as part of the Group's growth strategy

In the context of its organic growth strategy the Group will continue to evaluate on an ongoing basis, in parallel with its organic growth plans, acquisition opportunities in the targeted markets with the aim of accelerating its penetration into targeted markets.

Events after the balance sheet date

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

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk and market risk that arises from adverse movements in exchange rates, interest rates, equity security prices or other security prices, as well as operational risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 38 to 41 of the financial statements.

Bank of Cyprus Public Company Ltd

Directors' Report

Share capital

During the year, the issued share capital of the Company increased by C£6.193 thousand, of which C£3.700 thousand was the result of dividend reinvestment and C£2.493 thousand the result of the exercise of share options by the Group's employees, as described in Note 28 of the financial statements.

During the year, the authorised share capital of the Company was increased from C£300.000.000 to C£438.955.500 with the creation of 277.911.000 additional ordinary shares of a nominal value of C£0,50 each. As from 1 January 2008, the nominal value of the share capital of the Company was increased to €1,00 each. Share premium amounting to C£48.284 thousand (€82.498 thousand) was applied for the increase in the nominal value of the shares, so that the number of issued shares remains the same, but their nominal value is €1,00 each instead of C£0,50 each.

Implementation and compliance to the Code of Corporate Governance

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

In March 2006 the CSE issued a revised Code of Corporate Governance. The Group complies with all the provisions of the revised Code except provision A.2.3 due to the introduction of a new criterion in the definition of independent directors. According to this criterion, a director with tenure exceeding nine years is not considered independent. Provision A.2.3 requires that at least 50% of the members of the Board of Directors, excluding the Chairman, are independent non executive directors. The CSE has granted the Company an extension until December 2009 to comply with this provision.

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

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

As at 31 December 2007 and 20 February 2008, 6,99% of the share capital of the Company was held by all pension/retirement plans funded in Cyprus by the Group. There are no other shareholders holding more than 5% of the issued share capital of the Company.

Board of Directors

The members of the Board of Directors of the Company are listed on page 1. All Directors were members of the Board throughout the year 2007 and up to the date of this Report, except Mr Costas Hadjipapas who was appointed on 10 May 2007 in replacement of Mr Dimitris P. Ioannou, who resigned from the Board of Directors on the same day.

In accordance with the Company's Articles of Association, Messrs Eleftherios P. Ioannou, Vassilis G. Rologis, Christakis G. Christofides, Anna Diogenous, George M. Georgiades and Manthos Mavrommatis retire. The Chairman, Mr. Eleftherios P. Ioannou has reached 75 years of age and retires in accordance with the Company's Articles of Association. The remaining members of the Board, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

The members of the Board of Directors express their gratitude to the retiring Chairman Mr Eleftherios P. Ioannou for his valuable contribution as Chairman of the Board of Directors. They also express their gratitude to Mr Dimitris P. Ioannou for his valuable contribution during his long period of service on the Board of Directors of the Company.

Bank of Cyprus Public Company Ltd

Directors' Report

Directors' interest in the share capital of the Company

The beneficial interest in shares of the Company's directors, their spouses, minor children and companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2007 and 20 February 2008, is set out below:

	31 December 2007	20 February 2008
	%	%
<i>Non executives</i>		
Eleftherios P. Ioannou	0,010	0,010
Andreas Artemis	0,330	0,330
Christos S. Pantzaris	0,098	0,098
Vassilis G. Rologis	0,002	0,002
Costas Z. Severis	0,403	0,403
Theodoros Aristodemou	0,018	0,018
Christakis G. Christofides	0,029	0,029
Evdokimos Xenophontos	0,001	0,001
Andreas Pittas	0,037	0,037
Anna Diogenous	0,169	0,169
George M. Georgiades	0,036	0,036
Andreas J. Jacovides	0,021	0,021
Christos Mouskis	0,028	0,028
Manthos Mavrommatis	0,027	0,027
Costas Hadjipapas	0,001	0,001
<i>Executives</i>		
Andreas Eliades	0,001	0,001
Charilaos G. Stavrakis	0,013	0,013
Yiannis Kypri	0,005	0,005
	1,229	1,229

The members of the Board of Directors held at 31 December 2006 13.000 Share Options 2001/2007 and 15.000 Share Options 2006/2007. During 2007, 10.000 Share Options 2001/2007 (2006: Nil) which were granted to two non executive directors in 2000 while they were executive directors were exercised at the price of C£3,26 per option. Also during 2007, the executive directors exercised 3.000 (2006: 6.000) Share Options 2001/2007 at the price of C£3,26 per option and 15.000 (2006: Nil) Share Options 2006/2007 at the price of C£4,32 per option.

Independent auditors

The independent auditors of the Company, Ernst & Young, have expressed their willingness to continue in office. A resolution for their re-appointment and remuneration will be proposed at the Annual General Meeting.

E. P. Ioannou
Chairman

27 February 2008

Bank of Cyprus Group

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	2007	2006	Supplementary information	
		C£000	C£000	2007 €000	2006 €000
Turnover	2	1.270.425	974.290	2.170.650	1.664.673
Interest income	3	1.011.832	752.237	1.728.818	1.285.273
Interest expense	4	(571.484)	(393.608)	(976.439)	(672.519)
Net interest income		440.348	358.629	752.379	612.754
Fee and commission income	5	123.202	107.359	210.504	183.434
Fee and commission expense	5	(7.246)	(6.248)	(12.381)	(10.675)
Foreign exchange income		27.339	20.789	46.711	35.520
Net gains on sale, change in fair value and impairment of financial instruments	6	17.002	14.979	29.050	25.593
Insurance income	7	102.321	123.064	174.826	210.267
Insurance claims	7	(69.282)	(96.662)	(118.376)	(165.157)
Other income	8	18.947	8.719	32.372	14.897
		652.631	530.629	1.115.085	906.633
Staff costs	9	(173.005)	(155.883)	(295.597)	(266.342)
Other operating expenses		(111.435)	(91.864)	(190.397)	(156.959)
Profit before provisions		368.191	282.882	629.091	483.332
Provisions for impairment of loans and advances	38	(32.703)	(58.359)	(55.877)	(99.712)
Profit before share of profit of associates		335.488	224.523	573.214	383.620
Share of profit of associates	10	5.354	-	9.148	-
Profit before tax	11	340.842	224.523	582.362	383.620
Taxation	12	(53.754)	(41.417)	(91.843)	(70.765)
Profit after tax		287.088	183.106	490.519	312.855
Profit after tax attributable to:					
Shareholders of the Company		283.956	183.106	485.168	312.855
Minority interest		3.132	-	5.351	-
		287.088	183.106	490.519	312.855
Basic earnings per share (cent)	13	50,8	33,3	86,8	56,9
Diluted earnings per share (cent)	13	50,8	33,3	86,8	56,9

Bank of Cyprus Group

Consolidated Balance Sheet

as at 31 December 2007

		2007	2006	Supplementary information	
				2007	2006
	Notes	€000	€000	€000	€000
Assets					
Cash and balances with central banks	14	775.600	684.349	1.325.191	1.169.280
Placements with banks	14	3.604.332	2.496.297	6.158.367	4.265.176
Investments at fair value through profit or loss	15	304.997	236.592	521.118	404.241
Life insurance business assets attributable to policyholders	16	310.552	287.157	530.610	490.637
Loans and advances to customers	17	11.073.923	8.390.650	18.920.921	14.336.277
Investments available-for-sale and held-to-maturity	19	2.076.930	2.110.688	3.548.646	3.606.325
Property and equipment	20	187.090	153.813	319.662	262.805
Intangible assets	21	48.067	41.173	82.127	70.348
Other assets	22	198.542	170.708	339.230	291.672
Investment in associate	46	10.136	-	17.318	-
Total assets		18.590.169	14.571.427	31.763.190	24.896.761
Liabilities					
Amounts due to banks		721.840	275.682	1.233.337	471.031
Repurchase agreements		254.676	-	435.140	-
Customer deposits	23	14.736.594	12.130.360	25.178.966	20.725.951
Insurance liabilities	24	356.178	328.625	608.566	561.489
Debt securities in issue	25	733.752	434.380	1.253.690	742.182
Other liabilities	26	222.143	175.138	379.553	299.240
Subordinated loan stock	27	391.401	322.621	668.748	551.231
Total liabilities		17.416.584	13.666.806	29.758.000	23.351.124
Equity					
Share capital	28	283.112	276.919	483.726	473.144
Share premium		402.873	341.365	688.349	583.257
Revaluation and other reserves	30	109.051	96.407	186.327	164.721
Retained earnings		355.652	189.930	607.666	324.515
Equity attributable to shareholders of the Company		1.150.688	904.621	1.966.068	1.545.637
Minority interest		22.897	-	39.122	-
Total equity		1.173.585	904.621	2.005.190	1.545.637
Total liabilities and equity		18.590.169	14.571.427	31.763.190	24.896.761
Contingent liabilities and commitments					
Contingent liabilities	33	1.025.211	857.273	1.751.677	1.464.738
Commitments	33	2.000.181	1.592.332	3.417.512	2.720.661

E. P. Ioannou

A. Artemis

A. Eliades

C. G. Stavrakis

Y. Kyprí

Chr. Hadjimitsis

Chairman

Vice-Chairman

Group Chief Executive Officer

Chief Executive Officer Cyprus and

Deputy Group Chief Executive Officer

Group Chief General Manager

Group General Manager Finance and Strategy

Bank of Cyprus Group

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Attributable to the shareholders of the Company					Minority Interest	Total
	Share capital	Share premium	Revaluation and other reserves (Note 30)	Retained earnings (Note 30)	Total		
	C€000	C€000	C€000	C€000	C€000	C€000	C€000
At 1 January 2007	276.919	341.365	96.407	189.930	904.621	-	904.621
Gains/(losses) from change in fair value of available-for-sale investments:							
- treasury bills and debt securities	-	-	(16.756)	-	(16.756)	-	(16.756)
- equity securities	-	-	10.547	-	10.547	-	10.547
Gains from change in fair value/ termination of financial instruments designated as cash flow hedges	-	-	1.275	-	1.275	-	1.275
Property revaluation	-	-	28.131	-	28.131	-	28.131
Deferred tax	-	-	(4.932)	902	(4.030)	-	(4.030)
Exchange adjustments	-	-	667	-	667	-	667
Increase in value of in-force life insurance policies (Note 21)	-	-	6.852	(6.852)	-	-	-
Reversal of revaluation of investment upon becoming an associate	-	-	(43)	(455)	(498)	-	(498)
Transfer of realised profits on disposal of property	-	-	(1.271)	1.271	-	-	-
Transfer to the income statement on impairment of debt securities	-	-	5.048	-	5.048	-	5.048
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(4.546)	-	(4.546)	-	(4.546)
Transfer of capital reserve	-	-	(2.183)	2.183	-	-	-
Net income/(expense) recognised directly in equity	-	-	22.789	(2.951)	19.838	-	19.838
Profit after tax for the year	-	-	-	283.956	283.956	3.132	287.088
Total income for the year	-	-	22.789	281.005	303.794	3.132	306.926
Dividend paid (Note 29) and dividend reinvested (Note 28)	3.700	45.894	-	(117.466)	(67.872)	-	(67.872)
Dividend paid by subsidiaries net of reinvestment	-	-	-	-	-	(475)	(475)
Exercise of share options (Note 28)	2.493	15.614	-	-	18.107	-	18.107
Cost of share-based payments (Note 9)	-	-	-	2.183	2.183	-	2.183
Shares of the Company held by subsidiaries and associates	-	-	(10.145)	-	(10.145)	-	(10.145)
Acquisition of subsidiary	-	-	-	-	-	20.240	20.240
At 31 December 2007	283.112	402.873	109.051	355.652	1.150.688	22.897	1.173.585

Bank of Cyprus Group Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

	Share capital	Share premium	Revaluation and other reserves (Note 30)	Retained earnings (Note 30)	Total
	C€000	C€000	C€000	C€000	C€000
At 1 January 2006	272.658	311.399	93.021	84.573	761.651
Gains/(losses) from changes in fair value of available-for-sale investments:					
- treasury bills and debt securities	-	-	(12.386)	-	(12.386)
- equity securities	-	-	23.341	-	23.341
Losses from change in fair value of financial instruments designated as cash flow hedges	-	-	(599)	-	(599)
Deferred tax	-	-	1.029	456	1.485
Exchange adjustments	-	-	287	-	287
Increase in value of in-force life insurance policies (Note 21)	-	-	4.556	(4.556)	-
Transfer of realised profits on disposal of property	-	-	(798)	798	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(12.044)	-	(12.044)
Net income/(expense) recognised directly in equity	-	-	3.386	(3.302)	84
Profit after tax for the year	-	-	-	183.106	183.106
Total income for the year	-	-	3.386	179.804	183.190
Dividend paid (Note 29) and dividend reinvested (Note 28)	3.259	24.434	-	(76.712)	(49.019)
Exercise of share options (Note 28)	1.002	5.532	-	-	6.534
Cost of share-based payments (Note 9)	-	-	-	2.265	2.265
At 31 December 2006	276.919	341.365	96.407	189.930	904.621

Bank of Cyprus Group

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007	2006	Supplementary information	
		€000	€000	2007 €000	2006 €000
Net cash flow from operating activities	35	1.042.195	219.876	1.780.696	375.680
Cash flow from investing activities					
Purchases of investments					
- treasury bills		-	(94.278)	-	(161.084)
- debt securities		(682.169)	(944.518)	(1.165.555)	(1.613.805)
- equity securities		(4.042)	(793)	(6.906)	(1.355)
Proceeds on disposal/redemption of investments					
- treasury bills		41.563	117.410	71.015	200.607
- debt securities		669.692	743.613	1.144.237	1.270.538
- equity securities		10.704	10.680	18.289	18.248
Interest on treasury bills		634	2.119	1.083	3.621
Interest on debt securities		113.213	90.366	193.436	154.399
Dividend income from equity securities		2.704	999	4.620	1.707
Acquisition of associates		(10.191)	-	(17.412)	-
Acquisition of subsidiary		(16.116)	-	(27.536)	-
Purchase of property and equipment		(20.886)	(9.902)	(35.686)	(16.919)
Proceeds on disposal of property and equipment		1.543	2.516	2.636	4.299
Purchase of intangible assets		(4.466)	(4.172)	(7.631)	(7.128)
Purchase of investment properties		(551)	(6.244)	(941)	(10.669)
Proceeds on disposal of investment properties		5.887	6.007	10.059	10.264
Net cash flow from/(used in) investing activities		107.519	(86.197)	183.708	(147.277)
Cash flow from financing activities					
Issue of share capital (exercise of share options)		18.107	6.534	30.938	11.164
Issue of subordinated loan stock		74.000	114.840	126.437	196.216
Redemption of subordinated loan stock		-	(153.237)	-	(261.821)
Dividend payment net of reinvestment		(67.872)	(49.019)	(115.966)	(83.754)
Dividend paid by subsidiaries		(475)	-	(812)	-
Interest on subordinated loan stock		(14.459)	(16.886)	(24.705)	(28.851)
Net cash flow from/(used in) financing activities		9.301	(97.768)	15.892	(167.046)
Net increase in cash and cash equivalents for the year		1.159.015	35.911	1.980.296	61.357
Cash and cash equivalents					
At 1 January		2.816.456	2.780.258	4.812.201	4.750.353
Exchange adjustments		667	287	1.139	491
Net increase in cash and cash equivalents for the year		1.159.015	35.911	1.980.296	61.357
At 31 December	36	3.976.138	2.816.456	6.793.636	4.812.201

Bank of Cyprus Group

Summary of Significant Accounting Policies

The accounting policies used by Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (the 'Group') that are relevant to an understanding of the financial statements are stated below.

1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties, investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Cyprus pounds (C£) and all amounts are rounded to the nearest thousand except where otherwise indicated.

For information purposes, the consolidated Income Statement, consolidated Balance Sheet and consolidated Cash Flow Statement are also displayed in Euro (€) as supplementary information. The translation from Cyprus Pounds to Euro for both 2007 and 2006 was carried out using the conversion rate of €1=C£0,585274.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). Additionally, these financial statements comply with IFRSs as issued by the International Accounting Standards Board (IASB).

All IFRSs issued by the IASB and effective at the time of preparing these consolidated financial statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement' relating to portfolio hedge accounting. Since the Group is not affected by these provisions, these consolidated financial statements comply with both the IFRSs as adopted by the EU and the IFRSs as issued by the IASB.

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 Laws and Regulations.

2. Changes in accounting policies and disclosures

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

The Group has adopted the following new and amended IFRSs and IFRIC Interpretations during the year. Adoption of these Standards and Interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

IFRS 7	'Financial Instruments: Disclosures'
IAS 1	'Amendment – Presentation of Financial Statements – Capital Disclosures'
IFRIC 7	'Applying the Restatement Approach' under IAS 29 'Financial Reporting in Hyperinflationary Economies'
IFRIC 8	'Scope of IFRS 2'
IFRIC 9	'Reassessment of Embedded Derivatives'
IFRIC 10	'Interim Financial Reporting and Impairment'

The Group has also early adopted IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'.

The principal effects of these changes are as follows:

IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'

IFRS 7 requires additional disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. In particular, it specifies minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'.

Bank of Cyprus Group

Summary of Significant Accounting Policies

2. Changes in accounting policies and disclosures (continued)

IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures' (continued)

The amendment to IAS 1 introduces disclosures relating to the level of an entity's capital and how it is managed.

The new disclosures are included throughout the financial statements.

IFRIC 7 'Applying the Restatement Approach' under IAS 29 'Financial Reporting in Hyperinflationary Economies'

IFRIC 7 requires entities to apply IAS 29 in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency, as if the economy had always been hyperinflationary. IFRIC 7 is not relevant to the operations of the Group.

IFRIC 8 'Scope of IFRS 2'

IFRIC 8 clarifies that IFRS 2 'Share-Based Payments' applies to any arrangement by which equity securities are granted or liabilities (based on the value of an entity's equity securities) are incurred and the identifiable consideration appears to be less than the fair value of the equity securities granted or the liabilities incurred. The adoption of IFRIC 8 did not have any impact on the financial statements of the Group.

IFRIC 9 'Reassessment of Embedded Derivatives'

IFRIC 9 requires an entity to assess upon entering into a contract, whether this contains an embedded derivative and prohibits reassessment unless there is a change to the contract terms as a result of which there are significant changes in the cash flows. The adoption of IFRIC 9 did not have any impact on the financial statements of the Group.

IFRIC 10 'Interim Financial Reporting and Impairment'

IFRIC 10 provides that, should any impairment losses be recognised in the interim financial statements in relation to goodwill, available-for-sale investments in equity securities or unquoted equity securities carried at cost, these impairment losses may not be reversed in subsequent interim periods or when preparing the annual financial statements. The adoption of IFRIC 10 did not have any impact on the financial statements of the Group.

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions'

The Group has elected to early adopt IFRIC 11 as of 1 January 2007. IFRIC 11 requires arrangements whereby an employee is granted options to buy equity securities of an entity, to be accounted for as equity-settled schemes by an entity, even if the entity chooses or is required to buy those equity securities from another party, or the shareholders of the entity provide the equity securities granted. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent. IFRIC 11 applies to the way the Group's subsidiaries account, in their individual financial statements, for options granted to their employees to buy equity securities of the Company.

In addition to the above, the Group adopted an accounting policy for recording investments in associates, as stated in section 6 below, as the Group had no such investments in the previous year.

3. Standards and interpretations that are issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

(i) Standards and interpretations issued by the IASB and adopted by the EU

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

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

3. Standards and interpretations that are issued but not yet effective *(continued)*

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

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

The option in the current standard to expense borrowing costs to the income statement in case of a qualifying asset has been eliminated. All borrowing costs must be capitalised if they are directly attributable to the acquisition or construction of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 'Service Concession Arrangements' *(effective for annual periods beginning on or after 1 January 2008)*

IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Group.

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

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this Interpretation will not have a material impact on its financial statements at the date of adoption.

IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' *(effective for annual periods beginning on or after 1 January 2008)*

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. It also explains how this limit, also referred to as the 'asset ceiling test', may be influenced by a minimum funding requirement and aims to standardise current practice. The Group expects that this amendment will have no impact on its financial statements.

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

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

Amendment to IFRS 2 'Share Based Payment – Vesting Conditions and Cancellations' *(effective for annual periods beginning on or after 1 January 2009)*

The Amendment clarifies two issues. The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than vesting conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or a counterparty. The Group expects that this amendment will have no impact on its financial statements.

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

Main changes to the existing standards refer to: (a) addition of an option to measure minority interests (now called 'non-controlling interests') at fair value; (b) recognition of goodwill for step acquisitions; (c) recognition of acquisition-related costs; (d) recognition of contingent consideration; (e) transactions with non-controlling interests which do not result in loss of control; (f) allocation of subsidiary's losses between controlling and non-controlling interests; (g) re-measurement of retained interest on loss of control of a subsidiary. The Group expects that the application of the revisions will not have a material impact on its financial statements at the date of adoption.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. Significant accounting judgments and estimates

The preparation of the financial statements requires the Group's management to make judgments and estimates that can have a material impact on the amounts recognised in the financial statements, the most significant of which are presented below:

(i) Provision for impairment of loans and advances

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. Such estimates are based on assumptions about a number of factors and therefore actual results may differ, resulting in future adjustments to the level of the provision.

In addition to provisions for impairment against individually significant loans and advances, the Group also makes a collective impairment provision. In determining the amount of the collective provision, a number of estimates are made by management, such as: (a) the classification of loans into portfolios of similar credit risk characteristics, (b) the estimated period between the event causing impairment and the identification of the impairment loss, and (c) whether current economic conditions are such that the actual amount of incurred losses is likely to be greater or lower than that derived from historical experience.

(ii) Fair value of unquoted treasury bills, equity securities, debt securities and derivative financial instruments

The fair value of treasury bills, equity securities, debt securities and derivative financial instruments that are not quoted in an active market, is determined using valuation models. These models are periodically reviewed by qualified personnel and validated.

To the extent possible, models use observable data, as well as factors such as the determination of credit risk and volatilities which require management to make estimates and assumptions. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

(iii) Impairment of available-for-sale investments in equity securities and debt securities

Available-for-sale investments are measured at fair value with fair value changes taken to the 'Revaluation reserve' in equity.

Available-for-sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the income statement. The determination of what is significant or prolonged requires judgement by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

Available-for-sale investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The determination of such events requires judgement by management. The factors evaluated are the financial situation of the issuer, any breach of contract, the probability that the issuer will enter bankruptcy or other financial reorganisation and the disappearance of an active market for the security.

(iv) Retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases where necessary. The Group sets these assumptions based on market expectations at the balance sheet date using best-estimates for each parameter covering the period over which obligations are to be settled. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Bank of Cyprus Group

Summary of Significant Accounting Policies

4. Significant accounting judgments and estimates *(continued)*

(v) General insurance business

For general insurance contracts, a provision is made for both the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date. It can take a significant amount of time before the ultimate claims cost can be established with certainty. Estimates regarding the provisions for claims are based on past experience and industry practices. The historical claims development is analysed by accident year, by insurance/claim type and by geographical area. Claims projection techniques are used which extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios.

(vi) Life insurance business

The liability for life insurance contracts is based on actuarial assumptions relating to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The mortality and morbidity tables are based on standard industry mortality tables adjusted where appropriate to reflect the Group's unique risk exposure, product characteristics and own mortality experience. Estimates are also made for the value of in-force business and the future investment income arising from the assets backing life insurance contracts. Estimates for future expense are based on current expense levels adjusted for expected expense inflation. All estimates are based on current values as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed and monitored for adequacy and any changes are reflected with corresponding adjustments to the liability amount.

(vii) Taxation

The Group operates and is therefore subject to taxation in various countries. Estimates are required in determining the provision for taxes at the balance sheet date and therefore the final tax determination is uncertain. Where the final tax is different from the amounts that were initially recognised, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

5. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

All intra-group balances and transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating strategies of an entity so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, respectively.

Business combinations are accounted for using the purchase method. An excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill on the balance sheet. Where the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the income statement in the year of acquisition.

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

6. Investments in associates

The Group's investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary company nor a joint venture.

Using the equity method, the investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the results of the associate is included in the income statement. Losses of the associate in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired. The Group recognises its share of any changes in the equity of the associate through the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of the associates are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

7. Interest in joint ventures

The Group recognises its interest in joint ventures using proportionate consolidation. The financial statements of the joint venture entities are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

8. Foreign currency translation

The consolidated financial statements are presented in Cyprus pounds (C£), which was the functional and presentation currency of the Company and its subsidiaries in Cyprus for 2007. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange income' in the income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in overseas branches and subsidiaries. These differences are recognised directly in equity in the 'Exchange adjustments reserve' until the disposal of the net investment, at which time they are recognised in the income statement.

Non-monetary items that are measured at historic cost in a foreign currency, are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

(ii) Subsidiary companies and branches

At the reporting date, the assets and liabilities of overseas subsidiaries and branches are translated into the Group's presentation currency (Cyprus pounds) at the rate of exchange ruling at the balance sheet date, and their income statements are translated using the average exchange rates for the year. Any goodwill arising on the acquisition of overseas branches and subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the foreign branches and subsidiaries and translated at the rate ruling on the balance sheet date.

Exchange differences arising on translation are recognised directly in the 'Exchange adjustments reserve' in equity. On disposal of an overseas subsidiary or branch, the cumulative amount of the exchange differences previously recognised in equity and relating to that particular overseas operation, is recognised in the income statement as part of the profit or loss on disposal.

Bank of Cyprus Group

Summary of Significant Accounting Policies

9. Segmental reporting

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

10. Turnover

Group turnover comprises gross interest income, fee and commission income, foreign exchange income, gross insurance premiums, turnover of property and hotel business and other income.

11. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

(ii) Fee and commission income

Fee and commission income is recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised in the income statement using the effective interest rate method.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(iv) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the income statement in 'Other income'.

(v) Income from the disposal of property held for sale

Income and cost of sales from the disposal of these properties is recognised in the income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

12. Retirement benefits

The Group operates several defined benefit retirement plans covering the majority of its employees. The main retirement benefit plans require the payment of contributions to separately administered funds (funded schemes).

The cost of providing benefits for defined benefit plans is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

Actuarial gains or losses are recognised as income or expense if the net cumulative unrecognised gains or losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligations of the plan or 10% of the fair value of plan assets as at that date. The portion of the actuarial gains or losses to be recognised is the excess amount determined above, divided by the expected average remaining working lives of the employees participating in the plan.

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

Bank of Cyprus Group

Summary of Significant Accounting Policies

13. Share-based benefits

The Group grants to its employees options to buy equity securities or other securities of the Company. These are recognised as share-based equity-settled transactions. The cost of equity-settled transactions is measured by reference to the fair value at the date on which the options are granted. The fair value is determined using appropriate valuation models.

The cost of share-based benefits is recognised over the period in which the vesting conditions are fulfilled and which ends when the right of the employees to receive the shares is established. The total cost recognised at each reporting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period is included in 'Staff costs' and represents the movement in the cumulative cost recognised as at the beginning and end of that period, with a corresponding debit or credit in 'Retained earnings' in equity.

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

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

14. Taxation

Taxation on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are recognised for all taxable temporary differences associated with investments in subsidiary and associate companies and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

15. 15.

Financial instruments

(i) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are recognised on a trade date basis. 'Balances with Central banks', 'Amounts due to banks', 'Customer deposits', 'Placements with banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers.

(ii) Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Bank of Cyprus Group

Summary of Significant Accounting Policies

15. Financial instruments (continued)

(iii) Derivative financial instruments

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently, derivatives are measured at fair value. Changes in the fair value of derivatives held for trading are included in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions in the income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with fair value changes recognised in the income statement. The embedded derivatives separated from the host are carried at fair value, with changes in fair value recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

(iv) Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions in the income statement according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

(v) Other financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

These assets do not form part of the trading portfolio because no recent pattern of short-term profit taking exists. They include listed debt securities economically hedged by derivatives, and not designated for hedge accounting, as well as unlisted equities which are managed on a fair value basis.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

(vi) Held-to-maturity investments

Held-to-maturity investments are those with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

Bank of Cyprus Group

Summary of Significant Accounting Policies

15. Financial instruments (continued)

(vii) Loans and advances

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Investments held for trading', nor designated as 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the balance sheet captions 'Placements with banks' and 'Loans and advances to customers'. After their initial recognition, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances'.

(viii) Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and advances to customers'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities, debt securities and treasury bills.

After initial measurement, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains on sale, change in fair value and impairment of financial instruments'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities and treasury bills is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the income statement in 'Net gains on sale, change in fair value and impairment of financial instruments'.

(ix) Subordinated loan stock and debt securities in issue

Subordinated loan stock and debt securities in issue are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date that the Company has the right to redeem the subordinated loan stock and the debt securities in issue.

Debt instruments issued by the Company and held by the Group for trading purposes are treated as redemptions. Gains or losses on redemption are recognised if the repurchase price of the debt instrument was different from its carrying value at the date of repurchase. Subsequent sales of own debt instruments in the market are treated as debt re-issuance.

Interest on subordinated loan stock and debt securities in issue is included in 'Interest expense' in the income statement.

16. 16. Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Bank of Cyprus Group

Summary of Significant Accounting Policies

17. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults.

(i) Loans and advances to customers

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due according to the original contract terms, unless such loans are secured or other factors exist whereby the Group expects that all amounts due will be collected.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Loans are monitored continuously and are reviewed for impairment every six months. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the income statement.

The present value of the estimated future cash flows is discounted using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan and the industry, geographic location, collateral type, past-due amounts and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Bank of Cyprus Group

Summary of Significant Accounting Policies

17. Impairment of financial assets (continued)

(ii) Held-to-maturity investments

For held-to-maturity investments, the Group assesses at each balance sheet date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

(iii) Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each balance sheet date.

In the case of equity securities classified as available-for-sale, objective evidence would include a significant or prolonged decrease in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is deducted from the 'Revaluation reserve' and recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement. Impairment losses on equity securities are not reversed through the income statement. Increases in their fair value after impairment are recognised in the 'Revaluation reserve' in equity.

In the case of debt securities and treasury bills classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

18. Hedge accounting

The Group uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness of the hedging relationship forms part of the Group's documentation.

At inception of the hedging relationship, a formal assessment is also undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

(i) Fair value hedges

In the case of fair value hedges that meet the criteria, the change in the fair value of a hedging instrument is recognised in the income statement in 'Net gains on sale, change in fair value and impairment of financial instruments'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Net gains on sale, change in fair value and impairment of financial instruments'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated.

Bank of Cyprus Group

Summary of Significant Accounting Policies

18. Hedge accounting (continued)

(i) Fair value hedges (continued)

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

(ii) Cash flow hedges

In the case of cash flow hedges that meet the criteria, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on sale, change in fair value and impairment of financial instruments' in the income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the income statement.

(iii) Hedge of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while gains or losses relating to the ineffective portion are recognised in 'Foreign exchange income' in the income statement.

On disposal of the overseas branch or subsidiary, the cumulative gains or losses recognised directly in equity are recognised in 'Foreign exchange income' in the income statement.

19. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

20. Cash and cash equivalents

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

21. Insurance business

The Group undertakes both life insurance and general insurance business and issues only insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all of the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

(i) Life insurance business

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Claims are recorded as an expense when they are incurred. Life insurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

Bank of Cyprus Group

Summary of Significant Accounting Policies

21. Insurance business (continued)

(ii) In-force business

The Group recognises as an intangible asset the value of in-force business in respect of life insurance contracts. The asset represents the present value of the shareholders' interest in the profits expected to emerge from those contracts written at the balance sheet date, using appropriate economic and actuarial assumptions, similar to the calculation of the respective life insurance contract liabilities. The change in the present value is determined on a post-tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

(iii) General insurance business

Premiums are recognised in the income statement in the period in which insurance cover is provided. Unearned premiums relating to the period of risk after the balance sheet date are deferred to subsequent reporting periods.

Provision is made for the estimated cost of claims reported but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims reported but not settled is made on a case by case basis after taking into consideration all known facts, the cost of claims that have recently been settled and assumptions regarding the future development of outstanding cases. Similar statistical techniques are used to determine the provision for claims incurred but not reported at the balance sheet date.

(iv) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing these tests, current best estimates of discounted future contractual cash flows and claims, expenses and investment returns are used. Any deficiency is charged to the income statement.

22. 22.

Repurchase agreements

Securities sold under agreements to repurchase at a specific future date ('repos') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet as 'Repurchase agreements', reflecting its economic substance as a loan to the Company. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. The repos relate to agreements with central and other banks.

23. Finance leases – The Group as lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the income statement.

24. Operating leases – The Group as lessee

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

25. Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers on the basis of current market values. Depreciation is calculated on the revalued amount less the estimated residual value of each building on a straight line basis over its estimated useful life. Useful lives are in the range of 35 to 67 years. On disposal of freehold land and buildings, the relevant 'Revaluation reserve' balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 5 years or over the period of the lease if this does not exceed 5 years.

Bank of Cyprus Group

Summary of Significant Accounting Policies

25. Property and equipment *(continued)*

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 5 to 10 years.

At the balance sheet date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

26. Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment properties'.

The Group in its normal course of business, acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties. These properties are recognised in the Group's financial statements as investment properties, reflecting the substance of these transactions.

27. 27.

Stock of property held for sale

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

28. Goodwill and other intangible assets

Goodwill represents the excess of the cost of the acquisition over the net fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment on an annual basis as at 31 December or earlier when events or changes in circumstances indicate a possible impairment.

Licence fees, acquired insurance portfolio customer lists and computer software programmes are measured at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for licence fees, 3 years for acquired insurance portfolio customer lists and 3 to 5 years for computer software programmes.

At each balance sheet date, licence fees, acquired insurance portfolio customer lists and computer software programmes are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the licence fees, the acquired customer lists and the computer software programmes are written down to their recoverable amount.

29. Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

30. Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

Bank of Cyprus Group

Summary of Significant Accounting Policies

31. Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the income statement in 'Provisions for impairment of loans and advances'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the income statement when the guarantee is fulfilled, cancelled or expires.

32. Comparative information

Reclassifications to comparative information were made to conform to changes in the presentation in the current year. Such reclassifications relate mainly to the presentation of the Group's insurance operations and to facilitate disclosures required by IFRS 7 which has been adopted as of 1 January 2007. These reclassifications had no impact on profit after tax or the equity of the Group.

Bank of Cyprus Group

Notes to the Financial Statements

1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2007 were authorised for issue by a resolution of the Board of Directors on 27 February 2008.

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

The Company was incorporated as a limited liability company in 1930 and is a public company under the Cyprus Companies Law, the Cyprus Stock Exchange Laws and Regulations and the Income Tax Law of Cyprus.

2. Segmental analysis

The Group has three principal business segments: banking and financial services, life and general insurance business and property and hotel business.

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

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

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

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

The primary reporting format is by business segment.

Business segments

	Banking and financial services	Insurance business	Property and hotel business	Total
2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Turnover	1.170.883	88.643	10.899	1.270.425
Profit before tax	306.019	26.525	8.298	340.842
Assets	18.138.346	445.221	32.516	18.616.083
Inter-segment assets				(25.914)
Total assets				18.590.169
Liabilities	17.040.900	374.447	8.785	17.424.132
Inter-segment liabilities				(7.548)
Total liabilities				17.416.584
Capital expenditure	24.591	680	81	25.352
Depreciation and amortisation	17.216	751	174	18.141

Bank of Cyprus Group

Notes to the Financial Statements

2. Segmental analysis (continued)

Business segments (continued)

	Banking and financial services	Insurance business	Property and hotel business	Total
2006	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Turnover	884.363	77.057	12.870	974.290
Profit before tax	202.608	17.366	4.549	224.523
Assets	14.158.364	400.851	34.669	14.593.884
Inter-segment assets				(22.457)
Total assets				14.571.427
Liabilities	13.321.457	342.199	12.030	13.675.686
Inter-segment liabilities				(8.880)
Total liabilities				13.666.806
Capital expenditure	13.728	292	54	14.074
Depreciation and amortisation	17.833	743	154	18.730

Geographic segments

	Cyprus	Greece	Other countries	Total
2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Turnover	829.017	408.940	107.331	1.345.288
Inter-segment turnover, mainly interest	(11.380)	(52.185)	(11.298)	(74.863)
Turnover with third parties	817.637	356.755	96.033	1.270.425
Assets	11.261.101	7.175.249	1.456.284	19.892.634
Inter-segment assets				(1.302.465)
Total assets				18.590.169
Capital expenditure	6.650	15.116	3.586	25.352
2006				
Turnover	659.382	292.656	67.241	1.019.279
Inter-segment turnover, mainly interest	(13.576)	(23.214)	(8.199)	(44.989)
Turnover with third parties	645.806	269.442	59.042	974.290
Assets	8.629.236	5.718.673	1.279.567	15.627.476
Inter-segment assets				(1.056.049)
Total assets				14.571.427
Capital expenditure	5.578	7.294	1.202	14.074

Bank of Cyprus Group

Notes to the Financial Statements

3. Interest income

	2007	2006
	C£000	C£000
Loans and advances to customers	674.252	494.236
Placements with banks and central banks	166.573	128.664
Investments available-for-sale	98.966	85.893
Investments held-to-maturity	3.743	115
	943.534	708.908
Trading investments	6.798	5.407
Derivatives	57.160	36.852
Other investments at fair value through profit or loss	4.340	1.070
	1.011.832	752.237

Interest income from loans and advances to customers includes C£17.446 thousand (2006: C£18.561 thousand) of interest income accrued on impaired loans and advances.

4. Interest expense

	2007	2006
	C£000	C£000
Customer deposits	471.432	320.317
Amounts due to banks, including repurchase agreements	3.743	7.442
Debt securities in issue	32.854	15.364
Subordinated loan stock	14.459	16.886
	522.488	360.009
Derivatives	48.996	33.599
	571.484	393.608

Bank of Cyprus Group

Notes to the Financial Statements

5. Fee and commission income and expense

Fee and commission income

	2007	2006
	C€000	C€000
Credit related fees and commissions	54.141	50.624
Other banking commissions	57.491	47.835
Mutual funds and other management fees	5.771	4.471
Brokerage commissions	5.434	4.098
Other commissions	365	331
	123.202	107.359

Mutual funds and other management fees include C€5.281 thousand (2006: C€4.010 thousand) of income relating to fiduciary activities.

Fee and commission expense

	2007	2006
	C€000	C€000
Banking commissions	6.962	6.147
Mutual funds and other management fees	148	8
Brokerage commissions	136	93
	7.246	6.248

Bank of Cyprus Group

Notes to the Financial Statements

6. Net gains on sale, change in fair value and impairment of financial instruments

	<i>2007</i>	<i>2006</i>
	<i>C£000</i>	<i>C£000</i>
Trading portfolio		
- equity securities	4.792	1.487
- debt securities	(1.939)	(2.949)
- derivatives	8.009	8.765
Other investments at fair value through profit or loss		
- equity securities	1.560	(3.453)
- debt securities	(1.760)	(153)
Disposal gains from available for-sale-investments		
- equity securities	8.667	7.194
- debt securities	2.472	4.595
Impairment of available-for-sale debt securities (Note 19)	(5.048)	-
Change in fair value of financial instruments designated as fair value hedges		
- hedging instruments	9.495	(7.492)
- hedged items	(9.246)	6.985
	17.002	14.979

Bank of Cyprus Group

Notes to the Financial Statements

7. Insurance income and claims

	2007		2006	
	Income	Claims	Income	Claims
	C£000	C£000	C£000	C£000
Life insurance business	79.961	(59.602)	102.853	(87.183)
General Insurance business	22.360	(9.680)	20.211	(9.479)
	102.321	(69.282)	123.064	(96.662)

	2007		2006	
	Life insurance	General insurance	Life insurance	General insurance
	C£000	C£000	C£000	C£000
Income				
Gross premiums	53.442	35.201	46.027	31.030
Reinsurance premiums	(6.583)	(17.633)	(5.394)	(15.696)
Net premiums	46.859	17.568	40.633	15.334
Change in provision for unearned premiums	-	(1.025)	-	(303)
Total net earned premiums	46.859	16.543	40.633	15.031
Income and gains from life insurance assets attributable to policyholders	23.293	22	55.568	11
Commissions from reinsurers and other income	2.957	5.795	2.096	5.169
	73.109	22.360	98.297	20.211
Change in value of in-force business before tax (Note 21)	6.852	-	4.556	-
	79.961	22.360	102.853	20.211

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Notes to the Financial Statements

7. Insurance income and claims (continued)

	2007		2006	
	Life insurance	General insurance	Life insurance	General insurance
Claims	C£000	C£000	C£000	C£000
Gross payments to policyholders	(31.439)	(9.653)	(27.268)	(15.351)
Reinsurers' share of payments to policyholders	2.442	3.102	2.048	9.092
Gross change in insurance contract liabilities	(23.589)	(1.332)	(56.947)	(22)
Reinsurers' share of change in insurance contract liabilities	887	279	1.305	(1.308)
Commissions paid to agents and other direct selling costs	(7.903)	(2.076)	(6.321)	(1.890)
	(59.602)	(9.680)	(87.183)	(9.479)

Other insurance income and expense items

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

	2007		2006	
	Life insurance	General insurance	Life insurance	General insurance
	C£000	C£000	C£000	C£000
Income from assets of the general insurance business and non-linked life insurance business	113	1.013	104	694
Net gains on sale and change in fair value of financial assets of the general insurance business and non-linked life insurance business	2.592	2.448	366	768
Staff costs	(3.611)	(4.721)	(3.027)	(4.108)
Other operating expenses	(2.400)	(1.933)	(2.030)	(1.803)

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Notes to the Financial Statements

8. Other income

	2007	2006
	C£000	C£000
Dividend income from equity securities	2.704	999
Profit on disposal of stock of property held for sale	7.980	4.302
Profit on disposal of property and equipment and write off of intangible assets	125	315
Rental income from investment properties	186	512
Gains from change in fair value of investment properties	3.628	412
Negative goodwill on acquisition of subsidiary (Note 45)	1.943	-
Other income	2.381	2.179
	18.947	8.719

9. Staff costs

	2007	2006
	C£000	C£000
Salaries	134.826	115.081
Employer's contributions	22.603	18.283
Retirement benefit plan costs	13.393	20.254
Cost of equity-settled share-based payments (Note 28)	2.183	2.265
	173.005	155.883

The number of persons employed by the Group as at 31 December 2007 was 6.909 (2006: 6.192).

Retirement benefit plan costs

	2007	2006
	C£000	C£000
Defined benefit plans	10.553	17.245
Defined contribution plans	989	775
Early retirement plans	1.851	2.234
	13.393	20.254

The Group operates several retirement benefit plans covering substantially all its employees. The majority of the plans are funded.

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Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus covers 45,5% of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 final average monthly salaries depending on the length of service. A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. The plans are managed by Administrative Committees which comprise of representatives of both the employees and the employer.

The present value of the defined benefit obligations of the main retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2007	2006
Discount rate	5,25%	4,75%
Expected rate of return on plan assets	7,29%	6,00%
Future salary increases	6,50%	6,50%

Greece

The Group's employees in Greece (43,5% of total Group employees) are covered by two defined benefit plans and a defined contribution plan.

All employees are entitled by law to a compensation in case of dismissal or a lump sum payment upon normal retirement, under a defined benefit plan, at rates specified in the legislation. All the benefits paid from statutory retirement indemnities are payable from the Company's assets because these plans are unfunded.

In addition, a number of employees recruited up to 31 December 2002 (15,4% of total Group personnel) participate in a defined benefit plan which provides for the payment of a lump sum on retirement of up to approximately 50 monthly salaries depending on the length of service.

The present value of the defined benefit obligations under the two defined benefit plans in Greece is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2007	2006
Discount rate	5,25%	4,06%
Expected rate of return on plan assets	6,20%	4,06%
Future salary increases	5,00%	5,00%

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

Bank of Cyprus Group

Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom

The Group's employees in the United Kingdom (3,1% of total Group employees) are covered by a defined benefit plan and a defined contribution plan.

A number of employees recruited up to 31 March 2003 (1,8% of total Group employees) participate in a defined benefit plan which provides for the payment of a pension for life, based on the final employee salary prior to retirement and the years of service.

The present value of the defined benefit obligations for the defined benefit plan in the United Kingdom is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuation were as follows:

	2007	2006
Discount rate	5,75%	4,90%
Expected rate of return on plan assets	7,60%	7,40%
Future salary increases	5,00%	5,00%

The second plan applies to employees recruited after 31 March 2003 and is a defined contribution plan.

Other countries

The terms of the retirement plans of employees in other countries reflect the economic conditions prevailing in these countries.

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

The amounts recognised in the balance sheet are shown below:

	2007	2006
	C£000	C£000
Net present value of funded obligations	290.236	298.530
Fair value of plan assets	(411.158)	(345.871)
	(120.922)	(47.341)
Net present value of unfunded obligations	3.169	2.424
Unrecognised past service cost	(620)	-
Unrecognised net actuarial gains	116.646	48.158
Amount not recognised as an asset because of the asset restriction requirement	3.890	-
Net liability of retirement benefit plans recognised in the balance sheet	2.163	3.241

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Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

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

	2007	2006
	C£000	C£000
Amounts recognised in balance sheet		
Liabilities (Note 26)	3.559	3.241
Assets (Note 22)	(1.396)	-
	2.163	3.241

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

	2007	2006
	C£000	C£000
At 1 January	300.954	264.696
Current service cost	15.613	14.285
Interest expense on obligations	14.410	13.291
Actuarial (gains)/losses	(28.201)	14.240
Past service cost	667	-
Benefits paid from the plans	(7.771)	(6.926)
Benefits paid directly by the Group	(189)	-
Contributions by plan participants	206	170
Terminations	137	-
Exchange differences from overseas plans	(2.421)	1.198
At 31 December	293.405	300.954

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Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

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

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

	2007	2006
	C£000	C£000
At 1 January	345.871	193.628
Expected rate of return on plan assets	20.634	11.856
Actuarial gains	42.946	128.698
Employer's contributions	11.397	17.516
Contributions by plan participants	206	170
Benefits paid from the plans	(7.771)	(6.926)
Exchange differences from overseas plans	(2.125)	929
At 31 December	411.158	345.871

The actual return on plan assets for 2007 was C£63.580 thousand (2006: C£140.554 thousand).

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

	2007	2006
Equity securities	75%	73%
Debt securities	17%	17%
Placements with banks	6%	8%
Other plan assets	2%	2%
	100%	100%

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

	2007	2006
	C£000	C£000
Equity securities	282.349	226.962
Debt securities	23.422	12.822
	305.771	239.784

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Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

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

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

	2007	2006
	C£000	C£000
Current service cost	15.613	14.285
Interest expense on obligations	14.410	13.291
Expected return on plan assets	(20.634)	(11.856)
Amortisation of actuarial (gains)/losses	(2.914)	1.525
Amortisation of past service cost	51	-
Effect of terminations	137	-
Effect of restriction on asset recognition	3.890	-
	10.553	17.245

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

	2007	2006	2005
	C£000	C£000	C£000
Net present value of obligations	(293.405)	(300.954)	(264.696)
Fair value of plan assets	411.158	345.871	193.628
Surplus/(deficit)	117.753	44.917	(71.068)

Experience adjustments to obligations	(2.075)	(4.348)	2.116
Experience adjustments to plan assets	42.946	128.698	42.375

Principal actuarial assumptions used in the actuarial valuations

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the balance sheet date in high quality corporate bonds of suitable term and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 91% of the defined benefit obligations, the Group considers the international index iBoxx Euro Corporates AA 10+ Bond Index and for the United Kingdom, the iBoxx Sterling Corporates AA 15+ Bond Index.

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Notes to the Financial Statements

9. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its advisers, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the balance sheet date. Adjustments are made annually to the expected rate of return assumption based upon revised expectations of future investment performance of asset classes, changes to local laws that may affect investment strategy as well as changes to the target strategic asset allocation.

Medical plan costs

The main medical plans operated by the Group cover almost all of its active employees.

10. Share of profit of associates

	2007	2006
	C£000	C£000
Interfund Investments Plc:		
- share of profit (Note 46)	2.289	-
- negative goodwill on acquisition (Note 46)	633	-
Cytrustees Investment Public Company Ltd:		
- share of profit	248	-
- negative goodwill on acquisition (Note 45)	2.184	-
	5.354	-

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

11. Profit before tax

Profit before tax is stated after charging the following:

	2007	2006
	C£000	C£000
Operating lease rentals for land and buildings	11.121	8.736
Depreciation of property and equipment	13.743	13.912
Impairment of property and equipment	651	-
Amortisation of intangible assets	4.398	4.818
Auditors' remuneration	605	453

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

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Notes to the Financial Statements

12. Taxation

	2007	2006
	C£000	C£000
Current tax		
- Cyprus	27.888	17.062
- overseas	14.869	14.228
Cyprus defence contribution	137	325
Deferred tax	8.737	4.918
Prior years' tax adjustments	2.123	2.010
One-off tax on reserves	-	2.874
	53.754	41.417

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

	2007	2006
	C£000	C£000
Profit before tax	340.842	224.523
Tax at the normal tax rates in Cyprus	34.221	22.777
Tax effect of:		
- expenses not deductible for tax purposes	5.346	3.893
- income not subject to tax	(2.620)	(1.379)
- difference between overseas tax rates and Cyprus tax rates	14.684	11.242
	51.631	36.533
Prior years' tax adjustments	2.123	2.010
One-off tax on reserves	-	2.874
	53.754	41.417

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. For life insurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 10%.

The profits of the Group's overseas operations are taxed at the rates prevailing at the respective countries, which for 2007 were: Greece 25% (2006: 29%), United Kingdom 30% (2006: 30%), Australia 30% (2006: 30%), Romania 16% and Russia 24%.

At 31 December 2007 the accumulated tax losses of subsidiary companies amounted to C£6.151 thousand (2006: C£5.385 thousand), of which C£3.306 thousand can be carried forward indefinitely and C£2.845 thousand expire within five to ten years. The tax losses as at 31 December 2006 were partly utilised against the taxable profits of year 2007. It is expected that the remaining tax losses will be utilised against future taxable profits.

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Notes to the Financial Statements

12. Taxation (continued)

The one-off tax on reserves in 2006 related to the tax imposed on the untaxed and special taxable reserves of the Company's branch in Greece as at 31 December 2005, following an amendment of the relevant legislation, at a rate of 15%. Following the imposition of this tax, these reserves are free for distribution without any additional tax charge.

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around C£1,5 million (2006: C£1,2 million) would arise, for which no deferred tax liability has been recognised.

Deferred tax asset

The deferred tax asset comprises of:

	2007	2006
	C£000	C£000
Difference between capital allowances and depreciation	-	231
Property revaluation	-	(116)
Different tax treatment of finance leases	404	1.288
Unutilised tax losses carried forward	420	300
Other temporary differences	807	1.017
	1.631	2.720

Deferred tax liability

The deferred tax liability comprises of:

	2007	2006
	C£000	C£000
Difference between capital allowances and depreciation	4.810	4.096
Property revaluation	10.723	6.695
Investment revaluation	(1.279)	207
Value of in-force life insurance policies	3.991	3.089
Provisions for impairment of loans and advances	7.538	882
Other temporary differences	814	(198)
	26.597	14.771

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Notes to the Financial Statements

13. Basic and diluted earnings per share

	2007	2006
Profit after tax attributable to the shareholders of the Company (C£ thousand)	283.956	183.106
Weighted average number of shares in issue during the year, excluding shares of the Company held by subsidiaries and associates (thousand)	558.463	549.188
Basic earnings per share (cent)	50,8	33,3
Weighted average number of shares, adjusted for the exercise of share options, excluding shares of the Company held by subsidiaries and associates (thousand)	558.463	549.971
Diluted earnings per share (cent)	50,8	33,3

The Group issues share options to its employees, which constitute potentially dilutive ordinary shares. The diluted earnings per share are calculated after adjusting the weighted average number of shares in issue during the year, under the assumption that all potentially dilutive ordinary shares are converted into shares by their holders.

The weighted average number of shares for the year ended 31 December 2006 has been adjusted to reflect the bonus element of the shares issued under the Dividend Reinvestment Plan arising from the dividend payments in June and December 2007.

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

	2007	2006
	C£000	C£000
Cash	262.468	79.701
Balances with central banks	513.132	604.648
	775.600	684.349
Placements with banks	3.604.332	2.496.297

Balances with central banks include obligatory deposits for liquidity purposes which amount to C£302.567 thousand (2006: C£245.799 thousand).

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

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Notes to the Financial Statements

15. Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2007	2006	2007	2006	2007	2006
	C£000	C£000	C£000	C£000	C£000	C£000
Debt securities	159.276	158.334	106.975	65.188	266.251	223.522
Equity securities	35.577	3.357	1.650	9.713	37.227	13.070
Mutual funds	1.519	-	-	-	1.519	-
	196.372	161.691	108.625	74.901	304.997	236.592
Debt securities						
Cyprus government	147.902	149.153	91.133	56.157	239.035	205.310
Other governments	-	-	1.776	501	1.776	501
European banks and other organisations	11.097	8.750	14.066	8.530	25.163	17.280
Cyprus local authorities	277	279	-	-	277	279
Cyprus public companies	-	152	-	-	-	152
	159.276	158.334	106.975	65.188	266.251	223.522
Listed on the Cyprus Stock Exchange	147.902	149.305	91.133	56.157	239.035	205.462
Listed on European stock exchanges	10.893	8.750	15.842	9.031	26.735	17.781
Unlisted certificates of deposit, bank and local authority bonds	481	279	-	-	481	279
	159.276	158.334	106.975	65.188	266.251	223.522
Equity securities						
Listed on the Cyprus Stock Exchange	14.929	3.357	-	-	14.929	3.357
Listed on European stock exchanges	20.487	-	-	-	20.487	-
Listed on US stock exchanges	157	-	-	-	157	-
Unlisted	4	-	1.650	9.713	1.654	9.713
	35.577	3.357	1.650	9.713	37.227	13.070

On 9 February 2007, the Group completed the sale of its shares in Universal Life Insurance Public Co. Ltd (amounting to 22% of the share capital of that company) for C£6,1 million. The book value of the above shares at the date of disposal and at 31 December 2006 amounted to C£6,1 million.

Included in investments at fair value through profit or loss are C£202.238 thousand (2006: Nil) of debt securities pledged as collateral under repurchase agreements with central banks.

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Notes to the Financial Statements

16. Life insurance business assets attributable to policyholders

	2007	2006
	C£000	C£000
Equity securities	151.143	140.182
Debt securities	75.745	78.936
Property	4.628	1.703
Mortgages and other loans	2.996	3.466
Bank deposits	74.305	61.838
	308.817	286.125
Other assets	1.735	1.032
	310.552	287.157

All assets attributable to policyholders are measured at fair value and match the net life insurance contract liabilities.

17. Loans and advances to customers

	2007	2006
	C£000	C£000
Loans and advances to customers	10.383.496	7.940.920
Hire purchase and finance lease debtors (Note 18)	1.029.305	911.438
Gross loans and advances to customers	11.412.801	8.852.358
Provisions for impairment of loans and advances (Note 38)	(338.878)	(461.708)
	11.073.923	8.390.650

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 38.

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Notes to the Financial Statements

18. Hire purchase and finance lease debtors

	2007	2006
	C€000	C€000
Gross investment in hire purchase and finance lease contracts	1.408.658	1.184.389
Unearned finance income	(379.353)	(272.951)
Present value of hire purchase and finance lease payments	1.029.305	911.438
<i>Repayable</i>		
Within one year	254.297	263.258
Between one and five years	516.037	546.382
After five years	638.324	374.749
Gross investment in hire purchase and finance lease contracts	1.408.658	1.184.389
<i>Repayable</i>		
Within one year	206.075	216.803
Between one and five years	389.010	410.246
After five years	434.220	284.389
Present value of hire purchase and finance lease payments	1.029.305	911.438
<i>Analysis by geographical area</i>		
Cyprus	234.569	218.763
Greece	1.160.496	965.626
Romania	13.593	-
Gross investment in hire purchase and finance lease contracts	1.408.658	1.184.389

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

Under finance lease contracts the item belongs to the Group and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the items in good condition and to compensate the Group for any damage or loss incurred and (c) upon expiry of the contract, can either return the items to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the items.

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Notes to the Financial Statements

19. Investments available-for-sale and held-to-maturity

	Available-for-sale		Held-to-maturity		Total	
	2007	2006	2007	2006	2007	2006
	C€000	C€000	C€000	C€000	C€000	C€000
Treasury bills	-	41.563	-	-	-	41.563
Debt securities	1.958.470	2.029.509	73.421	2.594	2.031.891	2.032.103
Equity securities	45.039	37.022	-	-	45.039	37.022
	2.003.509	2.108.094	73.421	2.594	2.076.930	2.110.688
Treasury bills						
Cyprus government	-	41.563	-	-	-	41.563
Debt securities						
Cyprus government	256.213	295.428	1.421	-	257.634	295.428
Other governments	504.398	462.612	-	-	504.398	462.612
Local authorities	771	942	637	-	1.408	942
Banks and other organisations	1.196.181	1.269.465	71.213	2.594	1.267.394	1.272.059
Cyprus public companies	907	1.062	150	-	1.057	1.062
	1.958.470	2.029.509	73.421	2.594	2.031.891	2.032.103
Listed on the Cyprus Stock Exchange	257.120	296.490	1.571	-	258.691	296.490
Listed on European or US/Canadian stock exchanges	1.700.281	1.731.776	71.213	2.594	1.771.494	1.734.370
Unlisted certificates of deposit, bank and local authority bonds	1.069	1.243	637	-	1.706	1.243
	1.958.470	2.029.509	73.421	2.594	2.031.891	2.032.103
<i>Geographical dispersion by country of issuer</i>						
Cyprus	258.189	297.733	2.208	-	260.397	297.733
Greece	292.848	228.395	-	-	292.848	228.395
United Kingdom and Ireland	274.765	262.891	2.017	2.124	276.782	265.015
France	182.570	203.036	-	-	182.570	203.036
Germany	118.574	168.000	239	263	118.813	168.263
Other European countries	343.894	410.907	55.236	207	399.130	411.114
U.S.A. and Canada	345.627	319.901	-	-	345.627	319.901
Australia	88.836	116.834	-	-	88.836	116.834
Other countries	7.939	8.774	13.721	-	21.660	8.774
Supranational organisations	45.228	13.038	-	-	45.228	13.038
	1.958.470	2.029.509	73.421	2.594	2.031.891	2.032.103
Equity securities						
Listed on the Cyprus Stock Exchange	42.964	35.710	-	-	42.964	35.710
Listed on European stock exchanges	1.116	915	-	-	1.116	915
Unlisted	959	397	-	-	959	397
	45.039	37.022	-	-	45.039	37.022

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Notes to the Financial Statements

19. Investments available-for-sale and held-to-maturity (continued)

Treasury bills and debt securities

The movement in investments in treasury bills and debt securities is summarised below:

	Treasury bills	Debt securities	
	Available-for-sale	Available-for-sale	Held-to-maturity
2007	C£000	C£000	C£000
At 1 January	41.563	2.029.509	2.594
Acquisition of subsidiary company	-	-	2.827
Exchange adjustments	-	(59.624)	(5.128)
Additions	-	675.283	71.638
Disposals	-	(334.931)	-
Redemptions	(41.563)	(331.230)	(1.040)
Losses from change in fair value	-	(18.950)	-
Amortisation of premiums/discounts	-	(1.587)	2.530
At 31 December	-	1.958.470	73.421

2006			
At 1 January	63.940	1.860.419	2.573
Exchange adjustments	-	(40.870)	48
Additions	94.278	985.340	-
Disposals	-	(539.842)	-
Redemptions	(117.410)	(209.263)	-
Losses from change in fair value	(175)	(22.251)	-
Amortisation of premiums/discounts	930	(4.024)	(27)
At 31 December	41.563	2.029.509	2.594

Included in available-for-sale debt securities are C£68.500 thousand (2006: Nil) of debt securities which have been determined to be individually impaired. An amount of C£5.048 thousand (2006: Nil) in respect of these securities has been transferred from the revaluation reserve to the income statement (Note 6).

Losses from change in fair value for 2007 include an amount of C£2.194 thousand (2006: loss of C£10.040 thousand) which relates to debt securities that are hedged items in fair value hedges, and is included in the income statement. The fair value of held-to-maturity investments in debt securities at 31 December 2007 was C£69.997 thousand (2006: C£2.568 thousand).

Included in available-for-sale debt securities are C£107.167 thousand (2006: Nil) of debt securities pledged as collateral under repurchase agreements with banks.

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Notes to the Financial Statements

19. Investments available-for-sale and held-to-maturity (continued)

Equity securities available-for-sale

The movement for the year is summarised below:

	2007	2006
	C£000	C£000
At 1 January	37.022	18.329
Acquisition of subsidiary company	77	-
Reversal of revaluation of investment upon becoming an associate	(43)	-
Exchange adjustments	(4)	2
Additions	4.042	793
Disposals	(6.602)	(5.443)
Gains from change in fair value	10.547	23.341
At 31 December	45.039	37.022

20. Property and equipment

	Property	Equipment	Total
	C£000	C£000	C£000
2007			
Net book value at 1 January	133.262	20.551	153.813
Exchange adjustments	274	(218)	56
Additions	13.578	7.308	20.886
Revaluation for the year	28.131	-	28.131
Impairment	(651)	-	(651)
Disposals and write-offs	(1.190)	(212)	(1.402)
Depreciation charge for the year	(6.716)	(7.027)	(13.743)
Net book value at 31 December	166.688	20.402	187.090

At 1 January 2007			
Cost or valuation	171.719	80.602	252.321
Accumulated depreciation	(38.457)	(60.051)	(98.508)
Net book value	133.262	20.551	153.813

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Notes to the Financial Statements

20. Property and equipment (continued)

	Property	Equipment	Total
At 31 December 2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Cost or valuation	207.595	85.860	293.455
Accumulated depreciation	(40.907)	(65.458)	(106.365)
Net book value	166.688	20.402	187.090

2006			
Net book value at 1 January	137.901	21.763	159.664
Exchange adjustments	499	117	616
Additions	3.897	6.005	9.902
Disposals and write-offs	(1.996)	(205)	(2.201)
Transfer to investment properties	(256)	-	(256)
Depreciation charge for the year	(6.783)	(7.129)	(13.912)
Net book value at 31 December	133.262	20.551	153.813

At 1 January 2006			
Cost or valuation	169.464	75.513	244.977
Accumulated depreciation	(31.563)	(53.750)	(85.313)
Net book value	137.901	21.763	159.664

At 31 December 2006			
Cost or valuation	171.719	80.602	252.321
Accumulated depreciation	(38.457)	(60.051)	(98.508)
Net book value	133.262	20.551	153.813

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

	2007	2006
	<i>C€000</i>	<i>C€000</i>
Freehold property	153.864	119.728
Improvements on leasehold property	12.824	13.534
	166.688	133.262

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Notes to the Financial Statements

20. Property and equipment (continued)

Property includes land amounting to C£61.181 thousand (2006: C£48.921 thousand) for which no depreciation is charged. The freehold property of the Group was revalued at 30 June 2007 by independent qualified valuers, on the basis of market value, using observable prices and recent market transactions. The total revaluation surplus at 31 December 2007 amounted to C£69.682 thousand (2006: C£41.908 thousand) and is included in the revaluation reserve.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2007 would have amounted to C£84.440 thousand (2006: C£79.060 thousand).

There are no fixed charges in favour of third parties on the Group's property and equipment as at 31 December 2007 and 2006.

21. Intangible assets

	Computer software	Licence fees	Insurance portfolio customer list	In-force life insurance business	Goodwill on acquisition of subsidiary	Total
2007	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>
Net book value at 1 January	7.323	2.076	180	30.889	705	41.173
Exchange adjustments	(10)	-	-	-	-	(10)
Additions	4.466	-	-	-	-	4.466
Disposals and write-offs	(16)	-	-	-	-	(16)
Increase in value of in-force life insurance policies	-	-	-	6.852	-	6.852
Amortisation charge for the year	(3.858)	(360)	(180)	-	-	(4.398)
Net book value at 31 December	7.905	1.716	-	37.741	705	48.067

At 1 January 2007						
Cost	48.392	3.607	540	30.889	705	84.133
Accumulated amortisation	(41.069)	(1.531)	(360)	-	-	(42.960)
Net book value	7.323	2.076	180	30.889	705	41.173

At 31 December 2007						
Cost	52.669	3.607	540	37.741	705	95.262
Accumulated amortisation	(44.764)	(1.891)	(540)	-	-	(47.195)
Net book value	7.905	1.716	-	37.741	705	48.067

The goodwill on acquisition of subsidiary arose on the acquisition of the brokerage company Kyprou Securities SA in 2001.

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Notes to the Financial Statements

21. Intangible assets (continued)

	Computer software	Licence fees	Insurance portfolio customer list	In-force life insurance business	Goodwill on acquisition of subsidiary	Total
2006	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Net book value at 1 January	7.426	2.436	360	26.333	705	37.260
Exchange adjustments	3	-	-	-	-	3
Additions	4.172	-	-	-	-	4.172
Increase in value of in-force life insurance policies	-	-	-	4.556	-	4.556
Amortisation charge for the year	(4.278)	(360)	(180)	-	-	(4.818)
Net book value at 31 December	7.323	2.076	180	30.889	705	41.173

At 1 January 2006						
Cost	44.125	3.607	540	26.333	705	75.310
Accumulated amortisation	(36.699)	(1.171)	(180)	-	-	(38.050)
Net book value	7.426	2.436	360	26.333	705	37.260

At 31 December 2006						
Cost	48.392	3.607	540	30.889	705	84.133
Accumulated amortisation	(41.069)	(1.531)	(360)	-	-	(42.960)
Net book value	7.323	2.076	180	30.889	705	41.173

The actuarial assumptions made to determine the value of in-force life insurance policies, relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force policies are:

	2007	2006
Risk discount rate (after tax)	10,0%	10,0%
Return on investments	5,5%	5,5%
Expense inflation	5,0%	5,0%

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22. Other assets

	2007	2006
	C£000	C£000
Debtors	24.585	17.087
Stock of property held for sale	7.548	8.196
Investment properties	20.710	22.409
Taxes refundable	6.662	1.813
Deferred tax asset (Note 12)	1.631	2.720
Fair value of derivative financial instruments (Note 34)	32.566	25.081
Retirement benefit plans asset (Note 9)	1.396	-
Reinsurers' share of insurance contract liabilities (Note 24)	25.264	23.016
Accrued interest	36.805	30.157
Prepaid expenses	2.174	7.076
Items in course of collection and other assets	39.201	33.153
	198.542	170.708

Investment properties

The movement of investment properties is summarised below:

	2007	2006
	C£000	C£000
At 1 January	22.409	20.418
Exchange adjustments	9	15
Transfer from assets held for sale	-	1.071
Transfer from property and equipment	-	256
Additions	551	6.244
Disposals	(5.887)	(6.007)
Gains from change in fair value	3.628	412
At 31 December	20.710	22.409

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23. Customer deposits

	2007	2006
	C€000	C€000
<i>By category</i>		
Demand	2.134.504	1.658.918
Savings	1.036.764	1.030.370
Time or notice	11.565.326	9.441.072
	14.736.594	12.130.360
<i>By geographical area</i>		
Cyprus	8.687.141	6.909.668
Greece	5.149.790	4.421.955
United Kingdom	737.266	661.227
Australia	151.313	137.510
Romania and Russia	11.084	-
	14.736.594	12.130.360

Demand and savings deposits are payable on demand and their carrying amount represents their fair value.

The fair value of time or notice deposits that bear a floating rate of interest is equivalent to their carrying amount. The fair value of deposits that bear a fixed rate of interest is based on the present value of their future cash flows, estimated using interest rates on new deposits which have the same remaining period to maturity, and is not materially different from their carrying amount. The majority (86%) mature within three months from the balance sheet date (Note 40).

24. Insurance liabilities

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	C£000	C£000	C£000	C£000	C£000	C£000
Life insurance	316.983	(6.431)	310.552	292.519	(5.363)	287.156
General insurance						
- unearned premiums	17.027	(7.393)	9.634	15.374	(6.765)	8.609
- claims outstanding	22.168	(11.440)	10.728	20.732	(10.888)	9.844
	356.178	(25.264)	330.914	328.625	(23.016)	305.609

Reinsurance balances receivable are included in 'Other assets' (Note 22).

Life insurance liabilities

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

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	C£000	C£000	C£000	C£000	C£000	C£000
At 1 January	292.519	(5.363)	287.156	236.412	(4.607)	231.805
New business	4.806	(823)	3.983	3.753	(707)	3.046
Changes in existing business	19.658	(245)	19.413	52.354	(49)	52.305
At 31 December	316.983	(6.431)	310.552	292.519	(5.363)	287.156

General insurance liabilities

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

	Gross	Reinsurance	Net
	C£000	C£000	C£000
Provisions for unearned premiums			
At 1 January 2006	14.585	(6.279)	8.306
Premium income	31.030	(15.696)	15.334
Earned premiums	(30.241)	15.210	(15.031)
At 31 December 2006	15.374	(6.765)	8.609
Premium income	35.201	(17.633)	17.568
Earned premiums	(33.548)	17.005	(16.543)
At 31 December 2007	17.027	(7.393)	9.634

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Notes to the Financial Statements

24. Insurance liabilities (continued)

General insurance liabilities (continued)

The provisions for unearned premiums represent the liability for short-term insurance contracts for which the Group's obligations have not expired at the year end.

	Gross	Reinsurance	Net
Claims and loss adjustments	C€000	C€000	C€000
Notified claims	19.470	(11.753)	7.717
Incurred but not reported	1.241	(617)	624
At 1 January 2006	20.711	(12.370)	8.341
Cash paid for claims settled in the year	(15.353)	9.093	(6.260)
Increase in liabilities arising from claims	15.374	(7.611)	7.763
At 31 December 2006	20.732	(10.888)	9.844
Cash paid for claims settled in the year	(9.653)	3.101	(6.552)
Increase in liabilities arising from claims	11.089	(3.653)	7.436
At 31 December 2007	22.168	(11.440)	10.728

Notified claims	17.526	(8.460)	9.066
Incurred but not reported	3.206	(2.428)	778
At 31 December 2006	20.732	(10.888)	9.844

Notified claims	18.345	(8.607)	9.738
Incurred but not reported	3.823	(2.833)	990
At 31 December 2007	22.168	(11.440)	10.728

25. Debt securities in issue

	Contractual interest rate	2007	2006
Medium term Senior Debt		C£000	C£000
€500 million 2007/2010	Three-month Euribor plus 0,20%	288.077	-
€300 million 2006/2009	Three-month Euribor plus 0,33%	169.239	173.499
€300 million 2005/2008	Three-month Euribor plus 0,30%	175.862	173.108
€3 million 2003/2008	Three-month Euribor plus 0,45%	1.769	1.744
		634.947	348.351
Short term Commercial Paper			
In Euro	-	94.186	19.053
In U.S. Dollars	-	4.331	66.688
		98.517	85.741
Interest-free loan from the European Development Bank	-	288	288
		733.752	434.380

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Group.

The fair value of the Group's debt securities in issue at 31 December 2007 was C£727.831 thousand (2006: C£434.749 thousand).

Medium term Senior Bonds

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €2.000 million (2006: €1.500 million).

Under this Programme, the Company issued in June 2005, €300 million Senior debt 2005/2008. The Senior Debt has a three-year term, bears a floating rate of interest and was issued at the price of 99,853%. In the context of the EMTN programme, the Company also issued in June 2006, €300 million Senior Debt 2006/2009 which has a three-year term, bears a floating rate of interest and was issued at the price of 99,942%. In June 2007 the Company issued €500 million Senior Debt 2007/2010 which has a three year term, bears a floating rate of interest and was issued at the price of 99,915%. The €3 million Senior Debt 2003/2008 was issued at par in 2003.

At 31 December 2007, the nominal amount of the €300 million Senior Debt 2005/2008 outstanding was €299.500 thousand (2006: €299.000 thousand) as €500 thousand (2006: €1.000 thousand) of debt was held by the Group for trading purposes. At 31 December 2007, the nominal amount of the €300 million Senior debt 2006/2009 outstanding was €288.900 thousand (2006: €300.000 thousand) as €11.100 thousand (2006: Nil) of debt securities were held by the Group for trading purposes. At 31 December 2007, the nominal amount of the €500 million Senior Debt 2007/2010 outstanding was €492.500 thousand as €7.500 thousand of debt securities were held by the Group for trading purposes.

The issues of €300 million 2005/2008, €300 million 2006/2009 and €500 million 2007/2010 are listed on the Luxembourg Stock Exchange.

The three-month Euribor fluctuated during 2007 between 3,725% and 4,953% (2006: 2,488% - 3,724%) per annum.

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Notes to the Financial Statements

25. Debt securities in issue (continued)

Short term Commercial Paper

The Company has established a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €1.000 million (2006: €500 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and the Commercial Paper is unlisted.

26. Other liabilities

	2007	2006
	C£000	C£000
Income tax payable	15.416	11.858
Deferred tax liability (Note 12)	26.597	14.771
Fair value of derivative financial instruments (Note 34)	17.790	16.999
Liability of retirement benefit plans (Note 9)	3.559	3.241
Provision for pending litigation or claims	1.949	2.473
Items in course of settlement	55.568	32.438
Special defence contribution payable	8.679	7.781
Financial guarantees	2.549	2.008
Other accrued expenses	15.232	15.196
Deferred income	5.675	2.581
Other liabilities	69.129	65.792
	222.143	175.138

Provision for pending litigation or claims

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

	2007	2006
	C£000	C£000
At 1 January	2.473	2.025
(Decrease)/increase of provision for the year	(529)	445
Exchange adjustments	5	3
At 31 December	1.949	2.473

The provision for pending litigation or claims does not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries.

27. Subordinated loan stock

	<i>Contractual interest rate</i>	<i>2007</i>	<i>2006</i>
		C£000	<i>C£000</i>
Subordinated Bonds 2008/2013 in Euro (€200 million)	Three-month Euribor plus 1,00%	118.358	115.775
Subordinated Bonds 2011/2016 in Euro (€200 million)	Three-month Euribor plus 0,60%	115.429	112.057
Capital Securities Series A (C£65 million)	Base rate plus 1,00%	53.394	64.717
Capital Securities Series B (C£30 million)	Base rate plus 1,00%	30.072	30.072
Capital Securities 12/2007 (C£74 million)	6,00% for six months and three-month Euribor plus 1,25% thereafter	74.148	-
		391.401	322.621

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

The Subordinated Bonds are classified as Tier 2 Capital and the Capital Securities as Tier 1 Capital for capital adequacy purposes.

The fair value of Group's subordinated loan stock at 31 December 2007 was C£386.541 thousand (2006: C£324.626 thousand).

Subordinated Bonds

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €2.000 million (2006: €1.500 million).

Under this Programme, the Company issued in October 2003, €200 million Subordinated Bonds 2008/2013 in Euro, bearing floating rate of interest and maturing in October 2013. The Company has the option to call the Bonds during or after October 2008. The interest rate of the Bonds was set at the three-month Euribor plus 1,00% until October 2008 and will increase to plus 2,20% thereafter. The issue price of the Bonds was 99,766%. The Bonds are listed on the Luxembourg Stock Exchange. At 31 December 2007, the nominal amount of €200 million Subordinated Bonds 2008/2013 outstanding amounted to €199.114 thousand (2006: €198.350 thousand) as €886 thousand (2006: €1.650 thousand) were held by the Company for trading purposes.

Also in the context of the EMTN Programme, the Company issued in May 2006 €200 million floating rate Subordinated Bonds 2011/2016 in Euro maturing in May 2016. The Company has the option to call the Bonds in whole during or after May 2011. The interest rate of the Bonds was set at the three-month Euribor plus 0,60% until May 2011 and will increase to plus 1,60% thereafter. The issue price of the Bonds was 99,861%. The Bonds are listed on the Luxembourg Stock Exchange. At 31 December 2007, the nominal amount of the €200 million Subordinated Bonds 2011/2016 outstanding amounted to €196.000 thousand (2006: €193.000 thousand) as €4.000 thousand (2006: €7.000 thousand) were held by the Company for trading purposes.

Capital Securities

Capital Securities Series A amounting to C£65 million and Series B amounting to C£30 million were issued in Cyprus pounds in February 2003 and March 2004 respectively, and were offered in Cyprus. On 20 December 2007 the Company completed the issue of Capital Securities 12/2007 amounting to C£74m. The Capital Securities 12/2007 were issued in Cyprus pounds. The Capital Securities have no maturity date, but may be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter.

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Notes to the Financial Statements

27. Subordinated loan stock (continued)

Capital Securities (continued)

The Capital Securities Series A and B bear a floating interest rate, which is revised every three months. The interest rate of Capital Securities Series A and B is equal to the base rate of the Company at the beginning of each three-month period plus 1,00%. The interest rate of Capital Securities 12/2007 is fixed at 6,00% for the first six months and floating thereafter, equal to the three-month Euribor plus 1,25%. Interest is payable quarterly. The Capital Securities Series A and B are listed on the Cyprus Stock Exchange. The Company intends to apply to the relevant authorities for the listing of the Capital Securities 12/2007 on the Cyprus Stock Exchange.

In December 2007 the Group decided to exercise its option to redeem in whole the Capital Securities Series A at par on 20 February 2008.

At 31 December 2007, the Capital Securities Series A, Series B and 12/2007 outstanding amounted to C£53.036 thousand, C£29.883 thousand and C£74.000 thousand respectively (2006: C£64.311 thousand, C£29.883 thousand and Nil respectively) as C£11.964 thousand of Capital Securities Series A and C£117 thousand of Capital Securities Series B (2006: C£689 thousand and C£117 thousand respectively) were held by the Company for trading purposes.

The Company's base rate fluctuated during 2007 between 4,00% and 4,50% (2006: 4,25% - 4,50%) per annum. The three-month Euribor fluctuated during 2007 between 3,725% and 4,953% (2006: 2,488% - 3,724%) per annum.

28. Share capital

	2007		2006	
	Shares (thousand)	C£000	Shares (thousand)	C£000
<i>Authorised</i>				
Ordinary shares of C£0,50 each	877.911	438.956	600.000	300.000
<i>Issued and fully paid</i>				
At 1 January	553.839	276.919	545.316	272.658
Dividend reinvestment	7.398	3.700	6.519	3.259
Exercise of share options	4.986	2.493	2.004	1.002
At 31 December	566.223	283.112	553.839	276.919

The Extraordinary General Meeting of the Company held on 5 December 2007 approved the increase in the Company's authorised share capital from C£300.000.000 to C£438.955.500 (€750.000.000) with the creation of 277.911.000 additional ordinary shares of a nominal value of C£0,50 each. As from 1 January 2008, the nominal value of the share capital of the Company was increased to €1,00 each. Share premium amounting to C£48.284 thousand (€82.498 thousand) was applied for the increase in the nominal value of the shares, so that the number of issued shares remains the same, but their nominal value is €1,00 each instead of C£0,50 each.

The Company has in force a Dividend Reinvestment Plan under which all shareholders have the option to reinvest all or part of their dividend in shares of the Company at a discount of 10% on the market value of the shares. The reinvestment price for the interim dividend paid on 12 December 2007 was set at C£6,78 per share, for the dividend paid on 26 June 2007 was set at C£6,63 per share and for the interim dividend paid on 11 December 2006 it was set at C£5,07 per share. As a result of the dividend reinvestment, 7.398.023 (2006: 6.519.027) shares

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Notes to the Financial Statements

28. Share capital (continued)

were issued and the Company's share capital and share premium increased by C£3.700 thousand (2006: C£3.259 thousand) and C£45.894 thousand (2006: C£24.434 thousand) respectively.

Shares of the Company held by subsidiaries and associates are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of such shares. The number of these shares at 31 December 2007 was 1.435 thousand (2006: Nil).

In addition, the life insurance subsidiaries of the Group held, as at 31 December 2007, a total of 3.167 thousand (2006: 3.970 thousand) shares of the Company, as part of their financial assets which are invested for the benefit of insurance policyholders.

All issued ordinary shares carry the same rights.

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

Share-based payments – Share Options

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

During the year 2007, 796.807 (2006: 2.004.493) Share Options 2001/2007 were exercised by the Group employees. At 31 December 2007, there were no options unexercised by their holders, while 79.550 options during 2007 were either forfeited because of the departure of their holders from the Group or lapsed unexercised. As a result of the exercise of the Share Options the Company's share capital and share premium increased by C£398 thousand (2006: C£1.002 thousand) and C£2.199 thousand (2006: C£5.532 thousand) respectively.

In 2006, the Company granted Share Options 2006/2007 to all permanent employees of the Group in Cyprus and Greece who were in service at 30 September 2006 (grant date) provided they remained in service until 31 March 2007. The number of Share Options 2006/2007 issued was 4.283.300. The exercise price of the options had been set at C£3,70 and the exercise period was from 31 March 2007 to 30 June 2007 and was extended until 31 August 2007. During the exercise period, 4.189.106 options were exercised, as a result of which the Company's share capital and share premium increased by C£2.095 thousand and C£13.415 thousand respectively, while 60.353 options during 2007 were forfeited because of the departure of their holders from the Group or lapsed unexercised.

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

	2007	2006
	Number (thousand)	Number (thousand)
At 1 January	5.126	3.217
Share options granted	-	4.283
Share options exercised	(4.986)	(2.004)
Share options forfeited	(140)	(370)
At 31 December	-	5.126
Share options that can be exercised on 31 December	-	876

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Notes to the Financial Statements

28. Share capital (continued)

Share-based payments – Share Options (continued)

The fair value of Share Options 2006/2007 was measured at the grant date, using the Black-Scholes-Merton valuation model and amounted to C£1,06 per Share Option. The main variables taken into account are the share price (C£4,56 on 30 September 2006), the exercise price (C£3,70), the dividend yield (2,5%), the risk-free interest rate (4%), the duration of the Share Options and the expected volatility of the share price (13% on an annual basis, calculated using the historic volatility of the share).

29. Dividends

	2007	2006
Declared and paid during the year:	C£000	C£000
Final dividend for 2006: C£0,10 (2005: C£0,07) per share	55.819	38.211
Interim dividend for 2007: C£0,11 (2006: C£0,07) per share	61.861	38.501
	117.680	76.712

Proposed for approval at the Annual General Meeting (not recognised as a liability as at 31 December)		
Final dividend for 2007 €0,25 (C£0,15) (2006: C£0,10) per share	82.849	55.819

The final dividend will be paid out of retained earnings as at 31 December 2007 (2006: 31 December 2006).

The proposed ex-dividend date is 19 May 2008. As a result, registered shareholders on 16 May 2008 will be eligible to receive the dividend, which will be paid on 3 June 2008.

Out of the total dividend paid during 2007 of C£117.680 thousand, an amount of C£214 thousand (2006: Nil) relates to the Company's shares held by subsidiaries and associates.

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Notes to the Financial Statements

30. Revaluation and other reserves

	Property revaluation reserve	Revaluation reserve of available-for-sale investments		Cash flow hedge reserve	Life insurance in-force business reserve	Capital reserve	Exchange adjustments reserve	Shares of the Company	Total
		Equity securities	Treasury bills and debt securities						
	€000	€000	€000	€000	€000	€000	€000	€000	€000
At 1 January 2007	36.016	28.199	5.355	(535)	27.800	2.183	(2.611)	-	96.407
Gains/(losses) from change in fair value	-	10.547	(16.756)	1.130	-	-	-	-	(5.079)
Transfer to the income statement on redemption/sale	-	(4.565)	19	145	-	-	-	-	(4.401)
Property revaluation	28.131	-	-	-	-	-	-	-	28.131
Deferred tax	(3.896)	(32)	34	(136)	(902)	-	-	-	(4.932)
Exchange adjustments	-	-	-	-	-	-	667	-	667
Increase in value of in-force life insurance policies	-	-	-	-	6.852	-	-	-	6.852
Reversal of revaluation of investments upon becoming an associate	-	(43)	-	-	-	-	-	-	(43)
Transfer to the income statement on impairment	-	-	5.048	-	-	-	-	-	5.048
Transfer of realised profits on disposal of property to retained earnings	(1.271)	-	-	-	-	-	-	-	(1.271)
Shares of the Company held by subsidiaries and associates	-	-	-	-	-	-	-	(10.145)	(10.145)
Transfer of capital reserves to retained earnings	-	-	-	-	-	(2.183)	-	-	(2.183)
At 31 December 2007	58.980	34.106	(6.300)	604	33.750	-	(1.944)	(10.145)	109.051

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Notes to the Financial Statements

30. Revaluation and other reserves (continued)

	Property revaluation reserve	Revaluation reserve of available-for-sale investments		Cash flow hedge reserve	Life insurance in-force business reserve	Capital reserve	Exchange adjustments reserve	Total
		Equity securities	Treasury bills and debt securities					
	C€000	C€000	C€000	C€000	C€000	C€000	C€000	C€000
At 1 January 2006	36.656	6.815	26.565	-	23.700	2.183	(2.898)	93.021
Gains/(losses) from change in fair value	-	23.341	(12.386)	(599)	-	-	-	10.356
Deferred tax	158	-	1.263	64	(456)	-	-	1.029
Exchange adjustments	-	-	-	-	-	-	287	287
Increase in value of in-force life insurance policies	-	-	-	-	4.556	-	-	4.556
Transfer of realised profits on disposal of property to retained earnings	(798)	-	-	-	-	-	-	(798)
Transfer to the income statement on redemption/sale	-	(1.957)	(10.087)	-	-	-	-	(12.044)
At 31 December 2006	36.016	28.199	5.355	(535)	27.800	2.183	(2.611)	96.407

Capital reserve

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

Retained earnings

Retained earnings is the only distributable reserve.

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders. There was no special defence contribution payable for 2005 and 2004.

31. Fiduciary transactions

The Group offers fund management services that result in the holding or placing of financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the balance sheet of the Group unless they are placed with the Group. The total assets under management at 31 December 2007 amounted to C€544 million (2006: C€647 million).

Bank of Cyprus Group

Notes to the Financial Statements

32. Analysis of assets and liabilities by expected maturity

	2007			2006		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	C€000	C€000	C€000	C€000	C€000	C€000
Assets						
Cash and balances with central banks	472.285	303.315	775.600	438.681	245.668	684.349
Placements with banks	3.604.332	-	3.604.332	2.446.297	50.000	2.496.297
Investments at fair value through profit or loss	196.480	108.517	304.997	161.712	74.880	236.592
Life insurance business assets attributable to policyholders	38.382	272.170	310.552	9.219	277.938	287.157
Loans and advances to customers	2.821.772	8.252.151	11.073.923	2.310.605	6.080.045	8.390.650
Investments available-for-sale and held to maturity	327.647	1.749.283	2.076.930	404.251	1.706.437	2.110.688
Property equipment and intangible assets	-	235.157	235.157	-	194.986	194.986
Other assets	88.056	110.486	198.542	110.261	60.447	170.708
Investment in associate	-	10.136	10.136	-	-	-
	7.548.954	11.041.215	18.590.169	5.881.026	8.690.401	14.571.427
Liabilities						
Amounts due to banks	604.785	117.055	721.840	225.378	50.304	275.682
Repurchase agreements	146.400	108.276	254.676	-	-	-
Customer deposits	8.143.940	6.592.654	14.736.594	6.841.727	5.288.633	12.130.360
Insurance liabilities	39.146	317.032	356.178	36.439	292.186	328.625
Debts securities in issue	275.582	458.170	733.752	85.741	348.639	434.380
Other liabilities	168.328	53.815	222.143	139.546	35.592	175.138
Subordinated loan stock	169.572	221.829	391.401	-	322.621	322.621
	9.547.753	7.868.831	17.416.584	7.328.831	6.337.975	13.666.806

The main assumptions used in determining we expected maturity of assets and liabilities are set out below:

Loans and advances to customers and customer deposits in Cyprus are classified based on historic behavioural data. Loans and advances to customers and customer deposits in Greece, United Kingdom and Australia are classified on the same basis as that used for regulatory purposes.

Trading investments were classified in the less than one year column.

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

Bank of Cyprus Group

Notes to the Financial Statements

33. Contingent liabilities and commitments

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

	2007	2006
	C£000	C£000
<i>Contingent liabilities</i>		
Acceptances and endorsements	30.093	27.994
Guarantees	995.118	829.279
	1.025.211	857.273
<i>Commitments</i>		
Documentary credits	44.582	37.252
Undrawn formal standby facilities, credit lines and other commitments to lend	1.955.599	1.555.080
	2.000.181	1.592.332

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

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

	Contingent liabilities		Commitments	
	2007	2006	2007	2006
	C£000	C£000	C£000	C£000
Less than one year	697.109	523.843	896.320	928.538
Over one year	328.102	333.430	1.103.861	663.794
	1.025.211	857.273	2.000.181	1.592.332

Capital and other commitments

Contractual commitments for the acquisition of property and equipment as at 31 December 2007 amount to C£3.803 thousand (2006: C£4.956 thousand).

The Group also has a contractual commitment amounting to C£31.904 thousand relating to the share purchase agreement for the acquisition of AvtoZAZBank in Ukraine (Note 44).

33. Contingent liabilities and commitments *(continued)*

Litigation

The Group's provision for pending litigation or claims is set out in Note 26. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position and performance.

The court of New York has issued a judgement in relation to the application which was pending before it for the payment by the Company of an amount up to \$77 million (C£31 million) plus interest since May 2001, which specific customers allegedly hold with the Company. The judgement was issued on 12 March 2007 and the court ruled that at the time of service of the application there were no funds within its jurisdiction in the name of the specific customers and as a result the claim for the payment of the said amount to the applicants was rejected. There is a pending application before the court for the reopening of the case. An appeal has also been filed by the petitioner. The final outcome of the case is not expected to have a material impact on the Group's financial position and performance.

On 27 July 2005, the Securities and Exchange Commission of Cyprus announced that it has carried out an investigation into a possible breach by the Company of the provisions of articles 67 and 68 of the Cyprus Stock Exchange Law, with respect to the sale of shares in Greece in October 2000, and that a report on its findings will be prepared and sent to the Attorney General of the Republic of Cyprus. As there have been no developments since, and considering the time that has elapsed, the Group considers the matter as closed.

In September 2006, the 'Trustees of the AremisSoft Corporation Liquidating Trust' filed civil actions against the Company for at least \$50 million (C£20 million), their main claim being that the Company, in breach of its obligations to AremisSoft, permitted the principal shareholder of AremisSoft to execute transactions leading to the appropriation by him of significant sums belonging to AremisSoft. In August 2007, a federal judge granted the Company's motion to dismiss that case and found that the appropriate forum for the trial of the case is the Republic of Cyprus. On 28 August 2007, the Trustees filed an application for reconsideration of the judgement issued by the court, which is still pending. The Group does not expect to have any material financial impact as a result of the law suit.

The United States Attorney for the Southern District of New York, pursuant to a coordination agreement with the Trustees of the AremisSoft Corporation Liquidating Trust, filed on 15 October 2007 a civil action against the Company based on very similar allegations as the ones set out in the Trustees of the AremisSoft Corporation Liquidating Trust's civil action already dismissed by the federal judge. Despite the fact that the Company did not engage in any conduct in the United States, the US Attorney's civil suit claims that the Company violated US Law by enabling the principal shareholder of AremisSoft to transfer \$162 million of proceeds from his own fraudulent conduct through accounts maintained with the Company. The Company denies the allegations contained in the new case, and regards them as totally unfounded, both legally and factually. The Company does not expect to have any material financial impact as a result of the civil actions, because the civil claims are, in its view, factually and legally without merit.

34. Derivative financial instruments and hedge accounting

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

34. Derivative financial instruments and hedge accounting (continued)

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate futures are contractual agreements for the purchase or sale of specific financial instruments at a specified price and date in the future in order to fix a forward rate of interest for an agreed period of time, starting at a specified future date. Futures contracts are transacted in standardised amounts on regulated exchanges.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the balance sheet date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The nominal amounts of certain types of derivative financial instruments provide a basis for comparison with other instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, do not indicate the Group's exposure to credit or market risks.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Group applies either fair value or cash flow hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from changes in their fair value are recognised in the income statement.

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

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

Fair value hedges

The Group uses interest rate swaps with a nominal amount of C£464.479 thousand (2006: C£417.800 thousand) to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate bonds classified as available-for-sale and of fixed interest rate loans and deposits. The fair value of these derivatives excluding accrued interest at 31 December 2007 was C£6.944 thousand (gain) (2006: C£8.711 thousand (gain)) and the change in the fair value of the relevant hedged items excluding accrued interest was C£6.740 thousand (loss) (2006: C£8.879 thousand (loss)).

Cash flow hedges

The Group uses interest rate swaps with a nominal amount of C£105.406 thousand (2006: C£115.332 thousand) to hedge the future cash flows of floating rate bonds. The net fair value of these derivatives at 31 December 2007 was C£2.976 thousand (gain) (2006: C£1.258 thousand (gain)). The amount included in equity in relation to cash flow hedges is expected to impact the income statement over the term of the hedging relationship in order to match the cash flows from the hedged items.

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Notes to the Financial Statements

34. Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

Hedges of net investment in foreign entities

The Group hedges the currency risk arising on the retranslation into Cyprus pounds of the net assets of its overseas subsidiaries and branches. Liabilities amounting to C£202.272 thousand (2006: C£158.130 thousand) have been designated as hedges and have given rise to a loss of C£5.561 thousand (2006: C£2.080 thousand (gain)) which was recognised in the 'Exchange adjustments reserve', against the profit or loss that arose on the retranslation of the net assets to Cyprus pounds.

The nominal amounts and fair values of the derivative financial instruments are set out below:

	2007			2006		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	C£000	C£000	C£000	C£000	C£000	C£000
<i>Trading derivatives</i>						
Forward exchange rate contracts	93.070	1.345	2.131	152.881	3.456	1.895
Currency swaps	700.074	4.848	12.718	541.621	2.344	5.377
Interest rate swaps	801.341	10.601	1.177	537.499	6.229	3.386
Currency options	2.085	1	4	-	-	-
Interest rate futures	-	-	-	578	-	2
Equity options	7.786	393	392	3.315	165	165
Interest rate caps/floors	40.691	160	173	6.029	52	55
	1.645.047	17.348	16.595	1.241.923	12.246	10.880
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges - interest rate swaps	464.479	12.191	1.144	417.800	10.669	5.211
Cash flow hedges - interest rate swaps	105.406	3.027	51	115.332	2.166	908
	569.885	15.218	1.195	533.132	12.835	6.119
Total	2.214.932	32.566	17.790	1.775.055	25.081	16.999

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35. Net cash flow from operating activities

	2007	2006
	C£000	C£000
Profit before tax	340.842	224.523
<i>Adjustments for</i>		
Provisions for impairment of loans and advances	32.703	58.359
Depreciation of property and equipment	13.743	13.912
Amortisation of intangible assets	4.398	4.818
Cost of share-based payments	2.183	2.265
Amortisation of discounts/premiums	61	3.671
Profit on disposal of property and equipment and write-offs of intangible assets	(125)	(315)
Interest on treasury bills	(634)	(2.119)
Interest on debt securities	(113.213)	(90.366)
Dividend income from equity securities	(2.704)	(999)
Profit on sale of investments in equity securities	(8.667)	(7.194)
Profit on sale of investments in debt securities	(2.472)	(4.595)
Minority interest	(3.132)	-
Share of profit of associates	(5.354)	-
Negative goodwill arising on acquisition	(1.943)	-
Losses from change in fair value of available-for-sale debt securities designated as fair value hedges	2.194	10.040
Impairment of available-for-sale debt securities	5.048	-
Impairment of property and equipment	651	-
Interest on subordinated loan stock	14.459	16.886
Change in present value of future income from in force business	(6.852)	-
	271.186	228.886
<i>Increase in</i>		
Amounts due to banks	446.158	84.929
Obligatory balances with central banks	(56.768)	-
Customer deposits	2.614.187	1.373.453
Life insurance business assets and liabilities	4.158	-
Loans and advances to customers	(2.717.147)	(1.447.471)
Other assets	(27.655)	(21.074)
Prepayments and accrued income	(1.746)	(7.886)
Placements with banks	-	(52.103)
Other liabilities	29.766	11.425
Accruals and deferred income	3.130	5.475
Debt securities in issue	294.161	115.924
Investments at fair value through profit or loss	(33.579)	(147.261)
Repurchase agreements	254.676	-
<i>Decrease in</i>		
Obligatory balances with central banks	-	107.577
Life insurance business assets and liabilities	-	(3.077)
Placements with banks	17.164	-
Subordinated loan stock held for trading	(9.143)	(3.357)
	1.088.548	245.440
Tax paid	(46.353)	(25.564)
Net cash flows from operating activities	1.042.195	219.876

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Notes to the Financial Statements

35. Net cash flow from operating activities (continued)

Operational cash flow from interest and dividends

	2007	2006
	C£000	C£000
Interest paid	(536.047)	(388.544)
Interest received	943.342	737.658
Dividend received	2.704	999
	409.999	350.113

36. Cash and cash equivalents

Cash and cash equivalents comprise of:

	2007	2006
	C£000	C£000
Cash and non obligatory balances with central banks	473.033	438.550
Placement with banks repayable within three months	3.503.105	2.377.906
	3.976.138	2.816.456

	2007	2006
	C£000	C£000
Cash and non obligatory balances with central banks	473.033	438.550
Other balances with central banks	302.567	245.799
Total cash and balances with central banks (Note 14)	775.600	684.349
Placements with banks repayable within three months	3.503.105	2.377.906
Other placements with balances	101.227	118.391
Total placements with banks (Note 14)	3.604.332	2.496.297

37. Operating leases – The Group as lessee

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

	2007	2006
	C£000	C£000
Within one year	7.768	6.538
Between two and five years	15.135	15.226
After five years	5.816	2.941
	28.719	24.705

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

The Group had the option to buy a building for C£3,3 million that was leased as at 31 December 2006 which could be exercised between 1 July and 15 November 2007, under certain conditions. The option was not exercised and the Group is in negotiations to extend the term of the option.

38. Risk management – Credit risk

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

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

The Group Credit Risk Management unit defines the Group's credit dispensing policies and monitors compliance with the related credit sanctioning procedures and controls at each sector (consumer, business and corporate) and at each geographical area where the Group operates. Credit exposures from related accounts are aggregated and monitored on a consolidated basis.

The Group Credit Risk Management unit sets targets and limits for the composition and quality of the loans and advances portfolio and monitors compliance with them. The assessment of the quality of the portfolio is carried out using credit rating and credit scoring systems to determine the creditworthiness of customers.

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

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy.

The Group's policy regarding the definition of impaired loans and advances and the determination of provisions for impairment is set out in the summary of significant accounting policies.

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38. Risk management – Credit risk (continued)

Maximum exposure to credit risk

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

	Maximum exposure to credit risk	
	2007	2006
	C£000	C£000
Balances with central banks	513.132	604.648
Placements with banks	3.604.332	2.496.297
Trading investments - debt securities	159.276	158.334
Investments at fair value through profit or loss - debt securities	106.975	65.188
Loans and advances to customers	11.073.923	8.390.650
Investments available-for-sale and held-to-maturity	2.031.891	2.073.666
Debtors (Note 22)	24.585	17.087
Fair value of derivative financial instruments (Note 34)	32.566	25.081
Reinsurer's share of insurance contract liabilities (Note 22)	25.264	23.016
Accrued interest (Note 22)	36.805	30.157
Items in course of collection and taxes refundable	45.863	34.966
Total on-balance sheet	17.654.612	13.919.090
Contingent liabilities	1.025.211	857.273
Commitments	2.000.181	1.592.332
Total off-balance sheet	3.025.392	2.449.605
Total credit risk exposure	20.680.004	16.368.695

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Notes to the Financial Statements

38. Risk management – Credit risk (continued)

Maximum exposure to credit risk (continued)

The Group's maximum exposure to credit risk is also analysed by the following geographic areas:

	2007	2006
	C£000	C£000
On-balance sheet		
Cyprus	11.278.839	8.620.931
Greece	5.251.755	4.369.121
United Kingdom	799.864	728.662
Australia	293.191	200.376
Romania and Russia	30.963	-
	17.654.612	13.919.090
Off-balance sheet		
Cyprus	1.736.162	1.366.377
Greece	1.214.335	1.016.113
United Kingdom	49.789	48.725
Australia	23.199	18.390
Romania and Russia	1.907	-
	3.025.392	2.449.605

Credit portfolio concentration

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks should not lend more than 25% of their capital base to any one customer group. In addition, total lending to customers whose borrowings exceed 10% of a bank's capital base, should not in aggregate exceed eight times its capital base. The Group is in compliance with both restrictions.

In addition to the above, the Group's overseas subsidiaries must comply with large exposure guidelines set by the regulatory authorities of the countries in which they operate.

The Group's exposure to credit risk arising from customers who have credit facilities amounting to more than 10% of the Group's capital base as at 31 December 2007, was C£202.609 thousand (2006: C£151.662 thousand).

38. Risk management – Credit risk (continued)

Collateral and other credit enhancements

Loans and advances to customers

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

The main types of collateral obtained by the Group are mortgages of properties, cash collateral / blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors changes in the market value of the collateral and, when necessary, requires the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury bills and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets.

The ISDA Master Agreement is the Group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In some cases the parties execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty, to comply with the aggregate settlement risk limits established for the Company's market transactions on any single day. Settlement risk is mitigated when transactions are effected via established payment systems, or on a delivery upon payment basis.

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Notes to the Financial Statements

38. Risk management – Credit risk (continued)

Concentrations of loans and advances

	2007	2006
	C£000	C£000
<i>By economic activity</i>		
Trade	1.476.589	1.254.936
Manufacturing	469.163	432.268
Tourism	908.050	752.475
Property and construction	1.563.249	1.275.074
Personal and professional	4.408.774	3.262.311
Housing	2.130.066	1.520.971
Other sectors	456.910	354.323
	11.412.801	8.852.358
<i>By geographical area</i>		
Cyprus	5.781.446	4.188.895
Greece	4.635.031	3.811.938
United Kingdom	743.810	682.628
Australia	234.854	168.897
Romania and Russia	17.660	-
	11.412.801	8.852.358

Analysis of loans and advances to customers

	2007	2006
	C£000	C£000
Neither past due nor impaired	9.748.696	7.396.452
Past due but not impaired	1.227.093	827.635
Impaired	437.012	628.271
	11.412.801	8.852.358

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38. Risk management – Credit risk (continued)

Analysis of loans and advances to customers (continued)

The credit quality of loans and advances to customers that were neither past due nor impaired is managed by the Group using internal credit ratings. The table below shows the credit quality of loans and advances to customers that were neither past due nor impaired, based on the Group's credit rating system.

	Neither past due nor impaired			
	Grade 1	Grade 2	Grade 3	Total
2007	C€000	C€000	C€000	C€000
Cyprus	3.891.566	524.288	559.314	4.975.168
Greece	2.907.577	147.990	836.380	3.891.947
UK	430.633	74.666	163.841	669.140
Australia	108.434	57.507	38.865	204.806
Romania and Russia	7.635	-	-	7.635
	7.345.845	804.451	1.598.400	9.748.696

2006				
Cyprus	2.582.414	369.119	305.235	3.256.768
Greece	2.493.129	592.402	319.413	3.404.944
UK	435.899	14.869	141.978	592.746
Australia	136.038	4.999	957	141.994
	5.647.480	981.389	767.583	7.396.452

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months are classified as Grade 1. Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the last twelve months, or for up to 15 consecutive days during the last six months are classified as Grade 2. The remaining loans and advances are classified as Grade 3.

Loans and advances to customers which were past due but not impaired

	2007	2006
	C€000	C€000
Past due up to 30 days	764.723	507.271
Past due 31-90 days	312.070	202.915
Past due 91-180 days	89.723	44.930
Past due 181-365 days	22.360	19.522
Past due over one year	38.217	52.997
	1.227.093	827.635

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38. Risk management – Credit risk (continued)

Loans and advances to customers which were past due but not impaired (continued)

The main reason why past due loans are not considered to be impaired, is that they are secured by tangible collateral whose value is sufficient to cover both the principal and interest.

The collateral consists primarily of real estate, cash, letters of guarantee, floating and fixed charges. More details are set out in 'Collateral and other credit enhancements'.

The fair value of collateral that the Group holds in respect of loans and advances to customers that are past due but not impaired as at 31 December 2007 amounts to C£967.153 thousand (2006: C£611.716 thousand).

Impaired loans and advances

The analysis of gross loans and advances to customers that are individually determined to be impaired, by geographical area is shown in the table below:

	2007	2006
	C£000	C£000
Cyprus	282.823	455.518
Greece	146.254	162.679
United Kingdom	7.928	10.043
Australia	7	31
	437.012	628.271

The fair value of collateral that the Group holds in relation to individually impaired loans as at 31 December 2007 amounts to C£228.825 thousand (2006: C£238.216 thousand).

The collateral consists primarily of real estate, cash, letters of guarantee, floating and fixed charges. More details are set out in 'Collateral and other credit enhancements'.

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38. Risk management – Credit risk (continued)

Impaired loans and advances (continued)

The movement of the provision for impairment for loans and advances to customers is shown in the table below:

	Cyprus	Greece	Other countries	Total provision for impairment
2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
At 1 January	338.854	115.726	7.128	461.708
Exchange adjustment	3	1.252	(84)	1.171
Applied in writing off:				
- interest on previous years' impaired loans and advances	(121.488)	(16.368)	(850)	(138.706)
- impaired loans and advances	(17.914)	(12.962)	(178)	(31.054)
Interest accrued on impaired loans and advances	(11.665)	(5.515)	(266)	(17.446)
Collection of loans and advances previously written off	24.243	6.259	-	30.502
Charge for the year	14.836	17.564	303	32.703
At 31 December	226.869	105.956	6.053	338.878
Individual impairment	162.685	57.666	4.605	224.956
Collective impairment	64.184	48.290	1.448	113.922

2006				
At 1 January	312.489	92.613	8.708	413.810
Exchange adjustment	(101)	895	127	921
Applied in writing off loans and advances	(27.104)	(17.673)	(288)	(45.065)
Interest accrued on impaired loans and advances	(13.943)	(4.306)	(312)	(18.561)
Collection of loans and advances previously written off	5.569	-	-	5.569
Charge/(credit) for the year	61.946	44.197	(1.109)	105.034
At 31 December	338.856	115.726	7.126	461.708
Individual Impairment	309.712	75.407	6.022	391.141
Collective Impairment	29.144	40.319	1.104	70.567

The charge for 2006 in the reconciliation above does not agree with the charge for the year as presented in the income statement as, part of the provision relating to suspended income in 2006 was netted off against interest and fees and commissions income.

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Notes to the Financial Statements

38. Risk management – Credit risk (continued)

Renegotiated loans

Renegotiated loans that would otherwise be past due or impaired at 31 December 2007 amounted to C£29.487 thousand (2006: C£28.321 thousand).

Collateral and other credit enhancements obtained

The carrying amount of assets obtained during the year by taking possession of collateral held as security are as follows:

	2007	2006
	C£000	C£000
Residential property	478	629
Commercial and other property	5.645	12.061
	6.123	12.690

The majority of the repossessed assets are disposed and the net proceeds are used to reduce or repay the outstanding debts. Depending on the agreement with the customer, any excess funds are either used to settle other debts of the customer, are returned to the customer or are credited to the income statement.

Analysis by rating agency designation

Balances with central banks and placements with banks are analysed in accordance with their Moodys rating as follows:

	2007	2006
	C£000	C£000
Aaa – Aa3	3.180.193	2.026.469
A1 – A3	583.137	850.189
Baa1 – Baa3	52.476	2.543
Unrated	257.690	175.601
Items in course of collection from banks	43.968	46.143
	4.117.464	3.100.945

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Notes to the Financial Statements

38. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

Debt securities and treasury bills are analysed in accordance with their Moodys rating as follows:

	Debt securities	Treasury bills	Total
2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
<i>Analysis by Moodys rating:</i>			
Aaa – Aa3	1.385.554	-	1.385.554
A1 – A3	903.655	-	903.655
Baa1 – Baa3	699	-	699
Unrated	8.234	-	8.234
	2.298.142	-	2.298.142
<i>Of which issued by:</i>			
- Cyprus government	496.669	-	496.669
- other governments	506.174	-	506.174
- European banks and other organisations	1.292.557	-	1.292.557
- Cyprus local authorities	1.685	-	1.685
- Cyprus public companies	1.057	-	1.057
	2.298.142	-	2.298.142
<i>Of which classified as:</i>			
- trading investments	159.276	-	159.276
- investments at fair value through profit or loss	106.975	-	106.975
- available-for-sale investments	1.958.470	-	1.958.470
- held-to-maturity investments	73.421	-	73.421
	2.298.142	-	2.298.142

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Notes to the Financial Statements

38. Risk management – Credit risk (continued)

Analysis by rating agency designation (continued)

	Debt securities	Treasury bills	Total
	€000	€000	€000
2006			
<i>Analysis by Moodys rating:</i>			
Aaa – Aa3	1.347.700	-	1.347.700
A1 – A3	870.906	41.563	912.469
Baa1 – Baa3	16.134	-	16.134
Unrated	20.885	-	20.885
	2.255.625	41.563	2.297.188
<i>Of which issued by:</i>			
- Cyprus government	500.738	41.563	542.301
- other governments	463.113	-	463.113
- European banks and other organisations	1.289.339	-	1.289.339
- Cyprus local authorities	1.221	-	1.221
- Cyprus public companies	1.214	-	1.214
	2.255.625	41.563	2.297.188
<i>Of which classified as:</i>			
- trading investments	158.334	-	158.334
- investments at fair value through profit or loss	65.188	-	65.188
- available-for-sale investments	2.029.509	41.563	2.071.072
- held-to-maturity investments	2.594	-	2.594
	2.255.625	41.563	2.297.188

39. Risk management – Market risk

Market risk is the risk of loss from changes in market prices – namely from changes in interest rates, exchange rates and security prices. Group Market Risk Management is responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied with the assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to find the annual impact on earnings of any changes in interest rates for the next twelve months for each currency.

In order to manage interest rate risk, there are maximum loss limits from interest rate mis-matches for each banking unit of the Group. There are different limits for the Cyprus pound and for foreign currencies. Maximum loss limits apply for each of the first three years. They were set as a percentage of Group capital (1,5%) and as a percentage of net interest income (5%) and were allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions have been approved for periods of more than three years.

Sensitivity analysis

The table below indicates the effect on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

Change in interest rates	Cyprus pound	Euro	US Dollars	British pounds	Other Currencies	Total
	C£000	C£000	C£000	C£000	C£000	C£000
2007						
+0,5% for all currencies	6.218	1.040	711	513	277	8.466
-1,5% for USD and - 0,5% for all other currencies	(6.294)	(1.080)	(3.112)	(533)	(347)	(10.659)
2006						
+0,5% for all currencies	4.025	988	448	246	89	5.619
-0,5% for all currencies	(4.282)	(1.875)	(1.048)	(352)	(128)	(7.383)

The total change in net interest income differs from the sum of the changes for each individual currency, as it has been calculated based on the actual correlation coefficients between the interest rates of the various foreign currencies, and perfect positive correlation between the interest rate of the foreign currencies and the Cyprus pound.

39. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

In addition to the above fluctuations in net interest income, the results of the Group are affected by changes in interest rates fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and from fluctuations in the fair value of derivative financial instruments.

Furthermore, the equity of the Group is also influenced by changes in market interest rates. The changes in the Group's equity arise from changes in the fair value of fixed rate debt securities classified as 'available-for-sale' as well as from changes in the fair value of derivative financial instruments which are hedging instruments in effective cash flow hedges.

The sensitivity analysis is based on the assumption of a parallel movement of the yield curve. The table below shows the change in net profit and equity of the Group due to reasonably possible changes in interest rates of the major currencies.

Change in interest rates	Impact on net profit	Impact on equity
	C£000	C£000
2007		
+0,5% for all currencies	3.349	(14.746)
-1,5% for USD and -0,5% for all other currencies	(1.930)	19.517
2006		
+0,5% for all currencies	4.958	(13.459)
-0,5% for all currencies	(4.758)	13.759

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In order to manage currency risk, the Group Assets and Liabilities Committee ('ALCO') has approved open position limits for each currency or group of currencies and total foreign exchange position limits. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus.

Trading book positions are only allowed in Cyprus. The Group ALCO has approved maximum loss limits (daily and monthly) and a Value at Risk ('VaR') limit. These limits are monitored by the Group Market Risk Management.

VaR is measured using the variance/co-variance methodology, which is based on the assumption that the daily changes in prices follow the normal distribution. VaR is calculated with a confidence interval of 99% for a one-day holding period, using historic data for foreign exchange rates over the last five years. The use of a 99% confidence interval means that, within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

39. Risk management – Market risk (continued)

Currency risk (continued)

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

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

The VaR for foreign exchange trading book positions was as follows:

	2007	2006
	C£000	C£000
Average	77	185
Highest	167	428
Lowest	2	3

During 2007 the realised losses did not exceed the VaR any single day.

There are no specific limits set for the banking book. There are combined intra-day and overnight position limits for the trading book and the banking book. Adherence to the limits is monitored on a daily basis by the Group Market Risk Management.

The table below sets out the Group's foreign exchange risk resulting from its open foreign exchange positions. The analysis assumes reasonably possible changes in exchange rates of major currencies against the Cyprus pound, based on past price fluctuations.

Currency	Net open position	Change in exchange rate	Impact on net profit
2007	C£000	%	C£000
Euro	20.759	+0,5	104
US Dollar	5.793	+6,0	348
British pound	(272)	+4,0	(11)
Other currencies	(313)	+8,0	(25)
Euro	20.759	-0,5	(104)
US Dollar	5.793	-6,0	(348)
British pound	(272)	-4,0	11
Other currencies	(313)	-8,0	25

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39. Risk management – Market risk (continued)

Currency risk (continued)

Currency	Net open position	Change in exchange rate	Impact on net profit
2006	C£000	%	C£000
Euro	70.728	+0,5	354
US Dollar	1.010	+6,0	61
British pound	7.061	+4,0	282
Other currencies	475	+8,0	38
Euro	70.728	-0,5	(354)
US Dollar	1.010	-6,0	(61)
British pound	7.061	-4,0	(282)
Other currencies	475	-8,0	(38)

Price risk

Equity securities price risk

The risk of loss from changes in the price of equity shares, arises when there is an unfavourable change in the price of investment in equity securities held by the Group.

In order to control the risk of loss from changes in the price of equities there are maximum limits for the amounts that can be invested in shares in the trading book and other restrictions, like maximum amount invested in a specific issuer, specific industry, etc.

A change in the price of equity securities that are measured at fair value through profit or loss, affect the profit of the Group, whereas a change in the value of equity securities classified as 'available for sale' affect the equity of the Group. The table below indicates how the net profit and equity of the Group will be affected from a change in the price of the equity securities held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on net profit	Impact on equity
2007	%	C£000	C£000
Cyprus Stock Exchange	+25	4.327	10.665
Athens Exchange	+15	1.043	46
Cyprus Stock Exchange	-25	(4.327)	(10.665)
Athens Exchange	-15	(1.043)	(46)

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39. Risk management – Market risk (continued)

Price risk (continued)

	Change in index	Impact on net profit	Impact on equity
2006	%	C£000	C£000
Cyprus Stock Exchange	+25	828	10.456
Athens Exchange	+15	-	-
Cyprus Stock Exchange	-25	(828)	(10.456)
Athens Exchange	-15	-	-

Debt securities price risk

Debt securities price risk is the risk of loss as a result of an adverse change in the price of debt securities held by the Group. Debt security prices change as the credit spreads of the issuers change. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and international banks. The average Moodys rating of the debt securities portfolio of the Group as at 31 December 2007 was Aa3.

A change in the price of debt securities measured at fair value through profit or loss, affect the profit of the Group, whereas a change in the value of debt securities classified as 'available for sale' affect the equity of the Group. The table below indicates how the profit and equity of the Group will be affected from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit spreads over the past years.

Change in market price	Impact on net profit	Impact on equity
	C£000	C£000
2007		
+3%	16.454	51.580
-4%	(21.939)	(67.045)
2006		
+1%	5.252	17.505
-2%	(10.505)	(34.450)

40. Risk management – Liquidity risk

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

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

40. Risk management – Liquidity risk (continued)

Group assets are mainly funded by deposits. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a small number of depositors. Moreover, the percentages of fixed deposits that are renewed are monitored every quarter and are maintained at high levels. The Group relies almost exclusively on stable funding sources in order to finance illiquid assets.

Liquidity is monitored daily by Group Market Risk Management. The responsibility for the management of liquidity rests with the treasury units at each location, in cooperation with Group Treasury.

Group Market Risk Management is responsible for monitoring the liquidity position of all banking units of the Group in order to ensure compliance with both internal policies, and with the limits set by the regulatory authorities in the countries where the Group operates.

The liquidity position is assessed under various scenarios, including a bank-specific crisis and a market crisis. Under both scenarios there are more liquid assets than maturing obligations in the first five days.

The Group maintains at all times a diversified portfolio of highly liquid assets in the principal currencies in which it transacts. Moreover a liquidity ratio of liquid assets to total liabilities falling due in the next twelve months is monitored at Group level with the minimum acceptable ratio set at 25%. Liquid assets are defined as cash, interbank deposits maturing in the next thirty days and debt and equity securities at discounts prescribed by the regulatory authorities.

The liquidity ratio was as follows:

	2007
	%
31 December	40,5
Average ratio	39,5
Highest ratio	41,9
Lowest ratio	35,2

Analysis of financial liabilities by remaining contractual maturity

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

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

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40. Risk management – Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturity (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2007	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
Amounts due to banks	403.286	184.743	20.810	125.926	-	734.765
Repurchase agreements	146.400	-	-	126.450	-	272.850
Customer deposits	9.718.996	2.987.623	2.053.967	85.645	117	14.846.348
Debt securities in issue	67.599	206.749	24.668	480.132	231	779.379
Derivative financial instruments – contractual amount payable	354.938	201.299	118.055	16.055	4.449	694.796
Derivative financial instruments – contractual amount receivable	(346.844)	(198.057)	(114.449)	(13.402)	(4.532)	(677.284)
Subordinated loan stock	-	60.260	129.817	252.445	-	442.522
Other liabilities	113.113	148	-	-	-	113.261
	10.457.488	3.442.165	2.232.868	1.073.251	265	17.206.637

2006						
Amounts due to banks	120.219	94.182	10.795	51.967	-	277.163
Repurchase agreement	-	-	-	-	-	-
Customer deposits	7.453.676	2.824.974	1.722.469	193.119	-	12.194.238
Debt securities in issue	51.686	36.788	12.786	362.751	288	464.299
Derivative financial instruments – contractual amount payable	98.292	121.300	142.543	19.117	8.838	390.090
Derivative financial instruments – contractual amount receivable	(97.969)	(120.590)	(140.231)	(19.880)	(9.151)	(387.821)
Subordinated loan stock	1.888	3.253	12.164	157.822	219.513	394.640
Other liabilities	89.093	1.948	2.469	-	-	93.510
	7.716.885	2.961.855	1.762.995	764.896	219.488	13.426.119

41. Risk management – Other risks

Operational risk

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

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

Regulatory risk

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

The operations of the Cyprus insurance companies are supervised by the Registrar of Insurance Companies. Legal and regulatory changes may be introduced in the future by the European Union or by the Registrar which may adversely affect the results and financial position of the Group's insurance companies.

Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The accession of Cyprus to the European Union and the introduction of the Euro in 2008 facilitates the operation of European banks, financial and insurance organisations in the Cyprus market, thus increasing competition.

In Greece, the Group competes with Greek banks, which control the largest share of the total assets of the banking system, as well as with co-operative banks and branches of credit institutions headquartered in other European Union member countries.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect the Group's operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 33) and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

Political and economic risk

External factors which are not under the control of the Group, like political and economic developments in Cyprus and overseas, may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union and European Central Bank policies, fluctuations in consumer confidence and the level of consumer spending, political instability or military conflict which affect Europe and/or other areas overseas and social developments in the countries in which the Group operates.

41. Risk management – Other risks (continued)

Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength.

42. Capital management

The adequacy of the Group's capital is monitored by reference to the rules and ratios established by the Basel Committee on Banking Supervision, as adopted by the Central Bank of Cyprus. In December 2006 the Central Bank of Cyprus issued the Directive for the calculation of the capital requirements and large exposures of banks, (the 'Directive', 'Basel II') adopting the provisions of the European Union's directive based on of Basel II capital adequacy rules. Basel II consists of three pillars: (I) Minimum Capital Requirements, (II) Supervisory Review Process and (III) Market Discipline. The Group has implemented the provisions of the Directive as from 1 January 2007. Up to 31 December 2006 the Group was calculating its capital adequacy in accordance with the previous Capital Adequacy Directive of the Central Bank of Cyprus ('Basel I').

Pillar I - Minimum Capital Requirements

The Group adopted the Standardised approach for Credit, Market and Operational risk.

According to the Standardised approach for credit risk, in calculating the minimum capital requirement, risk weights are assigned to exposures, after the consideration of various mitigating factors, according to the exposure class to which they belong. For exposures with institutions and corporates, the risk weight also depends on the term of the exposure (more favourable risk weights apply where the exposure is under three months).

The standardised measurement method for the capital requirement for market risk adds together the positions for interest rate, equity position, foreign exchange, commodity risk and price risk on options, according to predefined models to determine the capital requirement.

For operational risk, the standardised approach divides banking activities into eight business lines. Gross income is used as the main indicator in determining the operational risk exposures within each of the business lines. The capital requirement is computed using the average, on a three year basis, of the weighted indicators for the business lines.

Pillar II – The Supervisory Review Process

The Supervisory Review Process provides rules to ensure that adequate capital is in place to support any risk exposures of the Group in addition to requiring appropriate risk management, reporting and governance structures. Pillar II covers any risk not fully addressed in Pillar I, such as credit concentration risk, interest rate risk in the banking book, business and strategy risk and any external factor affecting the Group (e.g. business cycle effects).

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42. Capital management (continued)

Pillar II – The Supervisory Review Process (continued)

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

Pillar III – Market Discipline

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

Capital management

The primary objective of the Group's capital management is to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue subordinated debt as part of its EMTN programme, or issue capital securities (hybrid capital). In addition, the Group may opt for equity increases through a rights issue or the issue of warrants.

As from 1 January 2007 the Central Bank of Cyprus requires each bank to maintain a minimum ratio of capital to risk weighted assets of 8%. The Central Bank of Cyprus may impose additional capital charges for risks not covered under Pillar I. For 2006 the minimum capital adequacy ratio set by the Central Bank of Cyprus under the Capital Adequacy Directive was 10%.

During 2007 and 2006 the Group had complied in full with all externally imposed capital requirements.

	2007 Basel II	2006 Basel I
	C£000	C£000
Regulatory capital		
Original own funds	981.952	782.588
Supplementary own funds	305.927	260.504
Total capital	1.287.879	1.043.092

Risk weighted assets – credit risk	9.181.347	8.654.961
Risk weighted assets – market risk	34.488	-
Risk weighted assets – operational risk	942.538	-
	10.158.373	8.654.961

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

42. Capital management *(continued)*

Capital management *(continued)*

Under the Directive regulatory capital comprises of:

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

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

Investments in non banking subsidiaries and participations in the share capital or subordinated capital of other credit institutions, the book value of which exceeds 10% of their capital base, are deducted equally from original own funds and supplementary own funds.

There are also local capital requirements for some banking subsidiaries operating overseas; these subsidiaries also comply with these requirements in addition to the Directive set by the Central Bank of Cyprus.

The increase of regulatory capital during the year 2007 is mainly due to current year profit, after taking into account dividends paid and proposed and the increase of equity through the exercise of the options and dividend reinvestment. The increase of the risk weighted assets reflects the growth of balance sheets assets as well as business growth during the year.

Bank of Cyprus Group

Notes to the Financial Statements

43. Related party transactions

	2007	2006	2007	2006
	Number of directors		C£000	C£000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Group's net assets per director	4	4	70.583	71.542
- less than 1% of the Group's net assets per director	14	14	11.904	12.688
	18	18	82.487	84.230
Loans and advances to key management personnel and connected persons			513	523
Total loans and other advances			83.000	84.753
Analysis of loans and advances:				
- members of the Board of Directors and key management personnel			5.744	4.806
- connected persons			77.256	79.947
			83.000	84.753
Tangible securities			130.891	135.760
Interest income			4.701	4.498
Deposits of:				
- members of the Board of Directors and key management personnel			50.313	3.291
- connected persons			24.964	14.990
			75.277	18.281
Interest expense			2.152	322

In addition to loans and advances, there were contingent liabilities in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to C£49.758 thousand (2006: C£51.792 thousand). Of these, C£46.548 thousand (2006: C£48.503 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Group per director. There were also contingent liabilities to Group key management personnel and their connected persons amounting to C£191 thousand (2006: C£391 thousand).

Connected persons include spouses, minor children and companies in which directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares in a general meeting, or act as directors or control the entities in any way.

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

Bank of Cyprus Group

Notes to the Financial Statements

43. Related party transactions (continued)

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

	<i>2007</i>	<i>2006</i>
	<i>C£000</i>	<i>C£000</i>
Directors' emoluments		
<i>Non executives</i>		
Fees	433	475
<i>Executives</i>		
Emoluments in executive capacity:		
Salaries and other short term benefits	1.545	939
Employer's contributions	46	29
Retirement benefit plan costs	109	88
Share-based payments – Share Options	5	5
Total emoluments in executive capacity	1.705	1.061
Total emoluments of non executive director who is also an employee of the Company	57	-
Total fees and emoluments of directors	2.195	1.536
Key management personnel emoluments		
Salaries and other short term benefits	1.228	799
Employer's contributions	51	43
Retirement benefit plan costs	114	89
Share-based payments – Share Options	10	10
Total key management personnel emoluments	1.403	941
Total	3.598	2.477

The total emoluments of the executive directors for the year, including employer's contributions and other benefits were: one director in the range of C£400 – C£450 thousand, one director in the range of C£500 – C£550 thousand and one director in the range of C£750 – C£800 thousand (2006: one director in the range of C£250 – C£300, one director in the range of C£300 – C£350 thousand and one director in the range of C£450 – C£500 thousand).

The fees and emoluments of key management personnel comprise the amounts of the Group General Managers. The fees and emoluments of the executive directors comprise the emoluments of the three members of the Group Executive Management team.

43. Related party transactions (continued)

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

In the context of the Share Options 2006/2007 issued by the Company to the Group's permanent employees on 30 September 2006, 15.000 share options were granted to the executive directors at the exercise price of C£4,32 per option (fair value C£0,69 per option) and 18.000 options were granted to key management personnel at the exercise price of C£3,70 per option (fair value C£1,06 per option). All Share Options 2006/2007 were exercised by their holders during 2007.

The executive directors participate in the main retirement benefit plan for the Group's permanent employees in Cyprus, which is a defined benefit plan. Their total retirement benefits increased during 2007 by C£586 thousand (2006: C£489 thousand).

As at 31 December 2006 there was a provision of C£1.367 thousand relating to amounts payable to three directors, following their retirement from executive duties, which were paid in 2007.

Other transactions with related parties

Mr Andreas Artemis, Vice-Chairman of the Board of Directors of the Company, holds an indirect interest and is Chairman of the Board of Directors of the Commercial General Insurance Ltd group which is engaged in general insurance business in Cyprus and Greece. The Commercial General Insurance Ltd group has entered into reinsurance arrangements with General Insurance of Cyprus Ltd, a subsidiary of the Company. The total reinsurance premiums assigned to the Commercial General Insurance Ltd group in 2007 amounted to C£713 thousand (2006: C£703 thousand).

Mrs Anna Diogenous, member of the Board of Directors of the Company, holds an indirect interest in the company Pylones SA Hellas, which supplies the branch of the Company in Greece with equipment and services following tender procedures and in the company Unicars Ltd which supplies the Company in Cyprus with cars and related services. The total purchases from these companies in 2007 amounted to C£542 thousand (2006: C£486 thousand). Also, the company Mellon Cyprus Ltd which supplies the Group with equipment, is significantly influenced by a person connected to Mrs Anna Diogenous. The total purchases from this company in 2007 amounted to C£526 thousand (2006: C£88 thousand).

Mr Costas Z. Severis, member of the Board of Directors of the Company, is the main shareholder of the company D. Severis and Sons Ltd, which is an agent of the subsidiary of the Company, General Insurance of Cyprus Ltd. The total commissions paid to D. Severis and Sons Ltd in 2007 amounted to C£97 thousand (2006: C£92 thousand).

Bank of Cyprus Group

Notes to the Financial Statements

44. Group companies

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

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

Bank of Cyprus Group

Notes to the Financial Statements

44. Group companies (continued)

Channel Islands	
Bank of Cyprus (Channel Islands) Ltd	Commercial bank
Tefkros Investments (CI) Ltd	Investment fund
Australia	
Bank of Cyprus Australia Ltd	Commercial bank
Romania	
Bank of Cyprus Romania (branch)	Commercial bank
Cyprus Leasing Romania IFN SA	Leasing
Russia	
LLC CB 'Bank of Cyprus'	Commercial bank
'Bank of Cyprus Leasing Co' Ltd	Leasing

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

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

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

The subsidiary company Cyprus Leasing Romania IFN SA and the branch of the Company in Romania (Bank of Cyprus Romania) were included in the financial statements for the first time during the three months ended 31 December 2006. The above companies commenced operations in 2007.

In November 2007 the Company signed an agreement for the acquisition of 95% of the share capital of the Ukrainian bank AvtoZAZBank. The agreement is subject to the relevant approvals being obtained from the supervisory authorities in Ukraine.

The subsidiary BOC International Fund Management Ltd, incorporated in Ireland, was dissolved on 9 November 2007 and is no longer included in the financial statements.

The subsidiary Old Company (BCL) Ltd has been liquidated in 2007 and is not included in the financial statements.

Bank of Cyprus Group

Notes to the Financial Statements

44. Group companies (continued)

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

Company	Shareholding		Accounting treatment
	31 Dec. 2007	31 Dec. 2006	
JCC Payment Systems Ltd	45,00%	45,00%	Proportional consolidation
Cytrustees Investment Public Company Ltd	49,98%	3,31%	Consolidation (8 February until 26 April 2007: Equity method)
Interfund Investments Plc	22,83%	-	Equity method

There were no changes in the companies being consolidated and their accounting treatment compared to 31 December 2006 other than the changes described in this note.

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

	2007	2006
	C£000	C£000
Gross income	6.253	5.887
Profit before tax	2.567	2.475
Net assets	11.151	10.343
Total assets	15.428	13.348

45. Acquisition of subsidiary

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

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

	Fair value recognised on acquisition of subsidiary	Fair value recognised on acquisition of associate
	C£000	C£000
Net assets	12.028	10.006
Negative goodwill arising on acquisition (Notes 8 and 10)	(1.943)	(2.184)
Total consideration	10.085	7.822

Bank of Cyprus Group

Notes to the Financial Statements

45. Acquisition of subsidiary (continued)

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

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

Cash outflow on acquisition of subsidiary:	C£000
Net cash acquired	1.490
Cash paid	(10.085)
Net cash outflow	(8.595)

The profit after tax attributable to the shareholders of the Company from the acquisition date (27 April 2007) to 31 December 2007 amounted to C£2.523 thousand.

46. Investment in associate

The Company has 22,83% interest in Interfund Investments Plc which is a closed-end investment company listed on the Cyprus Stock Exchange. The holding was acquired on 21 May 2007.

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

	Fair value recognised on acquisition
	C£000
Fair value of net assets (mainly trading investments) on acquisition date	11.412
Negative goodwill arising on acquisition (Note 10)	(633)
Total consideration	10.779

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

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Notes to the Financial Statements

46. Investment in associate (continued)

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

	31 December 2007
	C£000
Total assets	10.160
Liabilities	(24)
Net assets	10.136
Carrying amount of the investment	10.136
Market value of investment on the Cyprus Stock Exchange	8.875
Share of the associate's revenue and profit:	
Revenue	2.319
Profits after tax	2.289

47. Events after the balance sheet date

On 1 January 2008, date of the introduction of the Euro as the new official currency of the Republic of Cyprus, the functional currency of the Company and its subsidiaries in Cyprus changed from Cyprus pounds to the Euro. As a result of this change, as from 1 January 2008 all assets and liabilities of the Company and its subsidiaries in Cyprus have been converted using the fixed conversion rate of €1 = C£0,585274.

In addition, the nominal value of the Company's shares was converted from C£0,50 to €1,00, as explained in Note 28.

Independent Auditors' Report to the Members of Bank of Cyprus Public Company Ltd

Report on the Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the Company) and its subsidiaries (the Group) on pages 8 to 103 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, 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.

Independent Auditors' Report to the Members of Bank of Cyprus Public Company Ltd

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 7 is consistent with the financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Ernst & Young

Nicosia

27 February 2008