Founded in 1899, the Bank of Cyprus Group is the leading financial services organisation in Cyprus, with a dynamic presence in Greece and operations in the United Kingdom, Australia and the Channel Islands. The Group offers a wide range of financial products and services, which include banking services, finance, factoring, general and life insurance, brokerage, investment banking and mutual fund management.

Bank of Cyprus Public Company Ltd (the Bank) holds a leading position in Cyprus. Since 1991, the Bank commenced its dynamic expansion in Greece. Today, Bank of Cyprus Greece is the seventh largest commercial bank and largest ‘foreign’ bank in the country.

Due to its expansion to countries with sizeable Cypriot or Greek communities or business ties, the Bank is widely recognised as the international bank of the Hellenism. The Group is well established in the United Kingdom, where this year it completes 50 years of successful presence. The Group’s international activities were further enhanced in 2000 with the operation of a wholly owned subsidiary bank in Australia.

The Bank of Cyprus Group currently operates through a total of 288 banking outlets, of which 172 operate in Cyprus, 100 in Greece, six in the United Kingdom, nine in Australia and one in the Channel Islands. Bank of Cyprus also has Representative Offices in South Africa, Canada, USA, Russia and Romania. The Group employs 5,890 staff worldwide.

The shares of Bank of Cyprus Public Company Ltd are listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange. The Bank is the largest listed company on the CSE in terms of market capitalisation, it has a well-diversified shareholder base and the number of its shareholders exceeds 70,000.
Directors and Executives

Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)

Solon A. Triantafyllides CHAIRMAN
Vassilis G. Rologis VICE CHAIRMAN
Christos S. Pantaris Andreas Pittas
Andronicos Agathocleous Poly G. Polyiou
Dimitris P. Ioannou George A. David
Costas Z. Severis Andreas Artemis
Theodoros Aristodemou Anna Diogenes
Demetris Z. Pliades George M. Georgiades
Evdokimos Xenophontos Andreas J. Jacovides
Christakis G. Christofides Christos Mouskas

Group Executive Management

Andreas Elaidis GROUP CHIEF EXECUTIVE OFFICER
Charlaas G. Stavrakis CHIEF EXECUTIVE OFFICER - CYPRUS AND DEPUTY GROUP CHIEF EXECUTIVE OFFICER
Yiannis Kyri GROUP CHIEF GENERAL MANAGER
Antonis Jacouris GENERAL MANAGER INFORMATION AND OPERATIONS
Vassos Shiarly GENERAL MANAGER DOMESTIC BANKING
Christis Hadjimitsis GENERAL MANAGER FINANCE
Nicolas Karydas GENERAL MANAGER RISK MANAGEMENT
Constantinos Vasilakopoulos GENERAL MANAGER BANK OF CYPRUS GREECE

Secretary Yiannis Kyri
Legal Advisers Chryssafinis & Polyiou
Auditors Ernst & Young Chartered Accountants
Registered Office Group Headquarters
51 Stassinos Street
Ayia Paraskevi, Strovolos
P.O. Box 24884, CY-1398 Nicosia, Cyprus
Telephone: +357 22842100, Telefax: +357 22336258

Financial Highlights

Key profitability indicators (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>246</td>
<td>199</td>
<td>176</td>
</tr>
<tr>
<td>Profit before provisions</td>
<td>140</td>
<td>101</td>
<td>90</td>
</tr>
<tr>
<td>Profits/(losses) after tax</td>
<td>38</td>
<td>(29)</td>
<td>(21)</td>
</tr>
</tbody>
</table>

Key balance sheet indicators (€ million)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>10 260</td>
<td>9 062</td>
<td>8 126</td>
</tr>
<tr>
<td>Shareholders' funds</td>
<td>559</td>
<td>523</td>
<td>506</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>6 450</td>
<td>5 689</td>
<td>5 044</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>8 656</td>
<td>7 390</td>
<td>6 836</td>
</tr>
</tbody>
</table>

Per share data (cent)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings/(losses) per share</td>
<td>8.1</td>
<td>(6.5)</td>
<td>(4.9)</td>
</tr>
<tr>
<td>Dividend per share (proposed)</td>
<td>4.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Capital adequacy

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I capital</td>
<td>9.0%</td>
<td>8.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Total</td>
<td>13.7%</td>
<td>13.2%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

Number of employees

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 890</td>
<td>5 703</td>
<td>5 518</td>
<td></td>
</tr>
</tbody>
</table>

Credit rating (31/03/2005)

<table>
<thead>
<tr>
<th></th>
<th>Long term</th>
<th>Short term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody's</td>
<td>Baa I</td>
<td>P-2</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>A-</td>
<td>F-2</td>
</tr>
</tbody>
</table>

Contribution to indices

CSE General Index
FTSE CySE 20 Index
FTSE Med 100 Index
FTSE New EU Index
DJ Staxx EU Enlarged TMI Index
Our Vision

Our vision is to make Bank of Cyprus the bank of preference in Cyprus and Greece for customers, staff and investors, so that in years to come:

• we rank among the three largest banks in the Hellenic community;
• we emerge as a regional power in the wider surrounding geographic region, and
• we become beneficial to the society in which we operate.
Chairman's Statement

The year 2004 marked the beginning of a new era for the Bank of Cyprus Group, as a result of Cyprus' accession to the European Union and the lifting of exchange controls.

The Group's optimism for the future is based on our efforts over the past two years which have recently been intensified with positive results, as well as on the strategy formulated by the Group’s new management team.

Dear Shareholders,

Last year, I made reference to the great difficulties faced by banks in Cyprus over the past couple of years and the factors which adversely affected their profitability. The Group’s commitment and chief objective was to safeguard its profitability and reinstate its dividend distribution policy the soonest possible.

This year, I am pleased to announce that the Group has reverted to profitability and dividend payment.

- Group profit after tax for 2004 reached €38 million against a loss of €29 million for 2003.
- Group core profit (profit before provisions and before taxation) reached €1.99 million, up by 39% against €1.01 million for the prior year.
- Net interest income increased significantly (24%) to €2.46 million compared to €1.99 million for 2003.

The increase was due to the improved net interest margin, which resulted from the actions taken to further improve product pricing, as well as the significant increase in the Group's Greek loans and advances portfolio and the collection of overdue amounts.

After having considered the positive results of the Group for 2004 and the prospects for sustaining the improvement in profitability, the Board of Directors of Bank of Cyprus decided to recommend for approval at the Annual General Meeting of the Shareholders to be held on 18 May 2005, the payment of a dividend for 2004 at 4 cent per share.

The Dividend Reinvestment Plan approved by the Board of Directors in February 2002 is still in force. The discount offered under the Plan for the reinvestment of the dividend in shares, has been increased to 10%.

The Group maintains a strong capital base, which at the end of 2004 amounted to €282 million, marking a 7% annual increase.

The Group capital adequacy ratio at 31 December 2004 stood at 13.7% compared to the 10% minimum required by the Central Bank of Cyprus and 8% required by the European Union Directive.

The Bank will proceed with a share capital increase before the end of 2005 to strengthen its capital base. The share capital increase will take the form of a rights issue. It is estimated that the total proceeds of the issue will be of the order of €190-€210 million. The specific details of the issue will be decided by the Board of Directors of the Bank and will be announced closer to the time of issue.

Group total assets at the end of the year reached €10.26 billion, recording a 13% annual increase.

Group core profits (profit before provisions and before taxation) reached €0.45 billion at 31 December 2004. Group customer deposits at 31 December 2004 reached €8.86 billion, recording a 17% annual increase.

Following two difficult years for the banking sector in Cyprus, which was affected by the prolonged downturn of the stockmarket and the adverse conditions prevailing in the Cyprus economy in general, combined with the introduction of stricter regulations regarding loan quality, the Bank of Cyprus Group entered 2005: stronger and more optimistic about the future.

As regards the Bank in Cyprus, our priority in recent years has been to improve the quality of our loan portfolio and the effective management of non-performing loans. We have coordinated our efforts to this end, which resulted in the significant profitability improvement of the Bank.

In conjunction with the above, our efforts to contain costs continued during 2004, including persisting with the Group’s existing recruitment freeze policy in Cyprus and the control of other operating expenses. Efforts to this end will continue during 2005.

In our effort to offer improved and faster service to customers, we are restructuring our Regional Offices and our branches. These changes aim at converting our branches into selling outlets and at centralising certain services, in order to provide faster service.

Further to the above, 2004 was a very creative year for the Group because, as already announced, we implemented sound corporate governance principles, with the support of the international consulting house McKinsey & Co. Through the adoption of sound corporate governance, we believe that Bank of Cyprus will comprise a model Group in south-eastern Europe.

As you are already aware, as of 1 January 2005 a new Senior Executive Management Team has been appointed, with Mr. A. Blades in the position of Group Chief Executive Officer, Mr. C. Stavrakis in the position of Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer, and Mr. Y. Kyri in the position of Group Chief General Manager. The Chairman has retired from his executive duties, as required by the principles of corporate governance and is now a non-executive Chairman. Furthermore, Messrs Chr. S. Pantzas and E. Xenophontos have handed over their executive duties to the new Senior Executive Management Team.

In the past, the vision of the Bank of Cyprus Group was to emerge as the largest financial organisation of the island and to be a cornerstone of the economy and the citizens of Cyprus. The Group’s vision evolved to cover the Hellenic communities overseas. More recently, the Group’s vision was redrafted to include making Bank of Cyprus a sizeable banking institution in Greece.

The above vision statements have been fulfilled and I believe that the next step will be the Group’s expansion to new markets, such as the Balkans and Russia. The Senior Executive Management Team is already examining the possibility of the Group expanding to these countries. When the relevant reports are completed, the issue will be thoroughly reviewed by the Board of Directors of Bank of Cyprus and any decisions taken will be announced.

The year 2004 marked the beginning of a new era for the Bank of Cyprus Group, as a result of Cyprus’ accession to the European Union and the lifting of exchange controls.

The year 2004 marked the beginning of a new era for the Bank of Cyprus Group, as a result of Cyprus’ accession to the European Union and the lifting of exchange controls.

Last year, I made reference to the great difficulties faced by banks in Cyprus over the past couple of years and the factors which adversely affected their profitability. The Group’s commitment and chief objective was to safeguard its profitability and reinstate its dividend distribution policy the soonest possible.

This year, I am pleased to announce that the Group has reverted to profitability and dividend payment.

- Group profit after tax for 2004 reached €38 million against a loss of €29 million for 2003.
- Group core profit (profit before provisions and before taxation) reached €1.99 million, up by 39% against €1.01 million for the prior year.
- Net interest income increased significantly (24%) to €2.46 million compared to €1.99 million for 2003.

The increase was due to the improved net interest margin, which resulted from the actions taken to further improve product pricing, as well as the significant increase in the Group’s Greek loans and advances portfolio and the collection of overdue amounts.

After having considered the positive results of the Group for 2004 and the prospects for sustaining the improvement in profitability, the Board of Directors of Bank of Cyprus decided to recommend for approval at the Annual General Meeting of the Shareholders to be held on 18 May 2005, the payment of a dividend for 2004 at 4 cent per share.

The Dividend Reinvestment Plan approved by the Board of Directors in February 2002 is still in force. The discount offered under the Plan for the reinvestment of the dividend in shares, has been increased to 10%.

The Group maintains a strong capital base, which at the end of 2004 amounted to €282 million, marking a 7% annual increase.

The Group capital adequacy ratio at 31 December 2004 stood at 13.7% compared to the 10% minimum required by the Central Bank of Cyprus and 8% required by the European Union Directive.

The Bank will proceed with a share capital increase before the end of 2005 to strengthen its capital base. The share capital increase will take the form of a rights issue. It is estimated that the total proceeds of the issue will be of the order of €190-€210 million. The specific details of the issue will be decided by the Board of Directors of the Bank and will be announced closer to the time of issue.

Group total assets at the end of the year reached €10.26 billion, recording a 13% annual increase.

Group core profits (profit before provisions and before taxation) reached €0.45 billion at 31 December 2004. Group customer deposits at 31 December 2004 reached €8.86 billion, recording a 17% annual increase.

Following two difficult years for the banking sector in Cyprus, which was affected by the prolonged downturn of the stockmarket and the adverse conditions prevailing in the Cyprus economy in general, combined with the introduction of stricter regulations regarding loan quality, the Bank of Cyprus Group entered 2005: stronger and more optimistic about the future.

As regards the Bank in Cyprus, our priority in recent years has been to improve the quality of our loan portfolio and the effective management of non-performing loans. We have coordinated our efforts to this end, which resulted in the significant profitability improvement of the Bank.

In conjunction with the above, our efforts to contain costs continued during 2004, including persisting with the Group’s existing recruitment freeze policy in Cyprus and the control of other operating expenses. Efforts to this end will continue during 2005.

In our effort to offer improved and faster service to customers, we are restructuring our Regional Offices and our branches. These changes aim at converting our branches into selling outlets and at centralising certain services, in order to provide faster service.

Further to the above, 2004 was a very creative year for the Group because, as already announced, we implemented sound corporate governance principles, with the support of the international consulting house McKinsey & Co. Through the adoption of sound corporate governance, we believe that Bank of Cyprus will comprise a model Group in south-eastern Europe.

As you are already aware, as of 1 January 2005 a new Senior Executive Management Team has been appointed, with Mr. A. Blades in the position of Group Chief Executive Officer, Mr. C. Stavrakis in the position of Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer, and Mr. Y. Kyri in the position of Group Chief General Manager. The Chairman has retired from his executive duties, as required by the principles of corporate governance and is now a non-executive Chairman. Furthermore, Messrs Chr. S. Pantzas and E. Xenophontos have handed over their executive duties to the new Senior Executive Management Team.

In the past, the vision of the Bank of Cyprus Group was to emerge as the largest financial organisation of the island and to be a cornerstone of the economy and the citizens of Cyprus. The Group’s vision evolved to cover the Hellenic communities overseas. More recently, the Group’s vision was redrafted to include making Bank of Cyprus a sizeable banking institution in Greece.

The above vision statements have been fulfilled and I believe that the next step will be the Group’s expansion to new markets, such as the Balkans and Russia. The Senior Executive Management Team is already examining the possibility of the Group expanding to these countries. When the relevant reports are completed, the issue will be thoroughly reviewed by the Board of Directors of Bank of Cyprus and any decisions taken will be announced.

The year 2004 marked the beginning of a new era for the Bank of Cyprus Group, as a result of Cyprus’ accession to the European Union and the lifting of exchange controls.
The Board of Directors of the Bank of Cyprus Group, in the context of its decision to improve the Group’s corporate governance policy and practices, had decided to commission a Restructuring Project with the support of the international consulting house McKinsey & Co.

In the context of this project, during 2004 it was decided that both the Chairman and the Vice Chairman will no longer have executive duties, as required by the principles of sound corporate governance.

Nicosia, 23 March 2005

S. A. Triantafyllides
Chairman

The Board of Directors expresses its sincere thanks to Messrs Chr. S. Pantzaris and E. Xenophontos, who served the Group for a number of years as executive officers. Following their retirement from the position of Chief Executive of Bank of Cyprus and Group Chief General Manager respectively, they will continue to serve as members of the Board of Directors and as Chairmen or members of the Boards of Group subsidiaries.

The Board of Directors and myself unanimously decided to hand over the reins to the new generation, who have demonstrated that they have the power, the skills, as well as the sense of responsibility and duty required to lead this Organisation, which is a cornerstone of the Cyprus economy, to even higher levels of achievement.

I am proud that, from my position as Chairman of the Bank of Cyprus Group for the last 17 years, with the support of the Board of Directors, my colleagues and associates Messrs Chr. S. Pantzaris and E. Xenophontos, the Group’s General Management and all Group employees, we have contributed to handing over a Group that has a strong capital base, a dynamic and ascending course in Greece, a Group that was the first Hellenic institution with presence in the Channel Islands and Australia and with a 50-year presence in the United Kingdom. A Group which is the leading organisation in Cyprus.

It is this legacy that we are handing over to the new generation, the new Senior Executive and General Management of the Group, in order to proceed further ahead, and create an even stronger, mightier and more solid Group, which will become a model institution in south-eastern Europe.

Nicosia, 23 March 2005

S. A. Triantafyllides
Chairman

The Board of Directors of the Bank of Cyprus Group, in the context of its decision to improve the Group’s corporate governance policy and practices, had decided to commission a Restructuring Project with the support of the international consulting house McKinsey & Co.

In the context of this project, during 2004 it was decided that both the Chairman and the Vice Chairman will no longer have executive duties, as required by the principles of sound corporate governance.

Nicosia, 23 March 2005

S. A. Triantafyllides
Chairman

The Board of Directors expresses its sincere thanks to Messrs Chr. S. Pantzaris and E. Xenophontos, who served the Group with love, zeal and enthusiasm, always bearing in their heart the welfare of the Group and its people.
Bank of Cyprus Group

The Group’s expansionary policy is the result of meticulous examination of all relevant factors and is well coordinated and structured.

We have a clear objective, we know where we want to go as a Group, we have the strategy, we have identified the risks and their management, and we know what we expect to achieve within a specified time frame.

The year 2004 was a milestone in the history of the Group, as the Board of Directors proceeded with a Group restructuring in order to operate in line with the modern corporate governance principles.

My colleagues and I, who now form the new Senior Management Team of the Bank of Cyprus Group, are very honoured that the Chairman and the Board of Directors have entrusted us with the leadership of the Group. The responsibility that this entails is also enormous, as we are fully aware of the importance and long tradition of this organisation, whose history is intertwined with the history of Cyprus itself.

Bearing in mind that Bank of Cyprus is the largest financial organisation in Cyprus, a dynamic Group in Greece and has overseas presence in countries with Hellenic communities, we have redrafted the Group’s vision, strategy and direction. Having weighed up our strength, we have set high targets, because knowing our employees, we feel that we owe it to them to aim very high.

We want to make Bank of Cyprus the preferred bank in Cyprus and Greece for customers, staff and investors, so that in the years to come it will rank amongst the three largest banks in the broader Hellenic world, it will emerge as a regional power for the wider region and it will be useful in the community within which it operates.

Our new vision demonstrates that future prospects for the Group are excellent and that the Group should no longer be confined within the boundaries of Cyprus and Greece. Our next step will be to expand to the Balkans where the market offers high growth opportunities. In parallel, we are considering expansion to the Russian market where a significant portion of our offshore clientele is active.

The Group’s expansionary policy is the result of meticulous examination of all relevant factors and is well coordinated and structured.

The direction we will adopt in Cyprus and Greece is as follows:

- In Cyprus, following the difficulties faced by the banking sector in recent years, the Group has already commenced its turnaround, as demonstrated by its 2004 results. We are in the process of restructuring the Group’s local operations and we already have the first positive feedback. Through the restructuring, the Group’s employees will become more specialised and focused in order to provide the best possible service to customers. The improvement in the quality and speed of service, as well as the sound management and control of credit and other risks, form the main axes of our strategy. Our aim is to increase profitability, improve the Group’s rating by the international rating agencies, secure dividend distribution for our shareholders, while simultaneously creating the prerequisites for the welfare of our people.

- In Greece, Bank of Cyprus had a very successful path to date and it currently ranks amongst the largest banking institutions. In fact, Bank of Cyprus Greece is the seventh largest commercial bank in Greece and is the largest ‘foreign’ bank in the country. Our branch network has recently reached 100 branches and we are proceeding at a fast pace to increase our branch network to 120 branches across Greece. In parallel, we aim to achieve a market share of 5% by 2007. The dynamic penetration of Bank of Cyprus in the Greek market is characterised by growth rates that are higher than those of the market. The Bank’s market share in deposits and advances in December 2004 reached 3.66% and 3.69% respectively. Kyprou Leasing significantly increased its volume of business during 2004 and is the second largest leasing company in Greece, with a market share of 18%. Our primary objective is to maintain a balance between the growth rates of expansion-profitability-liquidity and to improve our organisational infrastructure. Our strategy focuses on bringing closer together the two units of Cyprus and Greece, in order to create a solid and powerful organisation. This new structure will enable us to reinforce our existing international presence by expanding into new markets.

- In the United Kingdom and Australia, we will focus on servicing the Small and Medium sized Enterprises and on maintaining profitability through efficient pricing and cost containment.

- In the Channel Islands, we will exploit the tax advantages available to the Group and provide an even wider range of options to Group customers. A significant component of our strategy is the close monitoring and review of risks, so that the Group will comply with the provisions of Bate II. The Group’s expansionary policy is the result of meticulous examination of all relevant factors and is well coordinated and structured. We have a clear objective, we know where we want to go as a Group, we have the strategy, we have identified the risks and their management, and we know what we expect to achieve within a specified time frame.

Within the next three years we aim at increasing our return on equity beyond 13% (from 6.9% in 2004) and at reducing our cost to income ratio below 58% (from 62% in 2004). In the years to come we look forward to creating a strong organisation, which would make all our Cypriot and Greek customers, the Group employees and our shareholders proud.

Nicosia, 23 March 2005

A. Eliades
Group Chief Executive Officer

The Group’s Chief Executive Officer’s Statement

Andreas Eliades
Chief Executive Officer
Bank of Cyprus Group

The direction we will adopt in Cyprus and Greece is as follows:

- In Cyprus, following the difficulties faced by the banking sector in recent years, the Group has already commenced its turnaround, as demonstrated by its 2004 results. We are in the process of restructuring the Group’s local operations and we already have the first positive feedback. Through the restructuring, the Group’s employees will become more specialised and focused in order to provide the best possible service to customers. The improvement in the quality and speed of service, as well as the sound management and control of credit and other risks, form the main axes of our strategy. Our aim is to increase profitability, improve the Group’s rating by the international rating agencies, secure dividend distribution for our shareholders, while simultaneously creating the prerequisites for the welfare of our people.

- In Greece, Bank of Cyprus had a very successful path to date and it currently ranks amongst the largest banking institutions. In fact, Bank of Cyprus Greece is the seventh largest commercial bank in Greece and is the largest ‘foreign’ bank in the country. Our branch network has recently reached 100 branches and we are proceeding at a fast pace to increase our branch network to 120 branches across Greece. In parallel, we aim to achieve a market share of 5% by 2007. The dynamic penetration of Bank of Cyprus in the Greek market is characterised by growth rates that are higher than those of the market. The Bank’s market share in deposits and advances in December 2004 reached 3.66% and 3.69% respectively. Kyprou Leasing significantly increased its volume of business during 2004 and is the second largest leasing company in Greece, with a market share of 18%. Our primary objective is to maintain a balance between the growth rates of expansion-profitability-liquidity and to improve our organisational infrastructure. Our strategy focuses on bringing closer together the two units of Cyprus and Greece, in order to create a solid and powerful organisation. This new structure will enable us to reinforce our existing international presence by expanding into new markets.

- In the United Kingdom and Australia, we will focus on servicing the Small and Medium sized Enterprises and on maintaining profitability through efficient pricing and cost containment.

- In the Channel Islands, we will exploit the tax advantages available to the Group and provide an even wider range of options to Group customers. A significant component of our strategy is the close monitoring and review of risks, so that the Group will comply with the provisions of Bate II. The Group’s expansionary policy is the result of meticulous examination of all relevant factors and is well coordinated and structured. We have a clear objective, we know where we want to go as a Group, we have the strategy, we have identified the risks and their management, and we know what we expect to achieve within a specified time frame.

Within the next three years we aim at increasing our return on equity beyond 13% (from 6.9% in 2004) and at reducing our cost to income ratio below 58% (from 62% in 2004). In the years to come we look forward to creating a strong organisation, which would make all our Cypriot and Greek customers, the Group employees and our shareholders proud.

Nicosia, 23 March 2005

A. Eliades
Group Chief Executive Officer
Our Strategic Priorities

Our vision will materialise through the implementation of the following set priorities:

- the improvement of our profitability,
- the strengthening of our strong leading position in Cyprus,
- the provision of a high quality service which will constitute a competitive advantage for us,
- our dynamic expansion in Greece and our establishment as the bank that offers the best customer service,
- the exploitation of opportunities that present themselves in emerging markets in the wider region,
- the achievement and/or further exploitation of synergies between geographical locations, especially in the areas of technology and products, and
- the effective management of risk.

Our Strategic Objectives

In Cyprus, where the core of our operations is based, we aim to:
- increase the profitability of our operations,
- improve the quality of our loan portfolio,
- contain costs, and
- maintain our leading market position in banking.

In Greece, the focus of our dynamic expansion, we aim to:
- increase our market share to 5% by 2007,
- expand our branch network in order to achieve a better geographical coverage of Greece,
- offer specialised products for all sectors in which our clients operate and promptly respond to emerging opportunities, and
- increase our loan portfolio, with emphasis on the Consumer and Small and Medium Sized Enterprise (SME) sectors.

In other markets, we aim to:
- maintain our leading market position in the Cypriot and Greek communities of the United Kingdom and Australia, with emphasis on the SME sector,
- maximise the efficiency of our operations in the United Kingdom,
- strengthen our infrastructure in Australia with the aim of improving the quality of service, with particular focus on the SME sector of the local Cypriot and Greek community, and
- explore ways of exploiting opportunities that emerge in new markets.

The Implementation of our Objectives

At Group level:
- we adapt our strategy in each market in order to achieve the best possible return on capital,
- we complement our branch network with a full range of alternative distribution channels in the main markets in which we operate,
- we are reorganising our head office functions to take better advantage of synergies, and
- we are implementing international best practices for the monitoring and control of credit and other risks, in view of the requirements of the Basel Committee (Basel II) and the European Union directives (CAD 3).

In Cyprus:
- we are focusing on increasing sales by converting our branches to points of sale, offering speed and quality of service,
- we are proceeding with the reorganisation of our Regional Offices and the centralisation of departments, with sectoral specialisation (Consumer, SME and Corporate),
- we are taking measures for the collection of overdue accounts and the strengthening of collateral held,
- we are intensifying our programme for the containment of operating expenses and continue our policy of a recruitment freeze,
- we are strengthening our performance and position in the Insurance sector, and
- we are focusing on the Consumer sector through the introduction of innovative products and services.

In Greece:
- we are expanding our branch network, aiming to reach 120 branches by early 2006,
- we are sustaining our customer service quality at a high level despite the rapid expansion of our operations,
- we are establishing a flexible organisational structure, which enables us to focus on each individual line of business (Consumer, SME and Corporate), and
- we are dynamically penetrating the leasing, factoring and insurance markets, using the branch network as a point of sale for the entire range of products offered by the Group.

In other markets:
- we are placing particular emphasis on building personal relationships with our customers,
- we are restructuring our branch network in order to better serve our customers,
- we are expanding our range of products and services,
- we are simplifying our procedures whilst restricting recruitment and other costs,
- we are successfully penetrating the local Cypriot and Greek communities, attracting a high quality client base, thus creating a balanced client portfolio, and
- we are investigating the possibility and alternative methods for expansion to the Balkan and Russian markets.
World Economy
The world economy faced positively in 2004. Global Gross Domestic Product (GDP) increased by 5% exceeding projections, with all regions recording high growth rates, with the exception of the European Union (EU), where growth was contained to marginally below 2%. A major factor contributing to global economic growth in 2004 was the expansion of trade, which was significantly enhanced by China’s economic growth as well as by the development of other countries.

Economic growth in the 25 member states of the EU reached around 2%, almost half the growth rates recorded in the United States and Japan. It is expected that over the next two years, the economic recovery of the EU and the Eurozone will be sustained, mainly fostered by rising domestic demand.

European Economy
Year 2004 was one of major developments in the EU, mainly in the political and institutional sphere and subsequently in the economic sphere. On 1 May 2004, the EU ratified the accession of 10 new member states, including the Republic of Cyprus. Furthermore, on 18 June 2004, the state leaders of the 25 EU member states agreed upon the final text of the European Constitution, which will be sanctioned by the member states at a later date.

In the economic sphere, 2004 boasted the economic recovery paths of the Eurozone, with the average GDP growth rising to 1.8%. Although improved year on year, the GDP growth rate remained at relatively moderate levels, exhibiting heavy dependence on external demand (exports). While industrial production and business confidence are gradually improving in the area, consumer confidence and consequently retail sales continue to lag. It should, however, be noted that aggregate figures mask substantial differences in specific indicators across the various countries of the Eurozone. For instance, domestic demand (private consumption) exhibits strong ascending trends in France and Spain, while being flaccid in Italy and bleak in Germany. The latter is currently going through a period of adjustment following various institutional charges in the labour market, leading to a slow increase in the income of households as well as to a tendency for increased savings.

It is worth noting that despite the moderate growth rates achieved in the Eurozone, the United Kingdom (which is still not part of the Eurozone), has consistently exhibited much higher rates of economic growth. More specifically, preliminary estimates point to an annual GDP growth for the United Kingdom of 3.1% in 2004.

The oil price surge along with the continuing appreciation of the euro against the US dollar, were the main factors exerting pressure on European exports during 2004. Despite that, the world economy and consequently the European economy, has developed faster response mechanisms to dampen the effects of sudden price increases, even for oil (e.g. through energy-saving programmes).

Consequently, the energy ‘crisis’ of 2004 did not have the severe impact experienced in previous years. As regards the prospects for 2005, initial estimates place GDP growth in the Eurozone at 1.6%, while in the United States and Asia growth is expected to decelerate (albeit still remaining at higher than the corresponding EU growth rates). The weakening of growth in the economies of Eurozone’s international trading partners, along with a continuing increase in the euro/US dollar exchange rate and the prolonged increase in oil prices, comprise the major threats to its economic recovery.

Consumer spending in the Eurozone is expected to grow by a modest 1.7% in 2005, compared to 1.3% in 2004 (with significant deviations among the various countries, as mentioned earlier). Public spending is expected to grow marginally by 1.3% (1.5% in 2004), leaving the general government deficit stable at around 2.7%. Corporate investment is expected to pick up to 3.0% (from 1.4% in 2004), while the growth of external demand is expected to be contained to 5.5%, lagging behind the 2004 levels of 6%. Year 2005 is generally expected to be another milestone year for the EU, since it will be called upon to deal with the challenges of its significantly expanded size. Challenges will emerge both in the economic sphere, where growth rates will need to accelerate, and in the legislative sphere, where compromising a larger number of national interests and cultures may prove a complicated task.

Greek Economy
The rigid growth of the Greek economy over the past few years continued in 2004, confirming the relevant projections of international institutions (EU, IMF, OECD) and of the Greek government. Even though GDP growth for 2004 decelerated compared to the previous year, it remains one of the highest among the Eurozone countries.

According to provisional figures of the quarterly national accounts, real GDP in the final quarter of 2004 grew by 4.2% on an annual basis, compared to a corresponding GDP growth of 1.6% in the Eurozone. With the inclusion of the fourth quarter data, GDP growth for the whole of 2004 was recorded at 4.2%, significantly higher than the official projection of the Government Budget Report 2005 (3.7%). Final consumption expenditure, particularly private consumption, remains the key driver of economic growth, with the latter expanding by 3.1% in 2004, slightly lower than 2003 when it grew by 4.0%. Consumption continues to be fuelled, inter alia, by low interest rates, which have led to a fast expansion of consumer credit. The trend of rising consumer credit is expected to continue for some time yet as euro interest rates, as set by the European Central Bank, are not foreseen to change at least in the short term (Eurozone growth is not yet deemed to have reached satisfactory levels, with the particularly disappointing final quarter contributing to a mere 1.8% growth rate for 2004, while inflation remains at moderate levels).

During 2004, gross fixed capital formation rose at a significantly slower pace compared to 2003 (4.8% against 15.1%). This slowdown was largely anticipated as investment in major infrastructure projects undertaken to host the Olympic Games drove to a close. The deceleration of investment expenditure reflects a significant slowdown in investment in both construction and equipment. The volume of private construction activity (on the basis of issued construction licences), which accounts for 94.6% of the corresponding total construction activity in 2004, decreased by 3.4% in 2004 relative to 2003. The annual growth rate of exports in 2004, according to provisional figures of the quarterly national accounts, rose to an impressive 10.0%, compared to a faint 0.1% in 2003. Likewise, the rate of growth of imports increased considerably to 8.2% compared to 4.8% in 2003.

In 2004, the current account deficit improved significantly (deficit decreased by 55.9%) and amounted to 3.9% of GDP, compared to 5.6% of GDP in 2003. The containment of the current account deficit was, to a great extent, the result of the increase in the surplus of the services account, that expanded by 34.4%, mainly due to a big leap in net receipts from transport services, primarily shipping, by 63.1% compared to 2003. Net receipts from travel services rose by 92.9%, also positively contributing towards restraining the current account deficit, while the trade deficit worsened by 12.3%.

As per the latest available data, the unemployment rate for the third quarter of 2004 stood at 10.1%, compared to 9.3% in the corresponding quarter of 2003. Data pertaining to unemployment has been adjusted retrospectively starting from 1998 on the basis of a new methodology while, as from the first quarter of 2004, a broader sample is employed, which is based on the Demographic Census performed in 2001. The highest unemployment rate in the third quarter of 2004 is observed in the group of people aged 15-29 (19.3%), while the long-term unemployed, that is individuals unemployed for a period over 12 months, account for 57.6% of total unemployed persons.

Inflation, as measured by the National General Consumer Price Index (CPI), was recorded at 3.1% in December 2004 on an annual basis. For the whole year, inflation, as measured by changes in the average CPI, stood at 2.4%, significantly lower relative to the previous year (3.5%). This rise of the CPI by 2.9% in 2004 (which represents the lowest annual percentage increase over the past four years) was to a large extent the result of the small increase of the Goods Price Index by 2.3%. The large rise in the price of fuel during the year was offset by an average price of fuel during the year was offset by an even
greater drop in the price of fresh fruit and vegetables. On the basis of the Harmonised Index of Consumer Prices (HICP), the rate of inflation was recorded at 3.0% in 2004, compared to 3.4% in 2003. In spite of the relative attenuation of inflationary pressures in 2004, Greece still exhibits one of the highest rates of consumer price inflation among Eurozone countries.

Following the revision of the figures pertaining to the public finances by the recently-elected government in 2004 (‘fiscal audit’) and the more recent (March 2005) update relating to the public deficit and debt for years 2002 and 2003, it appears that public finances have significantly deteriorated over the past few years. Based on the revised data, there is a notable increase in the general government deficit, as well as in the corresponding debt, for the period 2002-2003. More specifically, in 2003 the said deficit was recorded at 5.2% of GDP (from 1.7% prior to the fiscal audit), while the general government debt amounted to 109.3% of GDP (from 102.4%). Based on the data submitted by the Greek government to Eurostat in March 2005, which the latter asserted inability to ratify for the time being, the deficit rose to 6.1% of GDP in 2004 and the debt to 110.5%.

The revised update of the Stability and Growth Programme (SGP) 2004-2007, that the Greek government has had to submit to the European Commission by 21 March 2005, is bound to reflect these developments. The SGP is expected to set out the relevant policies to be followed by the government in order to achieve the containment of the deficit below 3% of GDP by 2006, so as for Greece to comply with the provisions of the Stability and Growth Pact. In February 2005, Greece was given notice in accordance with Article 104(9) of the Maastricht Treaty regarding excessive deficit and was granted a two year period in which to attain fiscal consolidation. The government is under obligation to submit a detailed report to the European Commission bi-annually on its progress with regard to the implementation of the budget.

According to the Government Budget Report 2005, GDP growth in 2005 is estimated at 3.9%. Sustaining a high growth rate is, inter alia, based upon the expected contribution of private investment expenditure and good exports, which are forecasted to grow by 7.9% and 7.5% respectively. Private consumption is also expected to expand considerably (by 3.5%), while it is anticipated that tourist revenues will also increase, following the disappointing year 2004 (especially when considering during the special circumstances of the said year, namely the Olympic Games).

According to the GDP growth projections for 2005 of several international institutions and economic organizations, sustaining the growth rate at approximately the same (high) level as in 2004 is rather optimistic. These organizations estimate that a growth rate in the region of 3.0%-3.5% is more likely to be attained (International Monetary Fund 3.0% (September 2004), OECD 3.2% (December 2004) and European Commission 3.3% (Economic Forecasts, Autumn 2004)).

A number of factors are expected to play a decisive role in the government’s effort to promote development based on private sector initiative and to attain all the relevant goals set for 2005. The new law regarding private investment (3299/2004) soon to become effective, introduces a series of significant changes in relation to the previous relevant law, and attempts, through the provision of increased incentives, especially to Small and Medium sized Enterprises, to strengthen private business activity. The recent tax reform is expected to positively contribute towards the improvement of the general economic climate via, inter alia, its initiation of a gradual reduction in the income tax rates levied on individuals and corporations. Furthermore, factors such as the improvement in the absorption rate of funds made available to Greece under the Third European Union Support Framework, the effective management and development of the Olympic infrastructure and the successful promotion of Greece abroad, can contribute to the continuation of the dynamic growth experienced in the recent past into 2005 and beyond.

### Cyprus Economy

Year 2004 triggered the recovery of the economy, after a two-year slowdown. The growth of the Cyprus economy in real terms is estimated to have reached 3.7% in 2004, compared to a modest 2% recorded in each of the years 2003 and 2002. It should, however, be noted that despite the clear signs of recovery, the rate of growth of Gross Domestic Product (GDP) still remains notably below potential, which is estimated at around 4.5%.

Improvement in economic activity emanated from the rise in domestic consumption, while private investment in construction works and equipment also expanded. Exports of services (excluding tourist services) also contributed significantly to the acceleration of economic growth. On the other hand, the hesitant recovery of the world economy and the rise in the price of oil in international markets to record levels, restrained growth below potential.

During 2004 inflationary pressures were alleviated and the rate of inflation was contained to 2.3% compared to 4.1% in 2003. It should be noted that the effect of the oil price surge was to a large extent offset by the decrease in import duties on motor vehicles and hence the drop in their retail prices. Accelerated economic growth was also reflected in the labour market with the rate of unemployment reaching 3.6% of the economically active population. This rate remains at virtually the same levels as in 2003 (3.5%).

As a result of the implementation of fiscal consolidation measures, preliminary estimates indicate that the fiscal deficit as a percentage of GDP is expected to be contained to 4.2% for 2004 (from 6.3% in 2003). According to the same estimates, the public debt continued to rise and is estimated to reach 71.9% of GDP in 2004 (from 69.8% in 2003). The fiscal deficit and public debt as a percentage of GDP are expected to exceed the relevant Maastricht convergence criteria.

During 2004, the Central Bank of Cyprus aiming to ensure a smooth transition (on 1 May 2004) to a fully liberalized economic environment with no restrictions on capital flows, raised interest rates by 100 basis points, from 4.5% to 5.5%.

The current account balance is expected to record a deficit of 4% of GDP, compared to 3.3% for 2003. The rising current account deficit in 2004 was due to the outburst in imports, the oil price rise in international markets and the deteriorating course of tourist revenues.

As far as the tourist sector is concerned, tourist arrivals in 2004 rose by 2.0%, compared to a decline of 4.8% for 2003. Despite improved arrivals, tourist revenues decreased by 3.2% (2003: decrease of...
10.4%), a fact mainly attributed to the drop of the per capita spending of tourists, resulting from lower prices offered by hoteliers.

The manufacturing sector exhibited a marginal rise in the volume of production by 0.5% during 2004. The corresponding change for 2003 was negative at 2.9%. Within the year, the construction sector continued to exhibit a very satisfactory growth, a trend which commenced in 2001. For the first eleven months of the year, cement sales rose notably by 18.4% (compared to 10.1% in the corresponding 2003 period). There was also a satisfactory increase in the number of construction permits granted during 2004, which rose by 9.3%. The adverse stock market conditions during the past four years and negative investor psychology were not reversed during 2004, a fact which continued channeling investments towards the real estate market.

The signs of recovery exhibited by the Cyprus economy in 2004 are expected to become even more evident in 2005. Relevant projections for GDP growth in 2005 cite a rate of 4% in real terms, based on a conservative scenario which incorporates the possible adverse impact on growth of the persisting relatively high oil prices. However, 2005 projections are based on the assumption that the external environment will continue to have a positive impact. Inflation is expected to reach 2.5% in 2005 compared to 2.3% in 2004. The slight rise in inflationary pressures is expected to be the result of higher oil prices. The unemployment rate on the other hand, is expected to drop marginally to 3.4% in 2005, compared to 3.6% in 2004. The current account deficit to GDP ratio is also expected to exhibit a marginal drop to 3.7%. The fiscal deficit is projected to drop to 2.9% of GDP as a result of the projected economic growth and the resultant increase in public revenues, in conjunction with the fiscal consolidation already under way. It is noted that in January 2005, the EU Council of Ministers (Ecofin) reviewed in detail the Convergence Programme of the Republic of Cyprus and concluded that all objectives appear realistic and attainable, thus waiving any adverse proceedings regarding the excess fiscal deficit prevailing until then. Projections for the tourist sector are very difficult to compute, due to their sensitivity to and direct dependence on a number of exogenous factors.

However, the projection for the economic growth rate in 2005 has been based on expectations that tourist arrivals and revenues will increase by approximately 5%. These expectations have in turn been based on the fact that the global economic outlook for 2005 is positive, especially for the countries that have traditionally been the main source of tourism for Cyprus.

Note: The above figures and data (world, European, Greek and Cyprus economies) were valid as at 18 March 2005.

The Greek Banking Sector
In 2004, the Greek banking system comprised 63 banks. Of these, 23 are banks based in Greece, 19 are branches of foreign banks based in a European Union (EU) country, four are branches of banks based in a country outside the EU, two are specialised credit institutions and 16 are co-operative banks. The total number of bank branches in Greece exceeds 3,300.

There is a particularly high degree of concentration in the Greek banking system as the five largest banks account for around 67% of the banking system’s total assets. This is the fourth highest concentration in the EU.

The volume of deposits and repurchase agreements (repos) reached €154.7bn million at the end of 2004, marking an annual increase of 13.9%. The annual growth rate of deposits in the Greek banking market recorded a notable increase during the last part of 2003 and the whole of 2004, following a long period of significant slowdown and decline which lasted from January 2001 to August 2003. At the end of 2004, the annual growth rate of deposits by Greek residents amounted to 10.9%, whereas repos recorded an annual decrease of 12.4%. Despite the fact that the growth rate of deposits has slowed down, the growth rate of savings accounts recorded a marked increase. This acceleration is linked to the persisting decrease in repos, as a result of the decline in the yield of Greek government securities and the reduction in the yield differential between money market mutual funds and savings deposits.

Balances as a percentage of GDP (%)

<table>
<thead>
<tr>
<th></th>
<th>Total Advances</th>
<th>Business Loans</th>
<th>Housing Loans</th>
<th>Consumer Loans</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece Eurozone</td>
<td>66.6</td>
<td>97.7</td>
<td>39.7</td>
<td>49.2</td>
<td>17.4</td>
</tr>
<tr>
<td>Greece Eurozone</td>
<td>17.4</td>
<td>8.9</td>
<td>1.7</td>
<td>9.2</td>
<td>16.0</td>
</tr>
<tr>
<td>Greece Eurozone</td>
<td>17.4</td>
<td>32.5</td>
<td>8.9</td>
<td>16.0</td>
<td>88.5</td>
</tr>
<tr>
<td>Greece Eurozone</td>
<td>20.6</td>
<td>34.4</td>
<td>11.2</td>
<td>16.1</td>
<td>90.4</td>
</tr>
<tr>
<td>Greece Eurozone</td>
<td>21.1</td>
<td>35.4</td>
<td>12.2</td>
<td>16.1</td>
<td>91.2</td>
</tr>
</tbody>
</table>

* Including other loans to households.
Source: NSSG, Bank of Greece, ECB

The annual growth rate of advances in the Greek banking market has remained stable (11.6-18%) during the past two years. The balance of loans to local businesses and households in December 2004 was €117.2bn million. Business loans increased by 7.5% per annum and reached €65.5bn million in December 2004.

The Greek Environment
The annual growth rate of housing loans was maintained at stable levels during 2004. The balance of housing loans (including securitised housing loans) in December 2004 amounted to €34.0bn, marking an annual change of 20.6%. The penetration level of housing loans in Greece during the last quarter of 2004 reached 20.6% and lags significantly behind the Eurozone levels (31.4%), a fact pointing to the great expansion potential of this sector.
Consumer loans have been growing at a high and increasing rate, since the end of 2003, which is the result of the impetus provided to this sector by the liberalisation of consumer credit in July 2003. The balance of consumer loans in December 2004 was €17 054 million, marking an annual increase of 37.4%.

It is generally expected that the growth of the Greek banking system will be sustained during 2005, as the penetration levels in Greece are relatively low compared to those of the Eurozone, particularly with regard to advances. As at the fourth quarter of 2004, the ratio of loans to GDP in the Eurozone reached 100.1%, compared to 72.1% in Greece.

The rising profitability of the Greek banks during 2003 was maintained during 2004, following a declining trend experienced in the period 2000-2002. The efforts of banks in 2004 to contain costs were evident. This, in conjunction with a faster rate of revenue growth, led to improved profitability indicators for banks.

The expansion of the activities of Greek banks to the Balkans continued during 2004, where they have been acquiring increasing market shares. Banking interest rates recorded marginal changes during 2004, in the context of the unchanged level of interest rates set by the European Central Bank. The overnight deposit rate in December 2004 stood at 0.96% and the rate for deposits with agreed maturity up to one year was 2.3%. The interest rates on new consumer and housing loans in December 2004 were 10.7% and 4.54% respectively, marking a small decrease compared to December 2003.

The largest challenge which will be faced by banks in Greece in 2005 is the prompt adjustment to the new regulatory environment prescribed by the International Financial Reporting Standards and the new regulations on capital adequacy. Bank of Cyprus has been following the International Financial Reporting Standards for a number of years.

The Banking Sector in Cyprus

The banking sector in Cyprus comprises the commercial banks, the co-operative credit institutions and the international banking units. The commercial banks control the largest part of deposits and advances in the economy and form the core of the banking system.

Bank of Cyprus continues to hold the leading position in the banking sector, with a market share of 48% of commercial bank deposits (for both Cyprus pounds and foreign currency), followed by Laiki Bank, Hellenic Bank, Alpha Bank, National Bank of Greece (Cyprus), Arab Bank, Commercial Bank of Greece (Cyprus) and Universal Savings Bank.

The co-operative credit institutions form a sizeable and growing group of financial institutions, which followed a clearly upward path over the past years. These institutions currently control 27% of total deposits and 29% of total advances.

There are 28 international banking units operating in Cyprus, (of which 3 will soon terminate their activities) which service international business companies registered in Cyprus, as well as companies based and operating in the wider region.

The banking sector in Cyprus is already fully aligned with the European acquis communautaire and it implements, through Central Bank of Cyprus Directives, the latest recommendations of the European Central Bank. As of 1 May 2004, the date of Cyprus’ accession to the EU, banking institutions that are licensed to operate in the EU no longer require a licence by the Central Bank of Cyprus in order to establish a branch in Cyprus.

Cyprus has succeeded in being established as an International Banking Centre with an advanced banking system, low taxation and excellent professional services, whilst also offering the advantages of the EU, thus attracting a large number of international business companies.

In addition to its responsibilities for the formulation of monetary policy, the Central Bank of Cyprus is the main authority responsible for ensuring the stability and security of the financial system. It is also responsible for safeguarding the confidence of the public and the protection of deposits. In this context, the Central Bank of Cyprus is the issuing authority of banking licences and the regulator of the banking sector (both as regards the local commercial banks as well as the international banking units). It is noted that the relevant regulatory authority for the co-operative credit institutions is the Commissioner of Co-operative Development.

Note: The above data on the Greek and Cypriot banking sectors were valid as at 18 March 2005.
The improvement of the profitability of Bank of Cyprus, especially in Cyprus, continued to be the focus of our efforts in 2004. As with the previous year, the priorities set for 2004 were:

- the improvement of the portfolio and the effective management of overdue accounts through systematic monitoring of the loans portfolio,
- the increase of the net interest margin,
- the continuous dynamic expansion of the Group in Greece, and
- the containment of costs, as far as possible, considering the environment in which we operate.

In Cyprus, we achieved a significant improvement in profitability, as a result of the successful implementation of the action plan, with the objective of:

- improving the pricing of our products,
- containing our operating expenses, and
- collecting overdue amounts.

In Greece, the dynamic expansion of our operations continued during 2004, making a significant contribution towards Group profits whilst in parallel achieving an improvement in its position in the Greek market. In December 2004 the market share of Bank of Cyprus Greece reached 3.66% for deposits and 3.69% for advances.

In the United Kingdom, the restructured Bank of Cyprus United Kingdom continues to focus on its core activity, the servicing of Small and Medium sized Enterprises. It also continued to service its Retail and Corporate customers, always placing particular emphasis on building a personal relationship with each customer.

In Australia, we have already completed four years of operation and we aim to further penetrate the Greek and Cypriot community. The branch network of Bank of Cyprus in Australia comprises nine branches and it is expected that the number of branches will increase to twelve by the end of 2005. 2004 was a significant year for Cyprus, but also for the Bank of Cyprus Group. The accession of our country to the European Union and the lifting of exchange controls have opened a new chapter for the Group’s development. The internationalisation of the Group (Cyprus, Greece, United Kingdom, Channel Islands, Australia) provides us with a comparative advantage against the competition for increasing income and maintaining our leading role, through the exploitation of synergies between these units.

The strategy we have laid out over the last few years (increased profitability and productivity, cost reduction, dynamic expansion in Greece) ensures a fruitful future for the Group. It is not a coincidence that the Group has received international distinctions:

- In Greece the ISO certification project has been completed. The Bank now has the ISO 9001:2000/EN ISO 9001:2000 certification, which indicates that it has established and implemented a quality system for the design, sale and after-sale service of banking products by the Retail branches, the Business Centres and the Alternative Distribution Channels.
- The Bank’s Card Centre was awarded for the second year running the ‘GNS Marketing Award Honourable Mention 2003’ (an international award granted by American Express) in the category ‘Activation and Retention’, thus distinguishing itself from over 80 associates of American Express worldwide.
- The high quality of service offered by Private Banking to its customers has won international recognition. In its 2005 survey covering the Private Banking sector, the ‘Euromoney’ magazine has ranked the Private Banking Division of Bank of Cyprus for the second year running, as the top institution in Cyprus and has awarded it the first prize of ‘Best Private Bank in Cyprus’.
- In recognition of the broad spectrum of its social contribution, the Group was presented with an award in the category ‘Corporate Social Responsibility’ at the ‘Money 2004’ Business Awards event.
Retail Customers and Small and Medium Sized Enterprises

Branch Network and Product Development
Bank of Cyprus has adopted a comprehensive approach regarding the service provided to Retail customers and Small and Medium sized Enterprises (SMEs) in Cyprus, Greece and the other countries where it has a presence.

The Group’s branch network, supported by a comprehensive range of alternative distribution channels, fully services the needs of both Retail customers and SMEs. It offers a full spectrum of competitively priced products, such as deposits, investment and insurance products, financing, business, personal and housing loans, credit cards and current accounts.

The Bank is continuously developing its infrastructure through further automation and centralisation, thus contributing towards the containment of costs and enabling the Bank to offer a faster service to customers. The Bank is also in the process of developing new systems and applications that always aim towards increasing productivity and minimising costs. In this context, the Bank continues the development of its Customer Relationship Management (CRM) system, some applications of which are already being used by a number of companies and divisions of the Group.

In 2004, the Bank in Cyprus maintained its leading position in retail banking, despite the particularly difficult and adverse conditions prevailing in the economy. Competition in the banking market remained intense, partly as a result of the significant increase in demand for housing loans and the abolition of exchange controls, combined with an 1% increase in interest rates. Additionally, the tax amnesty legislation was enacted. The fact that the Bank continued to rank first in the public’s preferences in Cyprus is the result of the extensive range of products it offers through its comprehensive network of distribution channels, as well as of the quality of the services it provides. By the end of 2004, the Bank’s branch network in Cyprus comprised 150 branches and cash offices and a range of alternative distribution channels such as the internet, telephone, mobile phone and Automatic Teller Machines (ATMs).

In the context of its strategy to attract new customers, with emphasis on newcomers to the market, Bank of Cyprus introduced during 2004 the innovative range of products and service generation, addressed to young persons. The generation range is comprised of specialised banking products and services which evolve and adapt according to the needs and unique characteristics of children, teenagers and young people at every stage of their lives. The complete generation range consists of three product groups:

- generation KIDS for children aged 0-13 years,
- generation TEENS for teenagers aged 14-17 years, and
- generation YOUTH for young persons aged 18-30 years.

The products generation KIDS and YOUTH have already been launched. The generation range will be completed within the first half of 2005 with the introduction of generation TEENS.

The Bank has already upgraded its housing and educational loans, with the aim of offering solutions for every housing and educational need of customers. The solutions offered by the Bank in this respect are flexible and provide the opportunity to customers to design, together with their personal banker, the solution which best matches their personal needs and circumstances. Regarding the area of deposit/investment products and given its objective to offer a complete range of options which correspond to the needs, characteristics and investor profile of each customer, Bank of Cyprus has enriched its existing basic deposit product range with the introduction of new products, namely the 8 day notice deposit and the 12 month floating rate fixed deposit, as well as the particularly attractive Advance deposit product.

Annual percentage change in housing credit

Annual percentage change in consumer credit

Given the firm objectives of the Group of increasing its profitability and maintaining its leading position in the market in terms of deposits and advances, the priorities of the Retail and SMEs Divisions are centered on the following parameters:

- the introduction of new, flexible products, tailored to the needs and preferences of customers at every stage of their lives,
- the continuous renewal and upgrading of its existing products, in order to create more value for customers and to increase their level of satisfaction,
- the exploitation of the opportunities offered by technology for the collection, storage and analysis of data concerning our existing customer base,
- the provision of information and support to SMEs regarding the securing of financing from European Union programmes, and
- the provision of quality customer service through the Programme of Excellence. The Programme’s philosophy is to train, mobilise and reward our human resources with the aim of developing values that will lead to the development and improvement of their interpersonal skills.

In Greece, the SMEs and Shipping Division services medium sized businesses with annual turnover up to €12 million, as well as shipping businesses of all sizes. For this purpose, 51 specialised Business Centres have been established throughout Greece, clustered in six regions. Given the importance of SMEs for the Greek economy, the Bank plans to establish a minimum of seven new Business Centres during 2005, thus satisfactorily covering the whole of Greece.

The Bank is focused on upgrading the quality of service to customers on the one hand and on supporting its operating units on the other. It has already completed the ISO certification project covering the whole of the Bank’s customer service activities, with participation of all relevant Divisions of the Bank. In July 2004, the TLV CERT Certification Organisation issued the ISO 9001:2000/EN ISO 9001:2000 certificate to the Bank, acknowledging that it has established and implemented a quality system for the design, distribution and after-sale service of banking products by the Retail branches, Business Centres and alternative distribution channels.

The competitive advantages of Bank of Cyprus Greece in the SMEs sector are the specialisation of its Business Centres and the Bank’s speed and flexibility, elements that contribute to the creation of a special relationship with customers.

During 2004, Bank of Cyprus achieved a leading position among all banks in supporting the participation of SMEs in the regional development programmes under the Third European Union Support Framework, having attained 20% of total applications under the programme. Its extensive automation, its specialist officers and the expansion of its network of Business Centres, provide the Bank with excellent infrastructure, enabling it to fully meet the specific needs of SMEs.
Retail Customers and Small and Medium Sized Enterprises (continued)

The total advances of the Division in terms of lending and factoring products reached €1.588 million at the end of 2004, representing a 26% increase against 2003.

Bank of Cyprus Greece continued to realise its dynamic expansion plan in the Greek retail banking market, reaching 96 Retail branches across the whole of Greece at the end of 2004, with the objective of reaching 120 branches by early 2006. In this way, the Bank will cover all the regional capitals and will also secure a significant presence in the large urban centres of Athens and Thessaloniki.

2004 was a milestone year in respect of deposits for Bank of Cyprus, which continued to offer a multitude of innovative products and services. Total deposits reached €5.7 billion, marking an increase of 36%, achieving more than double the annual growth of the entire Greek banking deposit market.

Retail advances increased by around 44%, reaching more than €1 billion. The increase was primarily the result of the increase in consumer lending by 64% (especially loans through associates) and from the increase in housing loans by 35%. The policy of promoting innovative new products to the market continued during 2004, with emphasis on consumer credit and the adoption of structural improvements to existing products, particularly housing loans.

In the United Kingdom, Bank of Cyprus United Kingdom continued to focus on its core activity of Retail and Corporate customers, always placing particular emphasis on building a personal relationship with each customer.

The review of the branch network of Bank of Cyprus United Kingdom continued during 2004. The Charlotte Street branch now exclusively services Retail customers and customers with significant funds for investment, whereas the Harringay branch was closed down due to demographic changes in that area. The Retail and SMEs market, which is being targeted by Bank of Cyprus United Kingdom, is now centred in Southgate, where a new branch will be opened in 2005, which will also house the Corporate & Business Banking Centre. The transfer of the network of Bank of Cyprus United Kingdom closer to its target market constitutes a strategic move for the provision of quality service to customers.

Total advances of the Group’s operations in the United Kingdom increased by 5% in 2004, whereas deposits remained at similar levels to 2003.

The merger of the operations of the Group’s subsidiary Bank of Cyprus (London) with the branch of Bank of Cyprus in the United Kingdom was completed in the last quarter of 2004 and has resulted in the release of a significant amount of capital. The merger has not affected the number of branches in operation or the quality of service offered to customers in the United Kingdom.

Bank of Cyprus Australia has already completed four years of operation. The Bank aims to further increase its penetration into the local Greek and Cypriot community.

Total advances of Bank of Cyprus Australia increased by 19% compared to 2003, mainly due to the increase in lending to SMEs. The branch network of Bank of Cyprus Australia comprises nine branches (two of which focus on servicing SMEs and Corporate Enterprises). The number of branches is expected to increase to 12 by the end of 2005.

Hire Purchase and Leasing

The Group provides finance for investments in fixed assets and for the purchase of movable property by consumers, through its subsidiary companies, Bank of Cyprus Finance Corporation, based in Cyprus, and Kyprou Leasing, based in Greece.

Bank of Cyprus Finance Corporation

In Cyprus, hire purchase and leasing products and services are offered through the branch network of the Bank of Cyprus Finance Corporation (BCFC) and the network of the Bank. Additionally, customers can be directly serviced at the point of sale, that is at the stores of the merchants or dealers from which goods are purchased, without having to visit a branch of the Bank or BCFC.

2004 was a successful year for BCFC, having invested heavily in providing improved quality of service to its associates, offering products with attractive finance charges to consumers and businesses and upgrading its credit risk management systems and procedures. BCFC, together with the other local finance houses, under the umbrella of the Cyprus Finance Houses Association, has proceeded with the drafting of the legal framework for leasing, which is currently being reviewed and processed by the Law Office of the Republic for enactment into legislation by the House of Representatives.

During 2004 a large increase in the registration of new vehicles was noted and BCFC managed to significantly improve its penetration into this market. The Company’s strategy focuses on the following objectives:

- emphasis on profitability by expanding operations, cost containment and systematic credit control, continuous training and development of its human resources, and adjustment to the new conditions which are being created both in the economy and the legal framework, as a result of EU accession.

During 2005, BCFC will complete the installation of a technologically advanced software system, which will help improve the service provided to the Company’s customers and associates.

Kyprou Leasing

In Greece, Kyprou Leasing is a significant player in the market. In 2004 the Company significantly increased its activities and is currently ranked second among all Greek leasing companies. The primary competitive advantage of Kyprou Leasing is its speedy and impeccable customer service. The Customer Service Desk, which has been in operation during the past two years, provides direct telephone service to existing customers and has contributed to the Company’s good brand name and reputation.

The Company holds a leading position in vendor leasing and maintains strong commercial relations with its associates across the whole of Greece in the lorry, construction machinery, printing and medical equipment sectors. The products of Kyprou Leasing are being continuously enriched and are primarily addressed to SMEs and self-employed professionals.

Property leasing is a significant contributor to the Company’s total advances, with new leasing contracts in 2004 amounting to €236 million.

During 2004 the revised legislation abolishing the capital gains tax on property sale and leaseback transactions came into force. This resulted in a significant increase in the Company’s volumes in this sector. The Company continues to be a pioneer, having maintained its ISO 9001 quality certification.

Size of Greek market and market share of Kyprou Leasing

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share of Kyprou Leasing</th>
<th>Total Greek market (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>18%</td>
<td>2 500</td>
</tr>
<tr>
<td>2003</td>
<td>14%</td>
<td>1 746</td>
</tr>
</tbody>
</table>

*Estimate
Retail Customers and Small and Medium Sized Enterprises (continued)

The strategic objectives of Kyprou Leasing for 2005 are:

- to further enhance its market share and profitability,
- to maintain and reinforce its leading position in vendor leasing, and
- to acquire a leading position in property leasing.

For 2005 the enactment of the new Development Law provides for the subsidy of new investments that are financed through leasing. The subsidy applies primarily to the energy, tourism and logistics sectors and ranges at 30-40%. The new law is expected to have a positive impact on the leasing sector in general and on the operations of Kyprou Leasing in particular.

Alternative Distribution Channels

In Cyprus, the Direct Banking Unit provides customers with the ability to execute their banking transactions easily, quickly and securely, around-the-clock, during the entire week, through the internet, telephone, mobile telephone and Automatic Teller Machines (ATMs).

The services/transactions offered are constantly being updated and upgraded in order to provide customers with the best possible quality of service. The use of the alternative distribution channels by customers is constantly increasing. This is borne out by the increase in subscriber numbers (25% higher than 2003) and the number of transactions (27% higher than 2003).

The introduction last year of the innovative, dynamic password-issuing system, Digipass, which enhanced security for subscribing customers, has received a unique edge for 2004. This product provides a unique combination of unsurpassed service, privileges and exclusive benefits to customers through the American Express network.

Plastic Money

In Cyprus, Bank of Cyprus has long been established as market leader in the cards market and has maintained its disparity from the competition in terms of market share. The Bank’s market share in terms of card turnover reached 45% at the end of 2004.

Bank of Cyprus currently issues Visa, MasterCard, Diners Club and American Express cards. As part of the strategy to satisfy the needs of the market to the largest possible degree, the Bank proceeded with the introduction of the new see-through credit card Blue by American Express that represented the leading edge for 2004. This product provides a unique combination of unsurpassed service, privileges and exclusive benefits to customers through the American Express network.

The Bank’s Card Centre was awarded for the second year running the ‘GNS Marketing Award Honourable Mention 2003’ (an international award granted by American Express) in the category ‘Activation and Retention’, thus distinguishing itself from over 80 associates of American Express worldwide.

The annual turnover of the Card Centre has presented an increasing trend in the period from 2000 to 2004, as a result of effective account management and the trust that cardholder-customers have shown towards the products and services offered to them by the Card Centre.

Annual turnover of the Bank’s Card Centre in Cyprus (€ million)

In Greece, during 2004 Bank of Cyprus introduced its new company cards (Classic, Gold and Platinum), fully covering the needs of its corporate customers, offering them the facility for simple and detailed monitoring of their expenses, tailoring the features of each card issued to their officers and providing them with travel insurance cover. The result was a 40% increase in the number of company cards in circulation and a corresponding increase in turnover. Simultaneously, the high growth rates of personal credit cards were maintained, marking a 25% increase in the number of cards in issue, a more than 50% increase in debit balances and a 30% increase in card turnover.

Debit cards, which provide the ability to make purchases and withdraw cash all over the world whilst directly debiting the customer’s account, increased in number by 110% and their turnover increased by more than 150%.
know-how: 100 years, international developments, infrastructure, planning

Know-how:

100 years
Our 100 years journey and the experience we acquired along the way have made us strong and allow us to deal with challenges, but also opportunities that constantly present themselves to us. We draw from the past and from our history, and proceed forward, together.

International developments
In a constantly changing world, our organisation responds with flexibility and takes advantage of international developments. The know-how we have acquired from our international expansion has shown us the path and the way to expand and to become a regional power in the wider geographical area.

Infrastructure
Our objective is to exploit the infrastructure that was developed in Cyprus and abroad and to invest in it so that we are supported by our own solid foundations.

Planning
On every path there are difficulties, hurdles and setbacks. We focus on the proactive analysis of conditions that we will encounter, so that we can take coordinated and prompt action, we can effectively manage risks and remain in the correct path. A path with clear objectives and vision.
Corporate Banking

Corporate Banking Centres
and Business Development

The services offered by the Bank’s Corporate Banking Division in Cyprus and Greece, in cooperation with the other Group companies, fully cover the needs of Corporate businesses. The Division offers traditional credit products, as well as specialised financial ‘tools’, such as leasing, factoring, project finance, investment banking, insurance and investment services, which contribute towards the realisation of the strategic plans and the rational expansion of businesses.

In Cyprus, the Bank is firmly established as, perhaps, the leading bank on the island in respect of Corporate Banking, having retained its existing customer base whilst successfully attracting new customers. Through its 13 specialised Corporate Banking Centres, Bank of Cyprus offers a wide range of products and services, always working closely with the Group’s subsidiaries.

The success of the Corporate Banking Division is spearheaded by the principle of relationship banking, which is centred on the human factor. The Corporate Banking Division places particular emphasis on the continuous training and development of its carefully selected officers. The achievement of further improvements in the quality of the Corporate Banking portfolio and the increase of its profitable and performing advances, constitute the cornerstones of the Division’s strategic direction. The Division also takes both corrective and preventive action in order to improve the quality of its loan portfolio.

The Division aims to increase lending by increasing creditworthy customers as well as by establishing business relationships with new customers. In parallel, the Division intends to introduce new lending and deposit products, taking into consideration the changing market conditions and the needs of Corporate businesses, as they evolve following the island’s accession to the European Union. The Division also places particular emphasis on the development and better utilisation of its technological infrastructure and on promoting the use of the alternative distribution channels. The officers of the Division aim to ensure that each individual customer is provided with a continuously enhanced quality of service.

In Greece, the Corporate Banking Division continued on its path of growth and profitability, in the context of the intensely competitive and changing environment prevailing in the Greek banking market.

The Division’s philosophy for providing Corporate customers with the highest quality of service, besides the necessary professionalism of its staff, focuses on the provision of an excellent service, specialisation, flexibility, speed and personal relationships.

The Division’s key objective for 2005 is the achievement of increased market penetration in the wider sector of healthy corporate enterprises and, in parallel, the increase of its footings and profitability, while ensuring the effective management of credit risk and the formulation and maintenance of a high quality loan portfolio.

In the United Kingdom, Corporate customers are serviced by the Corporate Banking Division and in Australia by the Corporate Business Centres, which also specialise in servicing Corporate clients.

Factoring Services

Bank of Cyprus Factors

Bank of Cyprus Factors operates in Cyprus and provides a wide range of factoring and related services.

The very satisfactory business growth across the whole range of services provided by Bank of Cyprus Factors continued during 2004. The Company achieved an increase in turnover, of 12%, from €631 million in 2003 to €695 million, by increasing business from existing customers and forging contracts with new customers. This reinforced the Company’s leading position in the Cypriot factoring market.

The high level of development of the Company’s operations resulted in an improvement of all its financial indicators. Operating profit increased by 17% as a result of the increase in turnover, in parallel with increased revenues and the containment of operating costs. The Company’s net profit after tax increased by 51%, which is considered very satisfactory.

During 2004, Bank of Cyprus Factors proceeded to provide web-based services to its customers and debtors. These particular services are provided for the first time in Cyprus by a factoring company and they provide Bank of Cyprus Factors with a competitive advantage.

The key objective of Bank of Cyprus Factors continues to be the consistent and satisfactory increase of its profitability and the strengthening of its leading position in the Cypriot market.

Factoring Services in Greece
(Kyprou Factors)

During 2004, the growth of the Greek factoring market continued albeit at a lower pace than previous years. Eleven companies and/or divisions of banks operate in the Greek factoring market. Based on its turnover (total balances under management), Kyprou Factors maintained its position of third largest factoring organisation in the market for 2004. The market share of Kyprou Factors is expected to exceed 16%, from 12.3% in 2003 and 5.5% in 2002.

The noteworthy path of Kyprou Factors, which in less than three years of operation has managed to establish itself among the top companies/divisions in the market, was the result of the comparative advantages of the Unit. These advantages include the Bank’s expertise and long experience in the factoring business (both in Cyprus and in Greece), the structure of the Unit, the close cooperation of the Unit with the Bank’s branch network and the professionalism and quality of the Unit’s officers.

The main objective of Kyprou Factors continues to be the provision of a high quality of service and maintenance of its customer-focused strategy, given that it aims to establish itself as a leader in the Greek factoring market. Kyprou Factors has already introduced and is continuously searching for new products that are suitably adapted for the specific needs of the individual segments of the market. The Unit has the flexibility to adapt its existing products to its customers’ needs.

It is noteworthy that the key growth objective of Kyprou Factors remains its parallel expansion in the domestic and international market (export and import factoring) where great opportunities exist for significant market share improvements.

During 2004, the Unit’s fourth regional office in Patra was established, in order to achieve faster penetration into the Peloponnisian and Western Greek regional market. Moreover, an autonomous export factoring department was established, with the objective of a more effective expansion of business in the international market. At the same time, the upgrading of the Unit’s software continued and the project for implementing a web-based application for customers (internet finance) commenced.

Corporate Banking
During 2005, Kyprou Factors plans to:
- give greater emphasis on the promotion of factoring services to particular sectors of the market, through the creation of specialised products and the use of promotional campaigns,
- dynamically pursue business in the non-resource factoring market, and
- strengthen its international factoring business with the medium-term objective of establishing itself as the leader in this segment of the Greek market.

Private Banking
The Private Banking Division of Bank of Cyprus maintains offices in Cyprus, Greece and the Channel Islands. The close cooperation of Private Banking with Bank of Cyprus United Kingdom, Bank of Cyprus Australia, and the Group’s Representative Offices, ensures the servicing of customers in all countries where the Group has a presence.

The products and services of the Private Banking Division in Cyprus and the Channel Islands are addressed to high net worth individuals and institutional investors. The Division offers a broad range of international investment products, including:
- deposit schemes in all major currencies offered in Cyprus, Greece, the United Kingdom and the Channel Islands,
- a wide range of mutual funds of the Swiss bank UBS,
- innovative capital guaranteed products, which offer the possibility of high returns without the risk of loss of the original capital invested,
- multi-manager hedge funds of Global Asset Management (GAM), a subsidiary of UBS. These funds provide the opportunity for achieving absolute positive returns, and
- global brokerage services for equities and bonds.

The high quality of service offered to the Division’s customers has won international recognition. In its 2005 survey covering the Private Banking sector, the ‘Euromoney’ magazine ranked the Private Banking Division of Bank of Cyprus for the second year running, as the top institution in Cyprus and has awarded it the first prize of Best Private Bank in Cyprus.

In Greece, the Private Banking Division has expanded its cooperation with large international investment houses through which it offers a wide range of specialised investment products. The Division provides access to the international bond markets and all foreign stock markets. It also offers Greek mutual funds, mutual funds of the Swiss bank UBS, investment products of Man Investment Ltd, structured products and access to the foreign exchange market on a 24-hour basis.

The aim of the Division is to offer a strictly personalised service, tailored to the needs of every individual customer. The expansion plans of the Division are based on the establishment of customer service teams, which will always be available to service customers across the whole of Greece.

Bank of Cyprus (Channel Islands)
Bank of Cyprus (Channel Islands) offers innovative deposit and lending products in one of the world’s most reputable financial centres. It also offers private banking and international investment and brokerage services. During 2004, the deposits of Bank of Cyprus (Channel Islands) recorded an impressive increase, which significantly exceeded the target set at the beginning of the year.

Mutual Fund Management
Bank of Cyprus Mutual Funds
Bank of Cyprus Mutual Funds was established in Cyprus in order to offer mutual funds combined with a high level of personalised service. The Group’s international expertise in the area of mutual funds has laid the foundations for offering innovative funds, when mutual funds begin to be offered in the Cyprus market.

Kyprou Mutual Fund Management Company (AEDAK)
During 2004, Kyprou AEDAK maintained the high ranking it achieved in 2003 in the Greek mutual fund market. The Company’s total funds under management amounted to €574.7 million.
The return and ranking of the mutual funds managed by Kyprou AEDAK for 2004 are set out in the table below.

The Company’s total funds under management in 2004 amounted to €575 million, marking an increase of 21% compared to 2003, and its market share increased to 1.82%. Kyprou AEDAK now ranks ninth out of a total of 26 mutual fund management companies.

The Company’s strategic objective during 2005 is to further increase the size of its funds under management through its intensive promotion by the Bank’s branch network and the Private Banking Division as well as directly to institutional investors (insurance funds, brokerage houses, listed, etc.). The new legal framework which has already been enforced allows mutual fund management companies to be more flexible, while the introduction of tax incentives for mutual fund unit holders are also expected to assist the Company in achieving its objectives.

The objective of the Company’s investment strategy remains to achieve higher returns than the benchmark indices of each fund with the lowest possible level of investment risk.

### Mutual Fund Returns and Rankings

<table>
<thead>
<tr>
<th>Mutual Fund</th>
<th>Kyprou AEDAK MF</th>
<th>Market average for category</th>
<th>Kyprou AEDAK MF</th>
<th>Kyprou AEDAK Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market</td>
<td>+2.70%</td>
<td>+1.72%</td>
<td>2 of 35</td>
<td>+25.84% -2.67%</td>
</tr>
<tr>
<td>Bond</td>
<td>+3.91%</td>
<td>+2.45%</td>
<td>4 of 32</td>
<td>-16.59% +7.11%</td>
</tr>
<tr>
<td>Equity</td>
<td>+3.59%</td>
<td>+9.81%</td>
<td>48 of 68</td>
<td>-6.54% -8.06%</td>
</tr>
<tr>
<td>Asset Allocation</td>
<td>+6.38%</td>
<td>+8.07%</td>
<td>18 of 26</td>
<td>+9.46% -9.89%</td>
</tr>
<tr>
<td>Dynamic Equity</td>
<td>-1.62%</td>
<td>+9.81%</td>
<td>59 of 68</td>
<td>-17.86% -8.06%</td>
</tr>
</tbody>
</table>

**BOC International Fund Management**

BOC International Fund Management continued for the tenth consecutive year to offer the BOC Global Equity Fund, a mutual fund that invests in shares listed on all major international stock exchanges. The Fund’s returns and total assets under management during 2004 were very satisfactory.

**Private Banking and Asset Management (continued)**

**BOC International Fund Management**

**Treasury**

Group Treasury has the responsibility for managing the Group’s assets and liabilities, in the context of the strategy set out by the Group Asset and Liability Committee (ALCO).

Group Treasury is active in the currency, money, bond and derivatives markets with the objective of increasing the Group’s profitability through the effective management of liquid funds and wholesale funding, of the Group’s currency, interest rate and liquidity risks as well as through ensuring the correct pricing and appropriate design of products. The Treasury Unit in Cyprus holds a leading position in the currency market for the Cyprus pound, the banknotes market and the primary market for securities issued by the Republic of Cyprus.

During 2004, Group Treasury completed a number of projects that are outside its normal course of business. In the area of wholesale funding, Group Treasury in cooperation with CISCO and other departments of the Bank, completed the issue of €30 million Series B Capital Securities and proceeded with the increase of the size of the Group’s Euro Medium Term Note (EMTN) Programme from €750 million to €1 000 million in order to cover future issues. In the bond market, Bank of Cyprus in cooperation with overseas banks, participated as underwriter in Eurobond issues of the Republic of Cyprus and of Greek banks. Finally, the implementation of a new dealing system at the Dealing Room of the Cyprus Treasury was completed and a Treasury unit was established in Australia.

During 2005 and given the recent implementation of a new IT system in the Cyprus Treasury, the Bank plans to introduce new derivative products in order to improve its risk management. In Greece the Group plans to expand the size of the bond portfolio, with the objective of achieving higher yields from the Group’s liquid assets.

Group Treasury, in cooperation with other departments of the Bank, will proceed with the review and redesign of the operating procedures and methods followed by the dealing room and settlement departments on a consolidated basis in the context of the Group-wide project to optimise the synergies that exist between the various banking units of the Group (that has been set as an overall target).
Trust:

In our customers
A relationship of mutual trust over time. We respect and care about the customer to whom we offer added value through the quality of our products and services.

In our people
Those who are employed in this organisation and experience it daily. The provision of vital space for each individual, so that all of us together can create, freedom of thought for everyone, irrespective of rank so that they can be innovative and develop. Proud that they belong to our organisation.

In shareholders
Trust in our shareholders, who trusted and supported us in every step we take, for more than 100 years. Commitment that we will reciprocate and provide them with the benefit that they expect.

In society
We are society. All of us, with no exceptions. Our main concern is to listen attentively to the needs of society and return our proportional share with a substantial social contribution.
The area of risk management is becoming all the more significant given the requirements of the Baile Committee (Basle II) and the relevant European Union (EU) Directive (CAD 3) that must be adopted by all banking institutions across the world. The objective of the Group is to adopt contemporary risk monitoring and measurement methodologies for all types of risk, in order to minimise any potential losses arising from these risks as well as the resulting capital requirements.

In the context of the corporate governance framework, the Group proceeded to establish a Risk Committee at Board level. This Committee examines, inter alia, the Group’s risk management policies and systems and their effectiveness, and makes recommendations to the Board of Directors regarding these matters. The Committee in cooperation with the Audit Committee and the Loans Sub-committee ensure that there is a spherical perception and management of risks. Equivalent committees have been formed at executive management level with the objective of better monitoring of risks and taking timely corrective action. These committees will become active in 2005.

As part of the new Group structure, a Risk Management Division has been established, headed by a newly-appointed Group General Manager Risk Management. The new Division is responsible for formulating the Group’s risk management policy.

Three Units have been established under the Division, for the management of: (a) credit risk, (b) operational risk, and (c) market risk. Reputation and concentration risks will be also covered. These Units are being strengthened and the necessary infrastructure is being developed both in Cyprus and abroad, to ensure that the Group will be fully prepared within the timeframe set by the Regulators.

Credit Risk Management

The Group, in response to the latest best banking practices, places particular emphasis on the effective management of credit risk, that is the risk arising from potential bad debts in the loan portfolio. This is achieved through both highly trained and specialised personnel and the use of appropriate systems.

The Group’s efforts continue to focus on the further improvement of the systems for assessing the credit worthiness of existing and new customers and the pricing of the credit facilities extended to them by the Group. A key objective and priority of the Group is to make the aforementioned systems compatible with the new directives of the EU and of the Baile Committee as soon as possible, particularly in light of the forthcoming implementation of the second Basle Committee directive. The objective is to develop a complete system for the measurement and management of credit risk, covering the whole of the Group’s loan portfolio, which will combine the assessment of the customer’s creditworthiness (probability of default) with the security offered (loss given default). This will facilitate the more accurate calculation of potential future bad debts and consequently the capital requirements that will arise from the relevant regulatory guidelines. The Group’s prime objective continues to be the uniform management of credit risk in all the banking units of the Group in Cyprus, Greece, the United Kingdom and Australia.

Measurement and Assessment

An important part of credit risk management rests in the continuous development and upgrading of new and existing systems for assessing the creditworthiness of Group customers. The implementation of the Moody’s Risk Advisor application was completed, for the assessment of the risk of the Small and Medium sized Enterprises (SME) and Corporate sectors. In the Retail sector, credit scoring systems for new customers and behavioural scoring systems for existing customers have been implemented and are continuously upgraded for the improved assessment of customers and the relevant risks undertaken by the Group.

Loan Sanctioning Policy

The Group has established specific loan approval limits at each sanctioning level, which are exercised by qualified officers/committees within a predefined framework. A credit policy has also been established at market/sector level corresponding to the evaluation of the credit risk and the changing economic environment. To this end, the Group carries out a continuous analysis and assessment of the key economic indicators and of the loan portfolio of the Group. The branch network is provided with relevant guidelines for the healthy growth of the loan portfolio of the Group. Specific instructions are also provided to ensure the correct pricing of lending, at customer level.

Monitoring and Control

The ultimate objective is for corrective action to be taken as soon as abnormalities surface, so as to limit bad debts and non performing loans, for which interest is suspended for results purposes. To this end, a complete system for collection/settlement of arrears as soon as they arise has already been implemented for the Retail sector in Greece and is currently in the process of being systematically and closely implemented in Cyprus. At the same time, the SME and Corporate loan portfolio is systematically and closely monitored and controlled at a centralised level by qualified specialised Group departments, and also at regional and branch level, and prompt corrective actions are taken. Additionally, accounts in recoveries are effectively managed both at regional and head office level.

From 1 January 2006 the Central Bank of Cyprus will enforce new, stricter regulations regarding the criteria for defining non performing loans. Based on these new regulations, accounts with arrears in excess of three months, instead of six months under the current definition, will be classified as non performing. The Group does not expect to face any significant difficulties as a result of the introduction of the new regulations given its coordinated efforts at all levels to improve the quality of the loan portfolio of the Group, which will be further intensified in 2005.

Operational Risk Management

The management of operational risk under a new framework is a requirement of the second Baile Committee directive and the EU. A potential loss arising from operational risk can occur at any of the Group’s operating units, as a result of ineffective or failed internal processes and systems, either due to human error or external events. The preventative management of operational risk has a positive impact on the quality and the smooth operation of the Group’s activities but it also aims to secure the protection not only of its customers but also of the organisation itself.

The Operational Risk Management Unit was formed at Group level at the end of 2004. In conjunction with the other related units/divisions, it is responsible for the development of specialised methods for the measurement of operational risk with the objective of the correct monitoring and timely identification of possible gaps so as to ensure full compliance, as required by the Group. This entails:

• the development of a specific strategy for the management of operational risk;
• the codification of activities,
• the collection of the relevant data that will allow the assessment and monitoring of indicators that are relevant to operational risk, and
• the establishment of specific internal principles and regulations at all levels of management so as to prevent them from arising.

The implementation of adequate procedures and the adoption of controls for all the Group’s operations was always a priority for the Group. In the past, the implementation of the above strategy was carried out by a number of relevant departments, such as Organisation and Methods, Information Technology, Internal Legal, Human Resources and others. However, with the operation of the newly established Operational Risk Management Unit, the measurement and monitoring of operational risk has been set on a new basis, so as to establish a complete framework for monitoring these risks, minimising any losses and consequently reducing the capital requirements. The Unit covers all Group companies, including those that provide services in the wider financial services market, such as the insurance sector.
Risk Management (continued)

Market Risk Management
As part of the reinforcement of the importance of risk management by the Group, the Group Risk Management Unit (GRMU) was renamed to Group Treasury Market Risk Management Unit (GTMRM) as of 1 January 2005, and reports to the newly-appointed Group General Manager Risk Management. The GTMRM is responsible for measuring and monitoring the following risks at Group level:
- market risk,
- liquidity risk,
- credit risk with correspondent Banks, and
- country risk.
The Group Asset and Liability Committee (ALCO) sets out the policy for the management of these risks and makes recommendations to the Risk Committee of the Board regarding the size of acceptable risk and the limits that should be adopted.
The monitoring of market risks at Group level is achieved through officers of the GTMRM located at each of the banking units of the Group that operates a Treasury Division. These officers are responsible for monitoring the risks on a daily basis and to report any violations to the GTMRM. The GTMRM reports any limit violations on a daily basis to the relevant General Managers, on a monthly basis to the ALCO and on a quarterly basis to the Risk Committee.
In 2004 the implementation of an asset/liability management application in Cyprus was completed. This system will upgrade the method and the accuracy of measuring the Bank’s interest rate and liquidity risks. In 2005 the impact of interest rate changes on the economic value of equity will also be measured, as recommended by Basle II.

Market Risk
Market risk refers to the risk of losses arising from fluctuations in market prices (primarily interest rates), exchange rates and equity prices. This risk may arise from trading transactions and as a result of asset/liability management. The majority of these risks are concentrated in the Treasury Division.
Market risk arising from the portfolio of foreign exchange transactions is calculated, for capital requirement purposes, using the Standardised Approach. The risk of changes in interest rates on the investment portfolio is also monitored, as is the liquidity risk, as required by Pillar II of the Basle II directive.
For the purpose of managing the risk of changes to interest and exchange rates, the ALCO has developed a specific strategy, which comprises a wide range of limits, including strict open position limits.
More specifically, the management of interest rate risk is carried out through maximum loss limits that are set for each banking unit of the Group. There are separate limits for the Cyprus pound and for foreign currencies. The maximum loss limits were set as a percentage (5%) of the Bank’s net interest income. The GTMRM is responsible for monitoring adherence to these limits.
For the minimisation of risk from changes in exchange rates, the ALCO has set open position limits (there are larger limits for open positions during working hours and smaller limits for overnight open positions). The open position limits are lower than the minimum limits set by the Central Bank of Cyprus. The ALCO has also approved maximum loss limits (daily and monthly) for the trading portfolio on exchange transactions, which are also monitored by the GTMRM.
From July 2004, the GTMRM is also calculating the risk from changes in exchange rates on the Bank’s open position using the Value at Risk method.
Market risk arising from changes in equity prices is managed through limits on the maximum amounts that can be invested in shares for trading purposes as well as other restrictions, such as maximum investment limits per issuer, per sector, etc.

Liquidity Risk
Group Treasury has the responsibility for liquidity management, in order to ensure that the Group is able, at any point in time, to honour its current and future obligations. The GTMRM monitors the Group’s liquidity and ensures adherence to the various limits (e.g. liquidity mismatch limits) set by the ALCO and the regulatory authorities in the countries where the Group operates.

Credit Risk with Correspondent Banks and Country Credit Risk
This is the risk that a correspondent or country with which the Group has placements or other open positions goes bankrupt. The ALCO has approved a model by which credit limits are set for correspondents and countries based primarily on their creditworthiness, as determined by recognised international credit rating agencies. The GTMRM monitors changes to the ratings of correspondents and countries on a daily basis and notifies the banking units of the Group of any changes in their limits.
International Banking

International Business Units (IBUs) The International Business Units (IBUs), which operate in Cyprus since 1991, continue their successful presence, offering high-quality services in this well-established sector, thus making a significant contribution to Group profitability. The main characteristics of the IBUs are the flexibility and adaptability of their services, in order to satisfy the needs of this continuously changing market. In this context, the IBUs continuously endeavor to improve and upgrade their technological infrastructure in order to achieve improved operational efficiency. The increased number of staff and their training and development on a regular basis, enables the IBUs to provide the best level of personalized service to their customers, despite the geographical distance from customers that arise from having an international customer base. During 2004, new hours of operation were introduced which allow IBUs to offer their services until 6:00 p.m. This pioneering change was very positively received by customers and associates of the Group and is reflected in the significant increase in the results of the sector.

Representative Offices During 2004, the Bank’s Representative Offices continued their successful operation in the countries where they are located. The Bank has a dynamic presence that spans five countries and all continents: South Africa, Canada, USA, Russia and Romania. By operating in the heart of the active Hellenic communities of New York, Toronto and Johannesburg, the Bank of Cyprus Group offers support and assistance to the expatriate Cypriots and Greeks, thus fulfilling its promise to these communities. The Representative Offices also have a social and cultural role, by contributing towards the preservation of Greek culture and traditions. The experienced and skilled officers of the Representative Offices provide expatriates with information and access to the whole range of services offered by the Group, both in Cyprus and Greece, thus being commendable representatives of the Group abroad. The Representative Offices that operate in Russia and Romania have successfully promoted Cyprus as a service centre and an international business centre. The Representative Offices in these countries also have a strategic role, which encompasses the monitoring and evaluation of the social and economic developments in these countries. Their successful presence has prompted the Group to open a second Representative Office in Russia, in St. Petersburg, which is expected to open in the first six months of 2005.

Insurance Services

General Insurance The Group offers general insurance services through its subsidiary company, General Insurance of Cyprus, which is based in Cyprus. In 2001 the Company established a branch in Greece, under the name Kyprou Asfalistiki.

General Insurance of Cyprus In Cyprus, General Insurance of Cyprus continued its successful course during 2004, despite the extremely adverse conditions prevailing in the insurance sector. The Company’s total premiums in 2004 reached €286.6 million, compared to €180.0 million in 2003, marking an increase of 14.4%. This growth rate is expected to be higher than the growth rate recorded in the insurance market for the eighth consecutive year. Through the adoption of healthy insurance principles in pricing and risk taking, as well as through the rational expansion of each line of business, the Company maintains a portfolio that is unique for the Cyprus market as regards its composition and quality. This strategy did not prevent the Company from continuing its expansionary course, as confirmed by official data released by the Office of the Superintendent of Insurance, which indicates that the Company’s market share in 2003 reached 11.9%, compared to 10.8% in 2002.

Kyprou Asfalistiki There are 84 companies operating in the general insurance sector in Greece, 54 of which are Greek companies and 30 are branches of foreign insurance companies. In Greece, the main objective of Kyprou Asfalistiki is the provision of a high-quality general insurance service to the customers of the Bank, which is achieved through a specialized customer service network, manned by highly skilled employees. The customer service offices support all the branches of Bank of Cyprus, providing insurance products that cover a broad range of customer segments (individuals, professionals, businesses, etc.). Kyprou Asfalistiki has secured a licence for all general insurance services except for those relating to motor, legal, letters of credit and guarantees.

The Company’s success is the result of its clearly defined strategy, which is based on the distribution of insurance products through contemporary bancassurance methods, the exploitation of the capabilities offered by the latest technology, the continuous promotion of professionalism and the emphasis placed on staff development. In the context of the implementation of its customer-focused strategy, the Company has completed the planned restructuring of its head office operations. As a result of this strategy, the Company has established a branch in Nicosia, for the better servicing of its customers. This restructuring will also enable the head office departments to focus on their supporting role. During 2005 the restructuring is expected to bear fruit and the Company plans to further develop Telefixia, its customer service call centre, in order to offer in addition to the existing motor insurance products, new products aimed at consumers. Recently, General Insurance of Cyprus carried out a large-scale market survey, which indicated the Company’s improvement over the past five years and its very positive reputation, since it is considered as the most reliable general insurance company in Cyprus.

Insurance services

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rate of general insurance premiums (excluding aviation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>12%</td>
</tr>
<tr>
<td>2002</td>
<td>15%</td>
</tr>
<tr>
<td>2003</td>
<td>19%</td>
</tr>
<tr>
<td>2004</td>
<td>18%</td>
</tr>
</tbody>
</table>

The growth rate of general insurance premiums (excluding aviation) for the years 2001 to 2004 for General Insurance of Cyprus and Rest of the market. The graph shows a trend of increasing growth rates over the years, with a peak in 2003 and a slight decrease in 2004.
its start-up costs but has also managed since 2004 to contribute towards the Group’s profitability.

A firm policy of Kyprou Asfalistiki is the preservation of the high level of professionalism of its officers and its customer-focused orientation. The philosophy which governs the design of its products is to differentiate them from the rest of the market, based primarily on the wide scope of coverage provided, on the adoption of clear and simple language and presentation, and also on the design of specialised products to cover particular segments of the market. The opportunities offered by new technology in the sector are continuously investigated and exploited.

Particular emphasis continues to be given to the further development and reinforcement of the sales network of Kyprou Asfalistiki as well as of the Customer Service Officers.

Life Insurance

The Group offers life insurance services through its subsidiary, EuroLife, which is based in Cyprus. In 2001, EuroLife established a branch in Greece under the name Kyprou Zois.

EuroLife

In Cyprus, after three consecutive years of decline in the life insurance sector, in 2004 EuroLife presented the first encouraging signs of recovery, recording a significant increase in new sales. EuroLife’s annualised premiums from sales of new policies amounted to Cí6.3 million, marking a 23% increase compared to 2003 (Cí5.1 million). The Company’s total premium income for 2004 was Cí6.2 million.

Of particular importance during the year was the introduction of new legislation, which arose from the implementation of a European directive that governs the intermediation in the insurance sector. This legislation aims to regulate the sales of insurance products more effectively and has resulted in the need for major adjustments by both insurance companies and insurance agents. EuroLife has fully responded to these challenges and surpassed the requirements by introducing a new electronic tool, which directs the sales process, records the insurance needs of the customer and recommends the most suitable solutions. The development of this tool, whose full utilisation is expected during 2005, is part of the general strategy of the Company to provide customers with a high quality of service covering the entire scope of their relationship with EuroLife, from their first contact until the expiry of their contract.

Kyprou Zois

Kyprou Zois is the branch of EuroLife operating in the life insurance market in Greece.

The strategy of the Bank of Cyprus Group to develop the business of Kyprou Zois using the bancassurance model, that is developing products which are distributed only through the branch network of the Bank, was particularly successful. This marketing model aims to provide a complete range of financial products to the customer while at the same time minimising costs by exploiting the existing procedures and infrastructure of the Bank’s distribution channels. As a result of the implementation of the bancassurance model, Kyprou Zois exploited the potential for additional cross-selling to the Bank’s client base and achieved the positive results that are already evident.

The objective of Kyprou Zois is to provide life insurance products that are linked to the products and services that Bank of Cyprus Greece provides to individuals and businesses and which are offered through the existing distribution channels of the Bank. The annexation of insurance products to retail lending products of Bank of Cyprus Greece is noting particular success. Insurance products that are linked to mortgage, professional, consumer, personal and credit card lending are already being offered. These products have achieved high levels of penetration (ranging between 40% and 70%) of loans. Additionally, Kyprou Zois created free-standing products for top-up pensions and educational needs of children which are marketed through the branch network of the Bank by specially trained officers, but also to customers of the Bank using direct marketing techniques. The investments are managed by the Bank’s Asset Management department.

From 2005, Kyprou Zois is considering the introduction of group pension plans for the personnel of companies that are associates of the Bank. In this instance, the contribution of the Asset Management department of the Bank will be decisive.
Dynamism:

In decision making
Without delay and complicated procedures. Functionality that benefits the customer as well as the organisation.

In our internal structure
Innovation, initiative, simplification, functionality.
Key words that allow us to adapt, thus responding to the ever increasing demands of the markets.

In expansion
In all sectors so that together we can all build a Group for tomorrow and lead it to new significant accomplishments. Expansion to new and existing markets, with a dynamic presence wherever Heliocom exists.
**Investment Banking**

The collaboration of CISCO with the Private Banking Division continued in 2004 with success, and was marked by the achievement of significant synergies in the area of business development. The main strategic objective of the Company remains the preservation of its leading role in the three sectors in which it operates, the strengthening of its existing link with the ATHEX and the achievement of adequate profitability. During 2004 a new strategic plan was implemented to assist the Company in achieving its objective of business growth. The Company’s key objectives continue to be to enhance turnover, expand its customer base and exploit the available synergies with the Group.

**Cyprus Investment and Securities Corporation (CISCO)**

CISCO offers brokerage, fund management and investment banking services in Cyprus. Despite the mergers among competitors and the severe recession in the brokerage market for the fifth consecutive year, CISCO’s Brokerage Division increased its market share from 7.1% in 2003 to 10.0% in 2004, and ranks as the fourth largest brokerage house for 2004. The Company’s successful efforts to expand the customer base of its CISCO on-line service has contributed to this improvement.

With the accession of Cyprus to the European Union (EU) in May 2004 and the abolition of exchange controls, CISCO has broadened its range of services by offering global brokerage. It has also reinforced its collaboration with Kyprou Securities for the on-line receipt and processing of transactions on the Athens Exchange (ATHEX).

Given the negative climate prevailing on the Cyprus stock market and particularly the lack of equity issues on the primary market and of new listings on the Cyprus Stock Exchange (CSE), the activities of the Investment Banking Division focussed on bond issues and the provision of advisory services in the areas of financial planning, corporate restructuring and business plan formulation. In the primary market, the Company acted as Lead Manager for one of the two companies listed on the CSE in 2004.

In the area of fund management, the Company has expanded its already wide range of institutional and personal customers. In the context of the liberalisation of capital movements in Cyprus upon its accession to the EU, the Fund Management Division in close cooperation with the Bank’s Private Banking Division, offers an extensive range of products and services that cover the international capital markets including discretionary international fund management.

**Kyprou Securities**

In Greece, during 2004, 83 brokerage companies/divisions were operating on the ATHEX. The ten largest brokerage houses controlled 70% of the market volume. Despite the fact that the average daily volume of transactions experienced a marginal decline, there was a high degree of market participation by foreign institutional investors (42% of the average daily transaction volume).

The Company’s market share for 2004 was 0.37%, and its customer base increased by 19% (total number of customer accounts). The Company also improved its ranking in the market (38th position, compared to 42nd in 2003).

The aim of Kyprou Securities is to increase its volume of business, to broaden its customer base, and to further explore the synergies with other companies and units of the Group.

**Property Development and Management**

These Companies specialise in property development and trading and in real estate management, with operations primarily in Nicosia and Limassol.

The well-respected name of the Companies provides them with a competitive advantage. This reputation provides the public with confidence regarding the quality, the prompt completion of their projects and the issuing of title deeds.

The level of demand in the Cyprus property market, which was particularly buoyant in the last couple of years, especially in the residential sector, has recently experienced a notable decline, which is attributed to the following factors:

- the significant increase in property prices,
- the saturation of the market due to the large number of units that have been built or are under construction, and
- the reduced return which property investments provide, as a result of their very high prices and the increase in interest rates.

The increase in prices over the last few years was primarily the result of the significant increase in the price of building plots, due to the increase in demand and to increases in the cost of production (labour and materials). Kermia owns substantial properties in the occupied part of Cyprus, especially in the Nicosia region. If a solution to the Cyprus problem is achieved, the Company may regain ownership of many properties, which could be immediately developed. Kermia also operates the Kermia Beach Bungalow Hotel, a tourist complex in Ayia Napa, which is high in the preferences of foreign and local tourists.
Human Resources

Employment/Recruitment
At 31 December 2004, the Group employed 5,890 members of staff, against 5,703 in 2003, marking an increase of 3%. The sex distribution of employees is 51% female and 49% male.

In the context of the Group’s policy for cost containment, no new recruitments took place during 2004 in Cyprus. Instead, emphasis was placed on internal transfers within the Group, in order to satisfy its staffing needs. In this way, the number of staff employed by the Group in Cyprus decreased from 3,428 at the end of 2003 to 3,347 at the end of 2004. In parallel, there was a drive to transfer staff from administrative positions to more productive posts at the Bank.

In Greece, the dynamic expansion and the enlargement of the branch network have established the Group as a preferred employer and have placed it among the most contemporary organisations for employment. The culture of the organisation, which is based on the development of existing staff for employment, contained no new recruitments during 2004, whereas in 2003, 16,207 CVs/applications were received and assessed. The attraction of a large number of applications stems from the actions to promote a trustworthy corporate image. Specifically, the Group is represented at Career Days of the most recognised universities and at Career Forums organised by public and private bodies. The Group is also presented as a preferred employer on the internet and the relevant inserts of high circulation newspapers.

The age distribution of employees is concentrated in the 21-40 age group (72%). The average age of employees during 2004 was 37 years.

64% of Group employees have post-secondary education.

Assessment
Staff is assessed once a year through the annual assessment process. The key objectives of the system are to improve the performance of staff, to increase their productivity and to facilitate their personal and professional development.

The system comprises:
- The assessment of the individual performance of employees against the work targets set for the past year, as well as setting targets for the following assessment period. The work targets stem from the employee’s job description and are focused on the main activities performed by the employee. These targets need to be as specific as possible, measurable and must have a timetable for completion.
- The preparation of a personal development programme for each employee. The programme is prepared following discussions and agreement between the employee and his assessor, based on specific performance parameters that reflect the Group’s strategic goals and objectives. The success of the system is based on the correct management of the performance of employees by their supervisors and relies on the continuous on-the-job monitoring of employees and the provision of practical guidance and support for the attainment of their work targets.
- The objective for 2005 is to fully automate the staff assessment process so as to limit bureaucracy and to improve the effectiveness of the system.

The assessment of the Group’s junior staff and middle management is complemented by their participation in Staff Assessment and Development Centres. These Centres assess the participant’s managerial skills through a series of exercises that simulate their working environment. The assessment of the employees’ reactions is carried out using a variety of techniques so as to ensure extensive coverage of their abilities and to enhance the credibility of the results. Following on from these Centres, a Personal Development Plan is prepared, which sets specific targets for actions aimed at developing the officer’s skills. The assessment of officers is carried out using mini surveys, through which they are assessed by members of the team that they supervise. This method assesses management skills and is anonymous in order to ensure that a true and unbiased picture is obtained. The results of the surveys are used for development purposes.

In recent years the Group’s senior management personnel in Cyprus is assessed using the 360° Assessment method, through which information on each person being assessed is collected from various sources, such as their superior, subordinates and other colleagues. The results are used to prepare a personal development plan for each officer. The assessment is repeated after approximately two years. As from 2005 the Bank will extend this process to middle management.

Promotions
The purpose of the promotions system is to satisfy the operational needs of the Group and its staffing with suitable officers who will be able to contribute towards the achievement of the Group’s targets and objectives. Candidates for promotion are examined after having been recommended by their supervisors. The selection of candidates for recommendation and their final assessment for promotion is based on certain criteria, which aim to promote the employees with the best skills and potential. These criteria (in order of importance) are:
- the performance of candidates,
- their development potential,
- academic and professional skills,
- banking background, and
- past experience within the Group.

Training and Development
Each year the strategic objectives of the Group comprise a reference point for staff training. In this context, the necessary staff training plans are prepared and the priorities for the year are determined, so that employees have the necessary skills and knowledge to carry out their duties. According to the training records of 2004, the average training days per employee was three and a half.

Geographic distribution of employees
- Cyprus 57%
- Greece 36%
- United Kingdom 4%
- Australia 1%

Level of education of employees
- Tertiary education 52%
- Secondary education 36%
- Postgraduate education 12%

Age distribution of employees
- 21-30 years old 31%
- 31-40 years old 41%
- 41-50 years old 20%
- 51+ years old 8%
In Cyprus, the needs of the Group were covered both by internal seminars for general office and managerial staff, and by external seminars necessary to cover specialised training needs. In the context of the accession of Cyprus to the European Union, the Bank organised special programmes to brief staff on the changes in the general economic environment and the financial sector in particular as a result of EU accession.

In Greece, a large number of seminars were carried out in 2004 in order to satisfy training needs. The seminars covered both banking topics, as well as the development of interpersonal skills and were attended by general office and managerial staff. Given the continuing expansion of the operations of the Bank in Greece and the recruitment of personnel, particular emphasis is given to the smooth incorporation of new members of staff, through their participation in suitable training programmes.

In the United Kingdom and Australia, the Bank organised training courses in 2004 that were focussed on banking.

Staff Motivation and Satisfaction
In Greece and the United Kingdom, the remuneration of employees is linked to their performances. These performance-linked rewards also constitute an incentive for high productivity and performance by staff.

In Cyprus, a survey on staff motivation will be carried out during 2005. The objective is to conduct the survey on an annual basis thereafter in order to establish the level of staff commitment and take the appropriate corrective measures.

Training and Sports Centre
The Bank of Cyprus Training and Sports Centre has been in operation since 1999 and is situated at a beautiful location in the outskirts of Pafosia. The Centre is designed with the latest international specifications and houses the Training Centre, where all educational seminars and Staff Assessment Centres take place. The Centre is equipped with all the necessary equipment to enable staff to familiarise itself with new technology, electronic banking and new developments in information technology. The Centre also houses a Library/Multimedia Training Centre, which is rich in educational material (books, videos). The Sports Centre is also located in the same building, which is equipped with sporting facilities that include a gym, indoor and outdoor swimming pools, tennis courts and a cafeteria for use by staff and their families during their free time.

One of the chief objectives the Group has set over the next few years, is the integration of its systems, technologies and applications in the countries in which it operates.

With the installation and implementation of common IT systems, initially in Cyprus and Greece, operating cost savings are expected to arise as a result of factors such as common user licences, the development of knowhow for system support, as well as common operating procedures. System availability will be enhanced, ensuring the unhindered and continuous operation of software, in parallel with the establishment of disaster recovery procedures.

Finally, the implementation of uniform systems is expected to significantly improve the quality of service provided to customers, providing the Group with a competitive advantage.

In Cyprus, during 2004 the strategic project for the installation of the new banking platform based on Microsoft Windows technology at branches/divisions was completed. Efforts also continued for upgrading the functionality of existing applications and for the implementation of a series of projects with the ultimate objective of introducing new specialised systems.

During 2004 the efforts for upgrading IT security continued, aiming at ensuring the preservation of a safe operating environment and data protection. Given the sensitivity of this area, efforts were intensified to record and implement security procedures. Additionally, training courses were organised for employees in order to increase awareness of control conscious behaviour.

With the renewal of the operating system and the introduction of new and securely perform banking activities, such as account statements, fund transfers, transactions, etc. through the Direct Banking services, Users can also access information regarding the services and facilities provided by the Bank and the subsidiaries of the Group, as well as news and events about the Group. Customers are also provided with the opportunity of executing brokerage transactions through CISCO on-line.
As regards the Data Warehouse system, efforts continued and were intensified in order to allow users easier and faster access to data and information. During 2004 the functionality of the Data Warehouse application was made available to all branches and units through the Portal, allowing users access to useful information, analyses and reports for use by branch management. This infrastructure reinforces the monitoring of non-performing loans, facilitates decision-making (Decision Support System), and helps identify cross-selling opportunities. In addition, with the automation of procedures such as bad debt provisioning, this infrastructure has contributed significantly to the reduction of execution time and the improvement of the quality of work of the branches and divisions.

As part of its actions to preserve its pioneering role, the Bank implemented the direct connection to STEP 2, a common Euro cheque clearing system introduced in the context of the European Union’s (EU) policy to promote a single market and the adoption of common systems. Fund transfers through STEP 2 are fully automated and do not require any manual intervention. The system aims at accelerating the Euro fund transfer procedure, but also at introducing a uniform pricing policy for such transfers within the EU. It is worth noting that with the completion of this project, Bank of Cyprus will be the only bank in Cyprus to have direct access to STEP 2 and will act as an entry point for incoming transfers into Cyprus through this system.

The Bank has introduced electronic products provided through the internet, such as the new product, generation YOUTH. This product is targeted at young people, offering them an electronic current account (i-account). Applications for this product can be made directly on the Bank’s website.

With the completion of the project for the provision of a complete solution for commercial transactions at large branches and the continuous efforts for the provision of speedy and high-quality service to customers through the internet, the implementation of new specialised software began during 2004, which offers the ability to large customers to send electronic instructions for import/export credit transactions such as bills for collection. The pilot implementation of this facility is programmed for the beginning of 2005.

The installation of a new system at the Bank of Cyprus Finance Corporation commenced during 2004. The new system will enable the Company to offer new products especially in the leasing sector, given the anticipated enactment of the relevant legislation.

With the motto of maximising the total cost of ownership, the Information Technology Department set the strategic objective to search for and implement alternative technologies based on the open source concept. As a move in this direction the Linux operating system, which operates with minimum cost, was implemented and tested. This system is constantly increasing its international market share. The results to date are very encouraging, especially concerning its functionality, reliability and security. Linux and comparable open source software are currently used on a pilot basis for the electronic mail of the ITD. The full implementation of the system is expected to be completed in 2005.

In Greece, the strategy of the Operations Management Division was focussed on the following directions in 2004:

- The prompt provision of support and the execution of back office transactions for each new unit of the branch network in any part of the country, which safeguards great flexibility and speed, both of which are required for the expansion of the Bank.
- The containment of the cost of centralised services, despite the continuously growing number of transactions, while at the same time reducing execution time and maintaining high quality.
- The preservation of the Bank’s position among the most developed banks in Greece regarding technology, with emphasis on providing customers with a high-quality service and the speedy development of new products. This policy was spearheaded by the implementation and utilisation of the Customer Relationship Management (CRM) system in the whole range of services offered by the Bank, a project that will continue during 2005. Bank of Cyprus is the reference bank of Peoplesoft, the supplier of the CRM system, and also of IBM, for whose benefit the Bank’s systems are presented both in Greece and internationally to their existing and potential customers.

- In March 2004 the implementation of new software for the alternative distribution channels was completed, with consolidated procedures and competitive capabilities, recognising both the common but also the different needs of individuals and legal entities. An indication of the percentage increase, in the number of transactions executed through the new services (fourth quarter 2003 compared to fourth quarter 2004) is a more than tenfold increase, with a continuous upward trend.
Creativity:

In new ideas
The intense technological progress which characterizes our time continuously demands new and pioneering ideas. Clear, direct and applicable. We open our horizons to a future that is more effective and more human.

In results
Teamwork and collectiveness, because no one on their own can achieve what a strong team is capable of achieving. A team where everyone has a voice and all participate. Only then is the result direct and creative.

In time
In our era, time is definitive and contributes catalytically to our development and the accomplishment of our objectives. Exploration of the possibilities offered by technology and our excellent infrastructure, to enable us to annihilate time and turn it in our favour.
Bank of Cyprus Activities
In the course of 2004, Bank of Cyprus continued its multifaceted social and cultural activities through its support of the arts, its involvement with issues that affect young persons and the support of vulnerable social groups.

Through its sponsorship programme in Cyprus, Bank of Cyprus has supported, among others, the following events:

- The organisation of the 6th vocational fair Career 2004, which aims to inform students about the professions practised in Cyprus and their career prospects.
- The continued education of the public on economic and finance topics through the New Manager programme.
- Sponsorship of the Month of Italian Culture, which focussed this year on fashion and the arts with the leading tenor Luciano Pavarotti as chief guest.
- Sponsorship of the Historic Exhibition Crusades—Myth and Reality which was organised in the context of the programme Crossings: Movements of People and Movement of Cultures. Changes in the Mediterranean from Ancient to Modern Times. The programme is supported by the European Union’s programme Culture 2000 and will continue until 2007.
- The staging of the annual event Art Dialogues, which this year was organised together with the Bank of Cyprus Cultural Foundation. The theme of the event this year was Europe/Olympic Games—Athens 2004. The Group continued to coordinate the Okidio programme both in Cyprus and Greece, an educational programme for children and teenagers through recreation, which has been operational since 1999. The programme enables the communication with other children at the same age all over the world. During 2004, supported by pioneering technology, the programme was expanded to over 100 schools across the world.

A worldwide electronic network of schools is hosted at the website www.okidio.gr, where primary schools from Greece can conduct, in teams of three, live electronic conferences with overseas Greek-speaking schools. The central topic of these conferences is The Greek neighbourhoods of the world, where every class invites the other two to a brief visit of their region. The students investigate, collect and present to the other students the data which describe the specific environment specific of their region, such as its geography, natural wealth, history, customs, traditions and culture. Through Okiido, the children actively participate in the learning process and develop skills related to the development of critical judgement, sense of responsibility and teamwork.

In parallel, through the website, children and young people from every corner of the planet have the ability to expand their knowledge regarding Greek culture, and they have access to a rare pool of information, which is continuously enriched with material that is collected and presented by students of the participating schools.

In Greece, as part of the Group’s contribution to the area of education, the Scholarship Programme of Bank of Cyprus for the Athens University of Economics and Business was initiated. In 2004, eleven scholarships were granted to outstanding students of all full-time courses of the Department of Economics. In 2004, Bank of Cyprus wishing to actively contribute also to the world’s largest athletic event, implemented the programme Return to the Motherland. Through this programme, Bank of Cyprus honoured and supported five prominent athletes of Cypriot origin who live abroad to return to their homeland and represent their country. The Bank also sponsored the families of the athletes, who also travelled to Greece to support them during the games.

In recognition of the broad spectrum of its social contribution, the Group was presented with the Corporate Social Responsibility Award at the Money 2004 Business Awards event.

Chain of Life
For the sixth successive year, the Group’s employees organised with great success the annual Chain of Life events. This is a series of events, which aim at raising public awareness about cancer and collecting funds in aid of the Cyprus Anticancer Society. The total amount raised in 2004 reached around C€670,000.

Bank of Cyprus Oncology Centre
A very important project in the area of health is the establishment and operation of the Bank of Cyprus Oncology Centre in Cyprus, which was co-founded by Bank of Cyprus and the Republic of Cyprus and has completed its sixth year of operation during 2004. The vision of its founders is the provision of impeccable services to cancer patients as a proof of the Bank of Cyprus Group’s appreciation for the support it received from the people of Cyprus since its establishment.

Bank of Cyprus Cultural Foundation
During 2004 the Bank of Cyprus Cultural Foundation completed 20 years of operation. In this context, all the events in all areas of activity of the Foundation focussed on the celebration of this anniversary. The Foundation was also very active in all areas of its activity:

- In February, in collaboration with the Benaki Museum of Athens, the exhibition George Mavroides. A ‘process’ of thunderstruck affirmation, was opened in the building of the Foundation.
- The event Art Dialogues which runs for the third consecutive year, was organised in co-operation with Bank of Cyprus under the theme Europe/Olympic Games—Athens 2004. The publications of Eugene Trivizas. A swallow over Europe (co-published by the Bank of Cyprus Cultural Foundation and Mitilas publications) and Despoina and the dove, were presented through puppet shows and the author’s narration.
- In the context of the event Art Dialogues, the exhibition Olympians and coinage with drawings of children that participated in educational programmes of the Museum of the History of Cyprus Coinage, was inaugurated.
- In July, the Cultural Foundation organised in collaboration with the Embassy of Greece in Cyprus the event Epidaurus—50 years of performance. The event included a presentation of the Publication of the Foundation (co-published with Mitlos publications) Epidaurus, the Ancient theatre, the performances by its author Costas Georgopoulos and the participation of the Academy of Athens.
- In September, Nikos Casino presented the lecture Condition and presentation of the Mylaius in Cyprus and scenes from informing young Cypriots about the professions practised in Cyprus and their career prospects.
- In October, the 19th Lecture on the History and Archaeology of Cyprus was presented on the subject of Ioannis Sykoutris Lusignian’s Chronicle and three studies for the publication of the texts. The speaker was professor Michael Kakouros, lecturer at Ecole Pratique des Hautes Etudes, in Paris.
- The publishing program of the Foundation was enriched with the following: In the series Cultural Foundation Collections, the publication Avvisi (1570-1572), The War of Cyprus was printed both in Greek and English. In the series Cypriot Artists, the edition Telermochas Konnof, the portrait of a creator published, in the series Cyprological Studies and Lectures the work of Estienne de Lusignan, Chronygrafa, 1573 and Description de toute l’ile de Cypre, 1580, were reprinted, in the Archaeological Guides, the Guide to Polisyphekt (Pafos), and in the series Guide to Byzantine Monuments, the guide The church of the Holy Cross of Ayiasmati.

Bank of Cyprus Group

Social and Cultural Contribution
• In 2004 the Cultural Foundation assumed the issue of the 2005 Diary of the Bank of Cyprus Group entitled Images of Cyprus. The enrichment as well as the documentation of the Foundation’s Collections continued, and the operation of research programmes is still in progress.

Museum of the History of Cypriot Coinage
Dr. Panayiotis Tselekas gave the fifth lecture of the Museum of the History of Cypriot Coinage in May in the context of the International Museums Day. The subject of the lecture was the Olympic Games and Coinage. On the occasion of the Olympic Games, in a separate showcase of the Museum, commemorative Olympic coins and relevant exhibits were displayed.

Museum of the George and Nefeli Giabra Pierides Collection
The Museum attracted a large number of local and foreign visitors and special guided tours for organised groups were carried out. Items from the collection were studied and copies were produced for sale from the Agios of the Foundation.

Historical Archive
The Sub-committee of the Historical Archive was established in September 2001. Its aim is to identify, document and preserve the archive material that relates to the evolution of the Bank over the years as well as the financial history of the island in order to be used for research and academic study in the future. Since April 2003, the Historical Archive operates in an independent building in Aphrodite Street, in Nicosia, under the specifications of a contemporary archive. The importance placed by the Bank on the preservation of its archives is also indicated by its membership in the Organisation which, indicated by its membership in the Bank on the preservation of its archives is also contemporary archive. The importance placed by the Street, in Nicosia, under the specifications of a operates in an independent building in Aphrodite future. Since April 2003, the Historical Archive be used for research and academic study in the well as the financial history of the island in order to relates to the evolution of the Bank over the years as document and preserve the archive material that established in September 2001. Its aim is to identify, The Bank of Cyprus Historical Archive was Historical Archive from the were studied and copies were produced for sale the Giabra Pierides Collection Museum of the George and Nefeli Giabra Pierides Collection The Museum attracted a large number of local and foreign visitors and special guided tours for organised groups were carried out. Items from the collection were studied and copies were produced for sale from the Agios of the Foundation. Historical Archive The Sub-committee of the Historical Archive was established in September 2001. Its aim is to identify, document and preserve the archive material that relates to the evolution of the Bank over the years as well as the financial history of the island in order to be used for research and academic study in the future. Since April 2003, the Historical Archive operates in an independent building in Aphrodite Street, in Nicosia, under the specifications of a contemporary archive. The importance placed by the Bank on the preservation of its archives is also indicated by its membership in the European Association for Banking History, the organisation which, through its more than 70 large European member-banks, aims at promoting scientific research in banking history, especially through the establishment and operation of banking archives.

Report on Corporate Governance
The Bank of Cyprus 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 adopts the principles of the CSE’s Corporate Governance Code and is fully compliant with its provisions. As a company listed on the Athens Exchange (AS), Bank of Cyprus follows the provisions on corporate governance of listed companies, as set out in law L 3016/2002. The Group has adopted independence criteria for the members of the Board of Directors that are stricter than those provided by the Corporate Governance Code issued by the CSE and the law L 3016/2002 of the Republic of Greece.

The independence criteria concern the working, business and shareholding relationship of the Directors with the Group, the family and business relationship of the Directors between them, as well as their years of service on the Board.

Concerning the Board Committees, the Group has gone beyond the requirements of the CSE’s Corporate Governance Code, and in addition to the Audit, Remuneration and Nominations Committees, it has formed the Risk Committee and the Steering Committee (which has two Sub-committees: the Loans Sub-committee and the Capital Sub-committee). The Committees aim at better supporting the work of the Board of Directors.

Board of Directors
Other than the Chairman, Solon A. Triantafylides, the Board of Directors comprises the Vice Chairman, Vassilis G. Ralogis and 16 other Directors. As from January 2005, the Chairman and two other Directors (Christos S. Pantzaris and Evdokimos Xenophontos), who were executive Directors until 31 December 2004 and jointly constituted the Senior Executive Management team of the Group, retired from their executive duties. From 1 January 2005, the Senior Executive Management team of the Group comprises the Group Chief Executive Officer Andreas Eliades, the Deputy Group Chief Executive Officer and Chief Executive Officer Cyprus Charilaos G. Stavrikis, and the Group Chief General Manager Yiannis Kyri.

In accordance with the stricter Director independence criteria adopted by the Group, for two years following their retirement from executive duties, Solon A. Triantafylides, Christos S. Pantzaris and Evdokimos Xenophontos, will be classified as non-independent Directors. Additionally, eight of the remaining 15 Directors are classified as independent, in accordance with the revised stricter Director independence criteria adopted by the Group. The members of the Board of Directors are:

Non-independent non-executive Directors:

• Solon A. Triantafylides (Chairman)
He was born in 1932. He obtained the professional qualification of Chartered Accountant in 1956 in London and became the manager of the family business George Giabra Pierides Ltd. He was founder and first Chairman of the Institute of Certified Public Accountants of Cyprus and served as Chairman of the Employers Federation (1969-1970). In 1957 he was appointed Honorary Consul of Norway and in 1988 Consul General. He became a Director of Bank of Cyprus in 1963 and Vice Chairman of the Board of Directors in 1979. In 1988 he was elected Chairman of the Bank of Cyprus Group, a position he holds to this day. From January 2005 he no longer exercises executive duties within the Group.

• Vassilis G. Ralogis (Vice Chairman)
He was born in 1942. He studied Law and Business Administration, with specialisation in Marketing, in the United Kingdom. He worked in the United Kingdom and in Greece. He was Vice Chairman of the Cyprus Chamber of Commerce and Industry during the period 1990-1996 and Chairman since 1996. He was a member of the Board of Directors of the General Insurance of Cyprus from 1980-1994 and has been Chairman since 1994. He also served as Chairman of Cyprus Airways and Eurospor Airlines during the period 1993-1997. During 2001-2002, he served as Chairman of the Balkan Chambers of Commerce. He is a member of the Board of Directors of the Eurochambers, based in Brussels. He is a member of the Finance Advisory Committee, the Commerce and Industry Advisory Committee and the Cyprus
delegation at the International Labour Organisation. Since May 2004, following his election as Vice Chairman of the Board of Directors of the Bank, he resigned from the Board of Directors of various public and private companies of which he was a member. He is involved with his family business.

- Andreas Agathoukos
  He was born in 1939. He is a Fellow of the Association of Certified Accountants. He worked in audit/accountancy firms in London and Athens. He served as Chief Accountant of the Archdiocesan of Cyprus and as Real Estate Manager of the Archdiocesan of Cyprus in Limassol. From 1999 to September 2003 he was a real estate consultant of the Archdiocesan of Cyprus.

- Theodore Aristadoumanou
  He was born in 1951. He studied Economics at the Law School of the University of Athens. He is the founder, main shareholder and Chairman of Aristo Developers. He served as Chairman of the local Chamber of Commerce and Industry of Paphos, as Chairman of other organisations and as a member of the Board of Directors of the Cyprus Telecommunications Authority and of Cyprus Airways. He is the Vice Chairman of the Cyprus Chamber of Commerce and Industry.

- Dimitris P. Ioannou
  He was born in 1954. He holds a BSc Honours degree in Engineering from the University of Manchester. He has been a member of the Board of Directors of Bank of Cyprus since 1974 and Vice Chairman from 1988 to May 2004. He was Chief Executive of Bank of Cyprus from 1995 until the end of 2004, when he retired from his executive duties at the Group. He continues to provide his services to the Group from his position as a member of the Board of Directors and as Chairman or member of the Board of Directors of Group subsidiary companies. Before his appointment as Chief Executive of Bank of Cyprus, he was actively involved in his family businesses that operate in the commercial and industrial sectors. He was Chairman of the Cyprus Banks Association. He also served as Chairman of the Cyprus Electricity Authority (1974-1979 and 1989-1993), the Employers and Industrialists Federation, the Cyprus Bank Employers Association and as a member of the Council of the University of Cyprus.

- Christos Mouakis
  He was born in 1944. He studied Business Administration and Marketing in the USA. He started his career at Musika Aluminium Industries Ltd. He then undertook the expansion of the Musika group of companies into the tourist sector. He is Executive Chairman of Musika Hotels and of other group companies that operate in the construction and operation of luxury hotels in Cyprus and Greece. He is a member of the Board of Directors of private and public companies and of the Association of Cyprus Tourist Enterprises (ACTE).

- Christos S. Pantazakis
  He was born in 1934. He holds a BSc Honours degree in Business Administration from the University of Manchester. He has been a member of the Board of Directors of Bank of Cyprus since 1974 and Vice Chairman from 1988 to May 2004. He was Chief Executive of Bank of Cyprus from 1995 until the end of 2004, when he retired from his executive duties at the Group. He continues to provide his services to the Group from his position as a member of the Board of Directors and as Chairman or member of the Board of Directors of Group subsidiary companies. Before his appointment as Chief Executive of Bank of Cyprus, he was actively involved in his family businesses that operate in the commercial and industrial sectors. He was Chairman of the Cyprus Banks Association. He also served as Chairman of the Cyprus Electricity Authority (1974-1979 and 1989-1993), the Employers and Industrialists Federation, the Cyprus Bank Employers Association and as a member of the Council of the University of Cyprus.

- Demetris Z. Pierides
  He was born in 1937. He studied Economic Sciences and Law at the Swiss University of Lausanne (Masters Degree). In 1960 he was posted to managerial positions at his family shipping-banking-insurance and hotel-tourist group of companies. He is currently Chairman of various private companies. He has been Consul General of Sweden in Cyprus since 1968. In 1974, he founded the Pierides Foundation that operates 13 museums and galleries in Cyprus and Greece. He has been Chairman of the Foundation since 1995 and continuous sponsor. During 1988-1996 he served as a member of the Board of Governors of the European Cultural Foundation, representing Greece and Cyprus. In the period 1998-2001 he served as Vice Chairman of the Council of the University of Cyprus and as Chairman of the Committee for the establishment and operation of the University campus in Nicosia. He is an honorary lecturer of the School of Philosophy of Athens University. He has been honoured with high-ranking decorations from the governments of Cyprus, Sweden, Greece, Italy and France.

- Polyc. G. Poliyiou
  He was born in 1949. He studied at Oxford University (M.A., BCL) at London’s Inns of Court (Barrister-at-Law) and at Princeton University in USA (Research Fellow in Politics). He was a lecturer of Law at Oxford University during the period 1973-1980. Since then, he practices law in Cyprus. He has written five books on legal topics.

- Eubl...
Senior Executive Management Team

• Andreas Ekalades (Group Chief Executive Officer)
  He was born in 1955. He holds a degree in Economics from the Athens School of Economics and an M.Sc. with distinction in Economics from the London School of Economics. He joined Bank of Cyprus in 1980. In 1991, upon the establishment of Bank of Cyprus Greece, he took up the position of Country Manager. In 1998 he became Group General Manager, Bank of Cyprus Greece with responsibility for the Group’s expansion in Greece. On 1 January 2005 he was appointed Group Chief Executive Officer.

• Charles G. Stavrakis (Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer)
  He was born in 1956. He studied Economics at the University of Cambridge, where he graduated in 1979 with Double-First Class Honours. He holds an MBA from Harvard University, Graduate School of Business Administration. In 1988, he became a member of the Chartered Institute of Bankers (ACIB). He has over 20 years experience in the banking sector. In 1989 he undertook a two-month consulting assignment at the World Bank. He held various positions at Bank of Cyprus including the position of Manager of Strategic Planning and Business Development and Manager of Treasury and International Services. Between 1998 and 2004 he held the position of Group General Manager International Banking. He is the elected Chairman of the Voluntary Provident Fund of the employees of Bank of Cyprus. On 1 January 2005 he was appointed Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer.

• Yiannis Kyri (Group General Manager)
  He was born in 1951. He studied Economics at the University of Cambridge, where he graduated in 1974. In 1978, he returned to Cyprus holding the professional qualification of Chartered Accountant and worked for two years at the international audit firm Ernst & Young. In 1980, he joined the Bank of Cyprus and in 1982 he was appointed as Chief Accountant of the Bank. From 1993 until 2004 he held the position of Group General Manager Finance. On 1 January 2005 he was appointed Group Chief General Manager. He was a founding member and served as Chairman of the Cyprus Public Companies Association for six years. He is the Chairman of the Bank of Cyprus Cultural Foundation and a Trustee of the Bank of Cyprus Oncology Centre.

Group General Managers

• Antonis Jiacouts (Group General Manager Information and Operations)
  He was born in 1947. In 1973 he obtained the professional qualification of Chartered Accountant (FCA). During the period 1973-1980 he was Audit Manager at the international audit firm Coopers & Lybrand (now PricewaterhouseCoopers) at their London, Rotterdam and Athens offices. In 1980 he joined Bank of Cyprus and served as manager at various posts. In 1993, he was promoted to Group General Manager Support Services, a position which he held until October 2003. From November 2003 until the end of 2004 he took up the position of Group General Manager Credit Risk. As of 1 January 2005 he was appointed Group General Manager Information and Operations.

• Vassos Smyrlis (Group General Manager Domestic Banking)
  He was born in 1948. In 1966 he graduated from high school in London. He studied accounting and worked for 19 years in various accounting firms in London. His last employment before his return to Cyprus in 1985 was with Coopers & Lybrand, where he held the position of Senior Manager. In 1985, he joined the Bank of Cyprus Group and later took over the position of Senior Manager of the Customer Management Services Unit. During the period 1998-2003 he held the position of Group General Manager Branch Banking. Since November 2003 he holds the position of Group General Manager Domestic Banking. He served as a member of the Board of Directors of the Junior School in Nicosia for six years (1986-1992).
• Christos Hajiimitsis (Group General Manager Finance)
  He was born in 1957. In 1976 he graduated from the English School in Nicosia. He studied Economics at the London School of Economics and obtained his degree with distinction. He worked for the audit firm Peat Marwick, Mitchell & Co London and in 1985 he returned to Cyprus having obtained the title of Chartered Accountant, with a specialisation in financial services. From 1985 until 1988 he worked for Peat Marwick, Mitchell & Co in Cyprus. In 1988 he was recruited by the Bank of Cyprus Group and in 1992 he was appointed Financial Controller of the Bank. From 1995 until 2004 he held the position of Group Financial Controller. On 1 January 2005 he was appointed Group General Manager Finance. He is a member of the Board of Directors of the Cyprus Public Companies Association since 1997 and a member of the Advisory Committee for the FTSE/CySE20.

• Nicolas Karydas (Group General Manager Risk Management)
  He was born in 1955. He holds a degree in Business Administration from the Athens School of Economics and an MSc. in Accounting from the University of Birmingham. From 1980 to 1982 he worked at the Central Bank of Cyprus. During the period 1982 to 1986 he worked for Deloitte Haskins & Sells and in 1985 he obtained the professional qualification of Chartered Accountant. From 1986 until 2004 he worked at the Central Bank of Cyprus where he held various positions including Manager of the Domestic Bank Supervision Department and Internal Auditor of the Central Bank. He joined the Bank of Cyprus Group in November 2004 at the position of Group General Manager Risk Management.

• Costas Vassilides (Group General Manager Business and Consumer Banking)
  He was born in 1943. Having completed his graduate studies at the Athens School of Economics, he attended the Institute of Business Management. He entered professional employment in 1970 at the Department of Economic Analysis and Research of Emporiki Bank. In 1975, he became a member of the founding team of Ergasias Bank, where he initially had responsibility for credit sanctioning. In 1990 he was appointed General Manager of Ergasias Bank. From 2001 to 2004, he held the position of General Manager of Business and Consumer Banking at Bank of Cyprus Greece, while concurrently being Chairman of Kyprou Securities SA. On 1 January 2005 he was appointed Group General Manager Bank of Cyprus Greece.

Board Committees
Specific responsibilities have been delegated to the Committees of the Board.

Audit Committee
The majority of the members of the Audit Committee are independent Directors:
  • George M. Georgiades, Chairman
  • Andronikos Athaghoblozos
  • Christakis G. Christophides
  • Anna Diogenous

The Audit Committee held 15 meetings during 2004. The Audit Committee reviews, inter alia, the Group’s financial statements, reports prepared by Group Internal Audit and reports on the Group’s system of internal controls and its effectiveness. The Committee is also responsible for recommending the appointment or retirement of the Company’s external auditors and oversees their relationship with the Group, including the monitoring of the balance of audit and non-audit services.

Remuneration Committee
The majority of the members of the Remuneration Committee are independent Directors:
  • Andreas Pittas, Chairman
  • Theodoros Arstamendou
  • George A. Davvid
  • Anna Diogenous
  • Andreas J. Jacovides
  • Christos Moukis
  • Vassilis G. Roligos

Eight meetings of the Remuneration Committee were held during 2004. The Committee considers and makes recommendations to the Board on matters relating to the remuneration of executive Directors and Senior Executive Management. The remuneration of Directors in their capacity as members of the Board is approved by shareholders at the Annual General Meeting.

Nominations Committee
The Committee comprises:
  • Costas Z. Severis, Chairman
  • Dimitris P. Ioannou
  • Andreas J. Jacovides
  • Christos Moukis
  • Christos S. Pantzaris
  • Demetris Z. Perides
  • Andreas Pittas
  • Poly G. Poliyiou

During 2004, three meetings of the Nominations Committee were held. The Committee makes recommendations to the Board for the appointment of new Directors in order to fill vacant positions on the Board as well as for the re-election of retiring Board members, taking into consideration the relevant factors and criteria. The Committee is responsible for the formulation of the succession plans of the Board. Additionally, the Committee has general responsibility for the application of corporate governance principles by the Group.

Risk Committee
The Committee was set up in April 2004 and comprises:
  • Andreas Artemis, Chairman
  • Christakis G. Christophides
  • George M. Georgiades
  • Solon A. Triantafylides
  • Evdokimos Xenophontas

From its formation to December 2004, nine meetings of the Risk Committee were held. The Committee examines, inter alia, the Group’s risk management policies and systems and their effectiveness, and makes recommendations to the Board of Directors regarding these matters. The Committee in co-operation with the Audit Committee and the Loans Sub-committee ensure that there is a spherical perception and management of risks.

Steering Committee
The Committee comprises:
  • Solon A. Triantafylides, Chairman
  • Andreas Artemis
  • Dimitris P. Ioannou
  • Christos S. Pantzaris
  • Poly G. Poliyiou
  • Vassilis G. Roligos
  • Costas Z. Severis
  • Evdokimos Xenophontas

During 2004, five meetings of the Steering Committee were held. The Committee examines matters that require immediate action and prepares matters for discussion by the entire Board.

The Steering Committee comprises two Sub-committees: the Loans Sub-committee and the Capital Sub-committee.

Loans Sub-committee
The Loans Sub-committee examines loans applications that are over predetermined limits as well as applications connected to Board Directors. The Committee also examines proposals for write-offs in excess of predetermined limits. The Sub-committee comprises:
  • Christos S. Pantzaris, Chairman
  • Vassilis G. Roligos
  • Costas Z. Severis
  • Evdokimos Xenophontas

Capital Sub-committee
The Capital Sub-committee makes recommendations to the Board on matters concerning the capital
Report on Corporate Governance (continued)

adequacy and capital requirements (equity and loan stock) of the Group. The Sub-committee was formed in December 2004 and comprises:
- Evdokimos Xenophonstos, Chairman
- Andreas Artemis
- Christos S. Pantazis
- Vassilis G. Rologis
- Costas Z. Severis

Report on the Remuneration of Directors
The Board of Directors sets the remuneration of executive Directors (up to 31 December 2004) and of the Senior Executive Management Team, on the recommendations of the Remuneration Committee. The reward package comprises salary, adjusted on an annual basis taking into account the prevailing economic and labour market conditions, and a bonus, the level of which depends on Group performance regarding profitability and the achievement of the Group’s objectives. Executive Directors (up to 31 December 2004) and Senior Executives participate in the Staff Gratuity Scheme of the Group. The service contracts of Senior Executives have a five-year duration and, on their expiry, are submitted to the Nominations Committee and subsequently to the Board of Directors for renewal.

The remuneration of non-executive Directors is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Bank, and for their participation in the Committees of the Board of Directors. The remuneration of Directors in their capacity as members of the Board is approved by shareholders at a General Meeting.

Further details of Director remuneration are set out in Note 9 of the Group’s Financial Statements.

Loans and Other Facilities to Directors
Details of the facilities granted to Directors are set out in Note 38 of the Group’s Financial Statements.

Material Interest of Directors in Material Transactions of the Bank and/or its Subsidiary Companies
Polis G. Polyviou, a member of the Board of Directors of the Bank, is partner in the Legal Practice Chryssafinis & Polyviou, who are the Group’s external legal advisors.

Costas Z. Severis, a member of the Board of Directors of the Bank, is the major shareholder in the company D. Severis and Sons Ltd, which is a general agent of the Bank’s subsidiary, General Insurance of Cyprus Ltd.

Anna Diogenous, a member of the Board of Directors of the Bank, has an indirect interest in the company Pylones SA Elias, which provides Bank of Cyprus’ services with services and equipment.

Additionally, as was announced on 14 January 2005, the Board of Directors of the Bank at its meeting held on the 13 January 2005, approved the decision of the Board of Directors of the Bank’s subsidiary company, General Insurance of Cyprus Ltd, of the same date for the acquisition of the insurance portfolio of the company Georgios Giabra Pierides Ltd for a consideration of €540 000. Georgios Giabra Pierides Ltd have been general agents of General Insurance of Cyprus since 2000 and prior to that, general agents of Guardian Royal Exchange and AXA, which withdrew from the Cyprus market. The Chairman of the Board of Directors of Bank of Cyprus, Solon A. Triantafylides, and Polis G. Polyviou a member of the Board of Directors of the Bank and also of General Insurance of Cyprus, have a substantial interest in the company Georgios Giabra Pierides Ltd. According to Articles 8 and 9 of the Cyprus Securities and Stock Exchange Laws 83(1)(97 and 87(1)(52) respectively, Solon A. Triantafylides and Polis G. Polyviou together with connected persons own 99% of Georgios Giabra Pierides Ltd. Given the above relationship, the Group proceeded to obtain two internal and two independent external valuations, which confirmed the fair value of the consideration paid for the acquisition of the insurance portfolio. Additionally, the Group Audit Committee has extensively reviewed the procedure followed.

No other Director has a material interest, either direct or indirect, in a contract with the Bank or any of its subsidiary companies.

Accountability and Audit

Going Concern
The Directors confirm that they are satisfied that the Group has adequate resources to continue in business as a going concern for the next 12 months.

System of Internal Control
The Directors are responsible for ensuring that the Bank’s management maintains an effective system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors review the effectiveness of the system of internal control annually, including the procedures for the verification of the correctness, completeness and validity of the information provided to investors. Throughout 2004, and to date, the Group has operated an effective system of internal control, which includes financial and operating controls as well as compliance systems for the management of risks that could jeopardise the achievement of the Bank’s objectives.

Compliance with the Corporate Governance Code
The Board of Directors has appointed the Group Chief General Manager, Yiannis Kypri, as Corporate Governance Compliance Officer.

Shareholder Relations
All shareholders of Bank of Cyprus are treated on an equal basis. Shareholders are promptly and accurately informed of any material changes regarding the Bank, including its financial condition, return, ownership and governance.

The Board of Directors provides the opportunity to holders of at least 5% of the Company’s share capital to request the inclusion of items on the agenda of General Meetings, provided they notify the Company at least 15 days prior to the notice of the General Meeting.

The Board of Directors is available at the Annual General Meeting to answer shareholders’ questions. The Board of Directors has appointed an Investor Relations Officer, responsible for the communication between shareholders and the Bank. Information concerning the Bank is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner: free of charge.

Board of Directors
Bank of Cyprus Public Company Ltd
I. Summary of Results

- Group profit after tax for 2004 reached €38 million against a loss of €29 million for 2003.
- Group core profit (profit before provisions for bad and doubtful debts and before tax) reached €140 million, up by 39% against €101 million for the prior year.
- Net interest income increased significantly (24%) to €246 million compared to €199 million for 2003. The increase was due to the improved net interest margin, which resulted from the actions taken to further improve pricing, as well as the significant increase in the Group’s Greek loans and advances portfolio and the collection of overdue amounts.
- The cost to income ratio recorded a significant improvement to 62% compared to 67% for 2003.
- In Cyprus, core profit recorded a 57% increase to reach €79 million against €50 million for 2003. The increase was due to the positive impact of the programmes for containing costs and enhancing total revenue, especially in respect of banking activities, as well as the positive results of the Group’s insurance subsidiaries. Despite the satisfactory increase in core profit generated by the Group’s operations in Cyprus, the return on assets and equity remains at a low level and the cost to income ratio is still high.

II. Analysis of Results

Net interest income and net interest margin

Net interest income for 2004 reached €246 million, recording an increase of 24% against 2003. This increase was achieved despite the adoption of a stricter Central Bank of Cyprus directive regarding suspension of interest income as from 1 January 2004. According to the new regulations, banks cannot recognise interest income on loans and advances which are not fully secured and are more than six months in arrears, instead of more than nine months that applied in 2003. It is noted that the charge for suspended net interest income for 2004 amounted to €31 million, 5% down against the 2003 charge of €32 million, resulting from the collections of arrears.

The net interest income generated by the Group’s operations in Greece reached €87 million, registering a 22% increase against prior year net interest income.

The Group net interest margin (NIM) for 2004 improved to 2.66% compared to 2.53% for 2003, as a result of the continuing efforts for interest spread improvement and the collections of arrears. The largest increase in NIM was recorded by the Group’s operations in Cyprus; NIM improved to 2.42% for 2004, up from 2.17% for 2003, due to

Condensed Income Statement of the Bank of Cyprus Group

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>± %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>245.9</td>
<td>198.5</td>
<td>+24%</td>
</tr>
<tr>
<td>Net fees and commissions</td>
<td>85.9</td>
<td>75.6</td>
<td>+13%</td>
</tr>
<tr>
<td>Foreign exchange income</td>
<td>15.5</td>
<td>14.2</td>
<td>+9%</td>
</tr>
<tr>
<td>Net losses on sale and revaluation of financial instruments</td>
<td>(2.8)</td>
<td>(0.8)</td>
<td>+251%</td>
</tr>
<tr>
<td>Income from insurance business</td>
<td>18.1</td>
<td>15.4</td>
<td>+17%</td>
</tr>
<tr>
<td>Other Income</td>
<td>4.7</td>
<td>4.2</td>
<td>+12%</td>
</tr>
<tr>
<td>Total income</td>
<td>373.3</td>
<td>307.1</td>
<td>+20%</td>
</tr>
<tr>
<td>Staff costs</td>
<td>(138.3)</td>
<td>(123.3)</td>
<td>+12%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(89.5)</td>
<td>(83.2)</td>
<td>+8%</td>
</tr>
<tr>
<td>Core profit (profit before provisions)</td>
<td>139.5</td>
<td>100.6</td>
<td>+39%</td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>(83.7)</td>
<td>(110.2)</td>
<td>-24%</td>
</tr>
<tr>
<td>Provision for impairment of available-for-sale investments</td>
<td>(5.9)</td>
<td>(7.8)</td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>49.9</td>
<td>(17.4)</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>(1.4)</td>
<td>(1.4)</td>
<td></td>
</tr>
<tr>
<td>Profit/(loss) after tax</td>
<td>48.5</td>
<td>(18.8)</td>
<td></td>
</tr>
<tr>
<td>Earnings/(losses) per share (cent)</td>
<td>8.1</td>
<td>(6.5)</td>
<td></td>
</tr>
<tr>
<td>Dividend per share (cent)</td>
<td>4.0</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cost/income ratio</td>
<td>62.0%</td>
<td>67.3%</td>
<td></td>
</tr>
</tbody>
</table>

Core profit by geographic sector

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>± %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>79.3</td>
<td>50.4</td>
<td>+57%</td>
</tr>
<tr>
<td>Greece</td>
<td>49.1</td>
<td>41.8</td>
<td>+17%</td>
</tr>
<tr>
<td>United Kingdom and Australia</td>
<td>11.1</td>
<td>8.4</td>
<td>+34%</td>
</tr>
<tr>
<td>Total core profit</td>
<td>139.5</td>
<td>100.6</td>
<td>+39%</td>
</tr>
</tbody>
</table>
Financial Performance Review (continued)

interest spread improvement and the increase in the base rate in Cyprus Pounds. The NIM of the Group’s Greek operations recorded a decrease to 2.62% for 2004, down from 3.82% for 2003, mainly due to the relatively high rate of growth in deposits.

Net fees and commissions
Total net fees and commissions for 2004 reached €386 million, recording an increase of 14% against 2003. The increase was mainly attributable to the Group’s operations in Cyprus. Net fees and commissions generated by the Group’s Greek operations recorded an increase (4%) for 2004.

Income from insurance operations
Income from insurance operations recorded a satisfactory increase (17%).

The total insurance premium of the Group’s subsidiary company, General Insurance of Cyprus, recorded a 20% increase compared to 2003. Despite the slowdown in the life insurance sector in Cyprus, the total insurance premium of the Group’s subsidiary, EuroLife, registered an annual increase of 2%.

Operating expenses
In Cyprus, the annual rate of increase in operating expenses amounted to 9%. The increase in staff costs was mainly driven by wage increases agreed with the labour union per the three-year collective agreement which expired in December 2004. The recruitment freeze, combined with the Early Retirement Plan adopted by the Group led to a reduction in the number of staff employed by the Group in Cyprus (reduction of 81 people since 31 December 2003).

The Group’s operating expenses in Greece increased by 17%. This rate of increase is significantly lower than the rate of increase of the Group’s Greek operations (31% according to the growth in total assets). The Group’s Greek operations are inevitably affected by economies of scale, which are expected to generate more benefits as the footings of the Group’s Greek operations increase further and the branch network gradually matures. During 2004, the branch network was enhanced by the opening of 13 new branches. At the end of 2004, the Group operated 96 branches in Greece, with a target to reach 120 branches by the end of 2005.

The operating costs attributable to the other countries in which the Group operates recorded a decrease (1%) compared to 2003.

Analysis of operating expenses by geographic sector

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>2003</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>€145.6m</td>
<td>€133.3m</td>
<td>+9%</td>
</tr>
<tr>
<td>Greece</td>
<td>€64.9m</td>
<td>€55.6m</td>
<td>+17%</td>
</tr>
<tr>
<td>United Kingdom and Australia</td>
<td>€17.3m</td>
<td>€17.6m</td>
<td>+1%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>€227.8m</td>
<td>€206.5m</td>
<td>+10%</td>
</tr>
</tbody>
</table>

Core profit and profit before tax by line of business
The most significant part of Group profit is generated by banking operations, which contributed 92% towards Group core profit and 77% towards profit before tax for 2004. The profit before tax generated by insurance operations increased by 25% to €10 million against 2003 and contributed 21% towards Group profit before tax.

III. Financial Footings

Total assets
Group total assets reached €10.26 billion, recording a 13% annual increase. The total assets of the Group’s Greek operations reached €4.28 billion, registering a 31% annual increase.

Loans and advances
The Group’s total loans and advances recorded a 13% annual increase and reached €6.49 billion at 31 December 2004. This increase is mainly attributable to the significant annual growth (23%) in the loans and advances portfolio of the Group’s Greek operations to €2.59 billion. This rate of expansion is much higher than that of the Greek banking market (17%). According to the December 2004 figures published by the Bank of Greece, the market share of Bank of Cyprus Greece in respect of loans and advances was 3.69%. Operations in Greece accounted for 40% of the Group’s total portfolio at the end of 2004.

With effect from 1 January 2004, stricter regulations were introduced by the Central Bank of Cyprus regarding suspension of interest income. According to the new regulations, banks cannot recognise interest income on loans and advances which are not fully secured and are more than six months in arrears. Instead of more than nine months that applied up to the end of 2003. Based on the new regulations, the Group non-performing loans and advances (after suspension of interest income) at 31 December 2004 stood at 10.8% of total Group loans and advances, compared to 12.4% at 31 December 2003 (10.2% based on the regulations which were in force until the end of 2003).

Customer deposits
At 31 December 2004, total customer deposits reached €8.66 billion recording a 17% annual increase. The customer deposits of the Group’s Greek operations recorded an impressive increase (36%) and reached €3.29 billion. This rate of expansion is much higher than the one for the Greek banking market (4%). According to the December 2004 figures published by the Bank of Greece, the market share of Bank of Cyprus Greece in respect of deposits was 3.66%.
Group capital base
The Group maintains a strong capital base, which amounted to €927 million at 31 December 2004, marking a 7% annual increase. In 2004, Bank of Cyprus successfully completed the public issue of Capital Securities Series B in Cyprus Pounds, for a total amount of €30 million.

The Group capital adequacy ratio at 31 December 2004 stood at 13.7%, compared to the 10% minimum required by the Central Bank of Cyprus and 8% required by the European Union Directive.
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 2004.

Activities
The Company is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiaries during the year were the provision of banking and financial services, insurance business and property and hotel business.

Results
The profit before provisions for 2004 amounts to C€139 538 thousand compared with profit for 2003 of C€100 577 thousand.

The profit after provisions for bad and doubtful debts and impairment of investments and after tax for 2004 amounts to C€37 508 thousand compared with loss for 2003 of C€(28 803) thousand.

Dividends
The Board of Directors proposes the payment of a dividend for 2004 at 8% (4 cent per share). During the years 2003 and 2004 the Company did not pay any dividends (Note 28).

Share Capital
There were no changes in the Company’s share capital during the year.

Board of Directors
The members of the Board of Directors of the Company are listed on Page 2. All directors were members of the Board throughout the year 2004. On 19 May 2004, the Board of Directors of the Company elected Mr V. G. Rologis as Vice Chairman.

As from 1 January 2005, the members of the Board of Directors Messrs S. A. Triantafyllides, Chr. S. Pantzaris and E. Xenophonos do not have executive duties. The new Group Executive Management Team comprises Messrs A. Eliades, Group Chief Executive Officer, C. G. Stavrakis, Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer and Y. Kypri, Group Chief General Manager.

In accordance with the Company’s Articles of Association Messrs V. G. Rologis, D. Z. Pierides, G. A. David, A. Pittas, A. Diegou and G. M. Geogrides retire and, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

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

S. A. Triantafyllides
Chairman
24 February 2005

Consolidated Income Statement
for the year ended 31 December 2004

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Turnover</td>
<td>2</td>
<td>691 411</td>
</tr>
<tr>
<td></td>
<td></td>
<td>593 564</td>
</tr>
<tr>
<td>Interest income</td>
<td>3</td>
<td>512 293</td>
</tr>
<tr>
<td></td>
<td></td>
<td>432 436</td>
</tr>
<tr>
<td>Interest expense</td>
<td>4</td>
<td>(266 413)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(233 906)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>245 880</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>198 530</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>90 941</td>
<td>79 518</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(5 028)</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td></td>
<td>(4 008)</td>
</tr>
<tr>
<td>Foreign exchange income</td>
<td>15 489</td>
<td>14 216</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2 778)</td>
</tr>
<tr>
<td>Net losses on sale and revaluation of financial instruments</td>
<td>18 106</td>
<td>15 437</td>
</tr>
<tr>
<td>Income from insurance business</td>
<td>7 472</td>
<td>4 211</td>
</tr>
<tr>
<td>Other income</td>
<td>367 330</td>
<td>307 112</td>
</tr>
<tr>
<td></td>
<td></td>
<td>307 112</td>
</tr>
<tr>
<td>Staff costs</td>
<td>8</td>
<td>(138 288)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(123 337)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(89 504)</td>
<td>(83 198)</td>
</tr>
<tr>
<td>Profit before provisions</td>
<td>139 518</td>
<td>(100 577)</td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>14</td>
<td>(83 695)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(110 190)</td>
</tr>
<tr>
<td>Profit/(loss) before provision for impairment of available-for-sale investments</td>
<td>55 843</td>
<td>(9 613)</td>
</tr>
<tr>
<td>Provision for impairment of available-for-sale investments</td>
<td>16</td>
<td>(5 927)</td>
</tr>
<tr>
<td>Profit/(loss) before tax</td>
<td>9 49 916</td>
<td>(17 412)</td>
</tr>
<tr>
<td>Tax</td>
<td>10</td>
<td>(12 408)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(11 391)</td>
</tr>
<tr>
<td>Profit/(loss) after tax</td>
<td>37 508</td>
<td>(28 803)</td>
</tr>
</tbody>
</table>

Basic and diluted earnings/(losses) per share (cent)

<table>
<thead>
<tr>
<th></th>
<th>11</th>
<th>78</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,1</td>
<td>(6,5)</td>
</tr>
</tbody>
</table>
## Consolidated Balance Sheet
as at 31 December 2004

<table>
<thead>
<tr>
<th>Notes</th>
<th>2004 C£000</th>
<th>2003 C£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>12</td>
<td>439 314</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>13</td>
<td>1 511 377</td>
</tr>
<tr>
<td>Trading investments</td>
<td>14</td>
<td>72 190</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>15</td>
<td>5 979 252</td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>16</td>
<td>1 713 253</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>17</td>
<td>157 531</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>18</td>
<td>13 296</td>
</tr>
<tr>
<td>Other assets</td>
<td>19</td>
<td>83 291</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>20</td>
<td>99 278</td>
</tr>
<tr>
<td>Life assurance business net assets attributable to policyholders</td>
<td>21</td>
<td>195 551</td>
</tr>
<tr>
<td>Total assets</td>
<td>22</td>
<td>1 259 983</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>23</td>
<td>131 380</td>
</tr>
<tr>
<td>Customer deposits and other accounts</td>
<td>24</td>
<td>8 655 882</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>25</td>
<td>148 612</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>26</td>
<td>134 799</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>27</td>
<td>67 063</td>
</tr>
<tr>
<td>Life assurance business liabilities to policyholders</td>
<td>28</td>
<td>195 551</td>
</tr>
<tr>
<td>Subordinated loan stock</td>
<td>29</td>
<td>367 593</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>30</td>
<td>1 259 983</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>31</td>
<td>232 385</td>
</tr>
<tr>
<td>Share premium</td>
<td>32</td>
<td>238 955</td>
</tr>
<tr>
<td>Revaluation reserves</td>
<td>33</td>
<td>54 063</td>
</tr>
<tr>
<td>Exchange adjustments reserve</td>
<td>(2 828)</td>
<td>(2 379)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>36</td>
<td>103 338</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>37</td>
<td>1 259 983</td>
</tr>
</tbody>
</table>

S. A. Triantafyllides, Chairman
V. G. Rologis, Vice Chairman
A. Eliades, Group Chief Executive Officer
Y. Kypri, Group Chief General Manager
Chr. Hadjimitsis, Group General Manager Finance

## Consolidated Statement of Changes in Equity
for the year ended 31 December 2004

<table>
<thead>
<tr>
<th>Share capital C£000</th>
<th>Share premium C£000</th>
<th>Revaluation reserves C£000</th>
<th>Exchange adjustments reserve C£000</th>
<th>Retained earnings C£000</th>
<th>Total equity C£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2003</td>
<td>218 724</td>
<td>218 464</td>
<td>38 846</td>
<td>(2 005)</td>
<td>31 991</td>
</tr>
<tr>
<td>Loss after tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revaluation of available-for-sale investments - debt securities</td>
<td>-</td>
<td>-</td>
<td>(1 189)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revaluation of available-for-sale investments - equity shares</td>
<td>-</td>
<td>-</td>
<td>(10 513)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair value change of financial instruments designated as cash flow hedges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Property revaluation</td>
<td>-</td>
<td>-</td>
<td>20 157</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to the income statement of impairment loss of available-for-sale investments in equity shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(374)</td>
<td>-</td>
</tr>
<tr>
<td>Conversion of loan stock into shares</td>
<td>733</td>
<td>1 099</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercise of Share Warrants</td>
<td>12 928</td>
<td>19 392</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase in value of life assurance policies in force</td>
<td>-</td>
<td>-</td>
<td>7 090</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to the income statement on redэмortisation of available-for-sale investments</td>
<td>-</td>
<td>-</td>
<td>(1 107)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to the income statement on redemption of available-for-sale investments</td>
<td>-</td>
<td>-</td>
<td>(220)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>232 385</td>
<td>238 955</td>
<td>54 063</td>
<td>(2 828)</td>
<td>35 358</td>
</tr>
</tbody>
</table>

The reserve which is available for dividend distribution is ‘retained earnings’.

Bank of Cyprus Group
Consolidated Cash Flow Statement
for the year ended 31 December 2004

<table>
<thead>
<tr>
<th>Notes</th>
<th>2004 CE000</th>
<th>2003 CE000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash flow from operating activities</td>
<td>32</td>
<td>578 279</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- treasury bills</td>
<td>(296 808)</td>
<td>(487 912)</td>
</tr>
<tr>
<td>- debt securities</td>
<td>(1 179 547)</td>
<td>(459 158)</td>
</tr>
<tr>
<td>- equity shares</td>
<td>(1 095)</td>
<td>(1 079)</td>
</tr>
<tr>
<td>Proceeds from sale/redemption of investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- treasury bills</td>
<td>439 456</td>
<td>458 178</td>
</tr>
<tr>
<td>- debt securities</td>
<td>543 113</td>
<td>330 589</td>
</tr>
<tr>
<td>- equity shares</td>
<td>785</td>
<td>687</td>
</tr>
<tr>
<td>Interest on treasury bills</td>
<td>10 126</td>
<td>8 852</td>
</tr>
<tr>
<td>Interest on debt securities</td>
<td>44 546</td>
<td>38 383</td>
</tr>
<tr>
<td>Dividend income from equity shares</td>
<td>201</td>
<td>135</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(13 144)</td>
<td>(14 745)</td>
</tr>
<tr>
<td>Proceeds from disposal of property and equipment</td>
<td>4 182</td>
<td>1 456</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(3 327)</td>
<td>(4 670)</td>
</tr>
<tr>
<td>Net cash flow used in investing activities</td>
<td>(461 512)</td>
<td>(129 284)</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>-</td>
<td>32 320</td>
</tr>
<tr>
<td>Issue of subordinated loan stock</td>
<td>20 000</td>
<td>181 215</td>
</tr>
<tr>
<td>Redemption of subordinated loan stock</td>
<td>-</td>
<td>(27 084)</td>
</tr>
<tr>
<td>Interest on subordinated loan stock</td>
<td>(14 645)</td>
<td>(11 575)</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>15 355</td>
<td>124 876</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents for the year</td>
<td>33</td>
<td>132 122</td>
</tr>
</tbody>
</table>

Summary of Significant Accounting Policies

The accounting policies followed in respect of items that are considered material for the results and the financial position of the Group are stated below.

Basis of preparation
The consolidated financial statements are drawn up in accordance with the provisions of the Cyprus Companies Law, the Cyprus Stock Exchange Law and Regulations and the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards (IAS) and interpretations approved by the International Accounting Standards Committee that remain in effect.

The preparation of the financial statements in accordance with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date as well as the income and expenses for the period under review. Actual results may vary from these estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in the income statement in the periods in which they become known.

The consolidated financial statements are expressed in Cyprus pounds (Cí) and are prepared under the historical cost convention, modified to include the revaluation of freehold property, investment property, trading investments, available-for-sale investments, derivatives and designated hedged items in fair value hedges.

Basis of consolidation
The consolidated financial statements include the accounts of Bank of Cyprus Public Company Ltd (the ‘Company’) and all its subsidiaries and its jointly controlled company, which together are referred to as the ‘Group’. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The interest in the jointly controlled company is included in the consolidated financial statements in proportion to the Group’s share in the capital of the investee company (proportional consolidation).

In order to reflect the different nature of the shareholders’ and policyholders’ interests in the long-term life assurance business, the value of long-term life assurance business attributable to shareholders and the assets and liabilities attributable to policyholders are classified under separate headings in the consolidated balance sheet.

All intercompany transactions and balances are eliminated on consolidation.

Foreign currency translation
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences arising on translation are taken to the income statement, with the exception of differences on foreign currency liabilities that provide a hedge against a net investment in a foreign entity. These are taken directly to the exchange adjustments reserve until the disposal of the net investment, at which time they are transferred to the income statement.
Summary of Significant Accounting Policies

Foreign currency translation (continued)

The assets and liabilities of overseas subsidiaries and branches are translated at the rate of exchange ruling at the balance sheet date. The income statements of overseas subsidiaries and branches are translated using the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to the exchange adjustments reserve. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as a component of the gain or loss on disposal.

Segmental reporting

The Group is organised by business segment which is also the primary format for segmental reporting. Each business segment provides products or services which are subject to risks and returns that are different to 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 components operating in other economic environments.

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.

Interest, fees and commissions

Interest income is recognised in the income statement on an accruals basis.

As from 1 January 2004, in accordance with the Central Bank of Cyprus regulations, interest and similar income from the following sources is not recognised in the income statement but is credited to a balance sheet suspense account: (a) advances that are more than six months in arrears and are not fully secured, (b) overdraft accounts that are in excess of their credit limit and are not fully secured at the date of calculation of the accrued interest, to the extent that the accrued interest or other income is not covered by the total of the amounts credited in the account during the previous six months, and (c) advances for which a provision for impairment loss has been made. During 2003 the same rules regarding the suspension of income were applicable, but the relevant arrears/excess period was nine months, instead of six months which were applicable in 2004.

Interest and other income credited to a balance sheet suspense account, is transferred to the income statement only when collected.

Fee and commission income is recognised on the basis of work done to match the cost of providing the service and those in respect of credit risk are recognised in the income statement, on a systematic basis over the period of the exposure.

Life assurance business

Income from long-term life assurance business, including the provision of life, health and accident assurance, consists of: (a) any surplus from the operations that is attributed to the shareholders including investment management fees and other expenses charged to the long-term business funds, and (b) the change in the present value of the net future income from the insurance contracts in force. The change in the present value of in-force business is determined on a post tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax.

Staff costs and other operating expenses are included in the relevant captions of the income statement.

All premiums, income from investments, claims of policyholders, selling expenses and the change in actuarial liabilities are accounted for within the related long-term business funds. Any surplus or deficit from assurance business, which is determined on the basis of an annual actuarial valuation, is distributed to the policyholders and the shareholders in accordance with the terms of the insurance contracts.

General insurance business

Income from general insurance business in the income statement is the net amount of the gross insurance premiums less reinsurance premiums, net claims and agents’ commissions, and the increase/decrease in insurance business funds.

Staff costs and other operating expenses are included in the relevant captions of the income statement. Premium income is recognised during the period in which insurance cover is provided to the customer. Reinsurance premiums are recognised on the same basis as the related premium income.

A provision is made for the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling the outstanding claims after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases. The provision for claims incurred but not reported at the balance sheet date and the equalisation reserve relating to the credit insurance business, are calculated in accordance with the relevant legislative requirements.

Recognition of income and expenses on sales of property

Income and expenses on sales of property for which construction has been completed are recognised in the income statement on the date of sale.

Property sold prior to completion is accounted for using the percentage of completion method, when the risks and rewards arising from the sales contract are transferred to the buyer and the outcome of the project can be reliably measured. Contract revenue is matched with the contract costs resulting in reporting net income which can be attributed to the proportion of the work completed, calculated according to the ratio of actual contract costs incurred to the total estimated cost of completion of each contract. Costs incurred for property under construction for which no corresponding income is recognised, are classified as ‘property held for sale’ and are included in the balance sheet under other assets.

Loans and advances to customers

Loans and advances, originated by providing money directly to the borrowers, are measured initially at cost, being the fair value of the consideration given including transaction costs. Loans and advances are subsequently measured at amortised cost using the effective yield method.

Loans and advances to customers are stated net of provisions for bad and doubtful debts. Loans and advances are written off to the extent that there is no realistic prospect of recovery.

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

A loan is considered as impaired when management determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms, unless such loans are secured or other factors exist where the Group expects that all amounts due will be received.

When a loan has been classified as impaired, the carrying amount of the loan is reduced to the estimated recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loan.
Investments held-for-trading are measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are recognised in the income statement.

An investment is considered as impaired if its carrying value exceeds the recoverable amount. Available-for-sale investments are considered as impaired if the decline in the fair value is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future. The amount of the impairment loss is the difference between cost/impaired value and fair value.

The amount of the impairment loss for investments held-to-maturity is the difference between the carrying amount of the investment and the present value of expected future cash flows discounted at the original effective interest rate of the investment.

Impairment losses on investments in treasury bills, debt securities and equity shares previously recognised in the income statement are also reversed in the income statement.

All regular way purchases and sales of investments are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward contracts until settlement.

Interest earned on treasury bills and debt securities is reported as interest income in the period in which the investments are held. Dividend income from equity shares is recognised when the right to receive the payment is established.

Long-term life assurance business
The Group accounts for its interest in long-term life assurance business using the embedded value basis of accounting.

The embedded value comprises the net assets of the life assurance subsidiary, including any surplus retained within the long-term business funds which could be transferred to the shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting the future surpluses and other net cash flows attributable to the shareholders arising from business written at the balance sheet date, using appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the shareholders’ overall risk premium attributable to this business.

The assets held within the long-term business funds are legally owned by the life assurance company; however, the shareholders will only benefit from ownership of these assets to the extent that surpluses are declared or from other cash flows attributable to the shareholders. Reflecting the different nature of these assets, they are classified separately on the consolidated balance sheet as ‘life assurance business net assets attributable to policyholders’, with a corresponding liability to the policyholders also shown as ‘life assurance business liabilities to policyholders’. Investments held within the long-term business funds are measured on the following basis: Equity shares and debt securities held for unit linked funds are measured in accordance with policy terms at fair value, investment properties are measured at fair value based on valuations carried out by independent valuers at the balance sheet date, and mortgages and other loans are measured at amortised cost less any provision for impairment.
Summary of Significant Accounting Policies

Property, equipment and computer software
Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes, whereas 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. If the portions cannot be sold separately, 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 at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers. Depreciation is calculated on the reduced amount less the estimated residual value of buildings on a straight line basis over the estimated useful life of 35 to 67 years. On disposal of freehold land and buildings, the relevant revaluation reserve balance is transferred to retained earnings.

Investment property is measured at fair value at the balance sheet date. Gains or losses arising from changes in fair value are included in the income statement in the period in which they arise. The valuations are carried out by independent qualified valuers.

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

Property held for sale, including foreclosed property, is carried at the lower of cost or recoverable amount and is included in other assets.

Equipment and computer software are 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. Depreciation of computer software is calculated on a straight line basis over its estimated useful life of 3 to 5 years.

Goodwill and licence fees
Goodwill represents the excess of the cost of the acquisition over the fair value of the Group’s share of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortised on a straight line basis over its estimated useful economic life, up to a maximum of 10 years.

Licence fees are measured at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over the estimated useful life of the asset, up to a maximum of 10 years.

At each balance sheet date, goodwill and license fees are reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. A write-down is made if the carrying amount exceeds the recoverable amount.

Subordinated loan stock and debt securities in issue
Subordinated loan stock and debt securities in issue are initially measured at cost, being the fair value of the consideration received net of any issue costs. They are subsequently measured at amortised cost using the effective yield method to amortise cost at inception to the redemption value over the period to the earliest date that the Company can redeem the subordinated loan stock and the debt securities in issue.
Summary of Significant Accounting Policies

Derivatives and hedge accounting (continued)
In some cases, a derivative may be part of a hybrid instrument that includes both a derivative and a host contract. This is known as an embedded derivative. An embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument if and only if the following conditions are met: (a) the host contract is not carried at fair value with changes in fair value reported in the income statement, (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and (c) the embedded derivative meets the definition of a derivative.

Retirement benefits
The Group operates several defined benefit retirement plans, including retirement plans which require the payment of contributions to separately administered funds (funded schemes).

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

Actuarial gains and actuarial 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 obligation of the plan and 10% of the fair value of any plan assets at that date. The portion of the actuarial gains and 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 schemes is recognised in the income statement on an accruals basis.

Taxation on income
Taxation on income is provided in accordance with the fiscal regulations and rates, which apply in the countries where the Group carries on its operations and is recognised as an expense in the period in which the income arises.

Deferred tax is provided using the liability method.

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income 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 income 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 allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at 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.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents consist of cash, balances with central and other 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.

Comparative amounts
Certain comparative amounts were reclassified to conform with changes in presentation in the current year. Such reclassifications had no impact on Group profit, total assets or equity.
1. Corporate information

The consolidated financial statements of the Bank of Cyprus Group for the year ended 31 December 2004 were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2005.

On 19 May 2004, the Extraordinary General Meeting of the shareholders of Bank of Cyprus Ltd approved the change of the Company's name to Bank of Cyprus Public Company Ltd. The change of the Company's name was recorded on the Cyprus Register of Companies on 12 July 2004.

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 were 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 under the Cyprus Company Law 18 of 1922 and is a public company under 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, primarily the United Kingdom and Australia.

Generally, pricing between the different segments is based on market rates.

The analysis by geographic segment is based on the location of the office recording the transaction.

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

The primary reporting format is by business segment.

2. Segmental analysis (continued)

<table>
<thead>
<tr>
<th>Business segments</th>
<th>Banking and financial services C£000</th>
<th>Insurance business C£000</th>
<th>Property and hotel business C£000</th>
<th>Total C£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>621 282</td>
<td>65 632</td>
<td>4 497</td>
<td>691 411</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>As per the income statement 38 521</td>
<td>10 215</td>
<td>1 180</td>
<td>49 916</td>
</tr>
<tr>
<td></td>
<td>Provision for impairment of available-for-sale investments 5 841</td>
<td>86</td>
<td>-</td>
<td>5 927</td>
</tr>
<tr>
<td></td>
<td>Provisions for bad and doubtful debts 83 695</td>
<td>-</td>
<td>-</td>
<td>83 695</td>
</tr>
<tr>
<td></td>
<td>Profit before provisions 128 057</td>
<td>10 301</td>
<td>1 180</td>
<td>139 538</td>
</tr>
<tr>
<td>Assets</td>
<td>9 960 042</td>
<td>280 737</td>
<td>31 045</td>
<td>10 271 824</td>
</tr>
<tr>
<td>Inter-segment assets</td>
<td>(11 841)</td>
<td></td>
<td></td>
<td>(11 841)</td>
</tr>
<tr>
<td>Total assets</td>
<td>10 259 983</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>9 468 322</td>
<td>234 385</td>
<td>11 416</td>
<td>9 714 122</td>
</tr>
<tr>
<td>Inter-segment liabilities</td>
<td>(13 253)</td>
<td></td>
<td></td>
<td>(13 253)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>9 700 870</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>16 006</td>
<td>389</td>
<td>76</td>
<td>16 471</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>18 619</td>
<td>655</td>
<td>204</td>
<td>19 478</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>528 498</td>
<td>60 934</td>
<td>4 132</td>
<td>593 564</td>
</tr>
<tr>
<td>(Loss)/profit before tax</td>
<td>(27 287)</td>
<td>8 185</td>
<td>1 690</td>
<td>(17 412)</td>
</tr>
<tr>
<td></td>
<td>Provision for impairment of available-for-sale investments</td>
<td>7 788</td>
<td>11</td>
<td>7 799</td>
</tr>
<tr>
<td></td>
<td>Provisions for bad and doubtful debts</td>
<td>11 019</td>
<td>-</td>
<td>11 019</td>
</tr>
<tr>
<td></td>
<td>Profit before provisions 90 691</td>
<td>8 196</td>
<td>1 690</td>
<td>100 577</td>
</tr>
<tr>
<td>Assets</td>
<td>8 779 459</td>
<td>261 503</td>
<td>30 427</td>
<td>9 071 389</td>
</tr>
<tr>
<td>Inter-segment assets</td>
<td>(9 561)</td>
<td></td>
<td></td>
<td>(9 561)</td>
</tr>
<tr>
<td>Total assets</td>
<td>9 061 828</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td>8 321 527</td>
<td>218 566</td>
<td>11 776</td>
<td>8 551 869</td>
</tr>
<tr>
<td>Inter-segment liabilities</td>
<td>(13 325)</td>
<td></td>
<td></td>
<td>(13 325)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>8 538 544</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>18 781</td>
<td>463</td>
<td>171</td>
<td>19 415</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>18 305</td>
<td>557</td>
<td>205</td>
<td>19 067</td>
</tr>
</tbody>
</table>
### 2. Segmental analysis (continued)

<table>
<thead>
<tr>
<th>Geographic segments</th>
<th>Cyprus C’000</th>
<th>Greece C’000</th>
<th>Other countries C’000</th>
<th>Total C’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2004</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>437 956</td>
<td>217 723</td>
<td>56 441</td>
<td>712 120</td>
</tr>
<tr>
<td>Inter-segment turnover, mainly interest</td>
<td>(14 568)</td>
<td>(4 319)</td>
<td>(1 822)</td>
<td>(20 709)</td>
</tr>
<tr>
<td>Turnover with third parties</td>
<td>423 388</td>
<td>213 404</td>
<td>54 619</td>
<td>691 411</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As per the income statement</td>
<td>13 301</td>
<td>24 841</td>
<td>11 774</td>
<td>49 916</td>
</tr>
<tr>
<td>Provision for impairment of available-for-sale investments</td>
<td>6 250</td>
<td>-</td>
<td>(323)</td>
<td>5 927</td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>59 741</td>
<td>24 245</td>
<td>(291)</td>
<td>83 695</td>
</tr>
<tr>
<td>Profit before provisions</td>
<td>79 292</td>
<td>49 086</td>
<td>11 160</td>
<td>139 538</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>5 651 794</td>
<td>4 276 576</td>
<td>1 017 766</td>
<td>10 946 136</td>
</tr>
<tr>
<td>Inter-segment assets</td>
<td>686 153</td>
<td>686 153</td>
<td>686 153</td>
<td>686 153</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>10 259 983</td>
<td>10 259 983</td>
<td>10 259 983</td>
<td>10 259 983</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>8 119</td>
<td>7 604</td>
<td>748</td>
<td>16 471</td>
</tr>
<tr>
<td><strong>2003</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>378 930</td>
<td>180 086</td>
<td>48 425</td>
<td>607 441</td>
</tr>
<tr>
<td>Inter-segment turnover, mainly interest</td>
<td>(10 279)</td>
<td>(3 348)</td>
<td>(250)</td>
<td>(13 877)</td>
</tr>
<tr>
<td>Turnover with third parties</td>
<td>368 651</td>
<td>176 738</td>
<td>48 175</td>
<td>593 564</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As per the income statement</td>
<td>13 301</td>
<td>24 841</td>
<td>11 774</td>
<td>49 916</td>
</tr>
<tr>
<td>Provision for impairment of available-for-sale investments</td>
<td>6 250</td>
<td>-</td>
<td>(323)</td>
<td>5 927</td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>59 741</td>
<td>24 245</td>
<td>(291)</td>
<td>83 695</td>
</tr>
<tr>
<td>Profit before provisions</td>
<td>79 292</td>
<td>49 086</td>
<td>11 160</td>
<td>139 538</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>5 325 644</td>
<td>3 277 632</td>
<td>954 808</td>
<td>9 558 084</td>
</tr>
<tr>
<td>Inter-segment assets</td>
<td>(496 256)</td>
<td>(496 256)</td>
<td>(496 256)</td>
<td>(496 256)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9 061 828</td>
<td>9 061 828</td>
<td>9 061 828</td>
<td>9 061 828</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>11 993</td>
<td>6 920</td>
<td>502</td>
<td>19 415</td>
</tr>
</tbody>
</table>

### 3. Interest income

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C’000</td>
<td>C’000</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>410 417</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>47 204</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>10 126</td>
</tr>
<tr>
<td>Debt securities</td>
<td>10 126</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>512 293</td>
</tr>
</tbody>
</table>

### 4. Interest expense

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C’000</td>
<td>C’000</td>
</tr>
<tr>
<td>Customer deposits and other accounts</td>
<td>244 810</td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>3 027</td>
</tr>
<tr>
<td>Subordinated loan stock and debt securities in issue</td>
<td>18 576</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>266 413</td>
</tr>
</tbody>
</table>

### 5. Net losses on sale and revaluation of financial instruments

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C’000</td>
<td>C’000</td>
</tr>
<tr>
<td>Losses from trading portfolio - equity shares</td>
<td>(510)</td>
</tr>
<tr>
<td>- debt securities</td>
<td>(1 605)</td>
</tr>
<tr>
<td>- derivatives</td>
<td>(421)</td>
</tr>
<tr>
<td>Gains on sale of available-for-sale investments</td>
<td>241</td>
</tr>
<tr>
<td>(Losses)/gains on revaluation of financial instruments designated as fair value hedges</td>
<td>(136)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(2 778)</td>
</tr>
</tbody>
</table>

### 6. Income from insurance business

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C’000</td>
<td>C’000</td>
</tr>
<tr>
<td>Life assurance business</td>
<td>10 653</td>
</tr>
<tr>
<td>General insurance business</td>
<td>7 453</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>18 106</td>
</tr>
</tbody>
</table>

Income from long-term life assurance business consists of: (a) the surplus from operations attributable to the shareholders including investment management fees and other expenses charged to the long-term business funds, and (b) the change in the present value of the net future income from the in-force business before the provision for tax.

Income from general insurance business is the net amount of the gross insurance premiums less reinsurance premiums, net claims and agents’ commissions, and the increase/decrease in insurance business funds.

Staff costs and other operating expenses are included of the relevant captions of the income statement.

### 7. Other income

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>C’000</td>
<td>C’000</td>
</tr>
<tr>
<td>Dividend income from equity shares</td>
<td>201</td>
</tr>
<tr>
<td>Profit on disposal of property held for sale</td>
<td>2 359</td>
</tr>
<tr>
<td>Rental income from investment property</td>
<td>35</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>2 325</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4 720</td>
</tr>
</tbody>
</table>
8. Staff costs

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td>Salaries and employer’s contribution</td>
<td>113 976</td>
</tr>
<tr>
<td>Retirement benefit plan costs</td>
<td>24 312</td>
</tr>
<tr>
<td></td>
<td>138 288</td>
</tr>
</tbody>
</table>

The number of persons employed by the Group as at 31 December 2004 was 5,890 (2003: 5,703).

The main retirement scheme is a defined benefit plan for the Group’s permanent employees in Cyprus, representing 54.4% of total Group staff. The plan provides for lump sum payments on retirement or death in service, calculated with reference to the length of service and the average salary during the last 30-36 months before retirement. A small number of staff have the option to receive part or the whole of their entitlement by way of a pension for life.

The net present value of the obligations under the main plan 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 at 31 December 2004 and 2003 were as follows:

- Discount rate: 6.0%
- Expected rate of return on plan assets: 6.0%
- Future salary increases: 7.5%

The terms of the retirement plans of employees in Greece, the United Kingdom and other countries and the respective actuarial assumptions reflect the economic conditions prevailing in these countries.

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>(129 508)</td>
</tr>
<tr>
<td></td>
<td>(108 766)</td>
</tr>
<tr>
<td></td>
<td>104 132</td>
</tr>
<tr>
<td></td>
<td>115 818</td>
</tr>
<tr>
<td></td>
<td>2 176</td>
</tr>
<tr>
<td></td>
<td>1 697</td>
</tr>
<tr>
<td></td>
<td>(103 846)</td>
</tr>
<tr>
<td></td>
<td>(115 718)</td>
</tr>
<tr>
<td></td>
<td>2 462</td>
</tr>
<tr>
<td></td>
<td>1 797</td>
</tr>
<tr>
<td></td>
<td>(Note 24)</td>
</tr>
</tbody>
</table>

The cumulative unrecognised actuarial losses resulted mainly from prior changes in the discount rate and the negative actual return on the assets of the retirement benefit plans.

The assets held by the funded plans include securities issued by Bank of Cyprus Public Company Ltd, the fair value of which is as follows:

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>45 877</td>
</tr>
<tr>
<td>Loan stock</td>
<td>12 822</td>
</tr>
<tr>
<td></td>
<td>58 699</td>
</tr>
<tr>
<td></td>
<td>50 574</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td>Current service cost</td>
<td>12 251</td>
</tr>
<tr>
<td>Interest expense</td>
<td>11 811</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(6 581)</td>
</tr>
<tr>
<td>Actuarial loss</td>
<td>4 472</td>
</tr>
<tr>
<td>Actual positive/(negative) return on plan assets</td>
<td>21 953</td>
</tr>
<tr>
<td></td>
<td>17 929</td>
</tr>
</tbody>
</table>

8. Staff costs (continued)

The results of the actuarial valuations for all the defined benefit plans of the Group are as set out below:

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td></td>
<td>C1000</td>
</tr>
<tr>
<td>Net present value of funded obligations</td>
<td>233 640</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>(129 508)</td>
</tr>
<tr>
<td>Net present value of unfunded obligations</td>
<td>104 132</td>
</tr>
<tr>
<td>Unrecognised actuarial losses</td>
<td>2 176</td>
</tr>
<tr>
<td>Net liability of retirement benefit plans (Note 24)</td>
<td>2 462</td>
</tr>
</tbody>
</table>
9. Profit/(loss) before tax

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) before tax</td>
<td>Cí000</td>
<td>Cí000</td>
</tr>
<tr>
<td>Change in fair value of investment property</td>
<td>(328)</td>
<td>(212)</td>
</tr>
<tr>
<td>Profit on disposal of property and equipment and write-offs of intangible assets</td>
<td>562</td>
<td>441</td>
</tr>
<tr>
<td>Interest on subordinated loan stock</td>
<td>(14 645)</td>
<td>(11 575)</td>
</tr>
<tr>
<td>Operating lease rentals for land and buildings</td>
<td>(7 444)</td>
<td>(6 225)</td>
</tr>
<tr>
<td>Depreciation of property and equipment</td>
<td>(13 664)</td>
<td>(13 124)</td>
</tr>
<tr>
<td>Amortisation of computer software and licence fees</td>
<td>(5 697)</td>
<td>(5 826)</td>
</tr>
<tr>
<td>Amortisation of goodwill arising on consolidation of subsidiary company</td>
<td>(117)</td>
<td>(117)</td>
</tr>
</tbody>
</table>

Directors’ emoluments:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees - 2004</td>
<td>(60)</td>
<td>-</td>
</tr>
<tr>
<td>- 2003</td>
<td>(23)</td>
<td>(37)</td>
</tr>
<tr>
<td>Emoluments in executive capacity</td>
<td>(279)</td>
<td>(270)</td>
</tr>
<tr>
<td>Non-executives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>(202)</td>
<td>(144)</td>
</tr>
</tbody>
</table>

During 2004 the emoluments of three executive directors (excluding payments relating to 2003) were in the range of Cí100 thousand to Cí150 thousand each. One director will also receive an amount of Cí471 thousand from his participation in the Staff Provident Fund/Retirement Scheme.

A provision of Cí1100 thousand has been made in the current and prior years in respect of amounts payable to three directors, in accordance with their terms of employment, following their retirement from executive duties on 31 December 2004. One director will also receive an amount of Cí471 thousand from his participation in the Staff Provident Fund/Retirement Scheme.

10. Tax

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation tax:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cyprus</td>
<td>1 491</td>
<td>1 161</td>
</tr>
<tr>
<td>- overseas</td>
<td>11 100</td>
<td>12 004</td>
</tr>
<tr>
<td>Cyprus defence contribution</td>
<td>39</td>
<td>67</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>(1 764)</td>
<td>(2 466)</td>
</tr>
<tr>
<td>Adjustments for prior year taxes</td>
<td>1 542</td>
<td>625</td>
</tr>
<tr>
<td></td>
<td>12 408</td>
<td>11 391</td>
</tr>
</tbody>
</table>

The reconciliation between the tax expense and the profit/(loss) before tax, as estimated using the current tax rates in Cyprus, is set out below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) before tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax at the normal tax rates in Cyprus</td>
<td>7 374</td>
<td>(1 141)</td>
</tr>
<tr>
<td>Tax effect of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- expenses not deductible for tax purposes</td>
<td>1 093</td>
<td>4 626</td>
</tr>
<tr>
<td>- income not subject to tax</td>
<td>(1 548)</td>
<td>(6 35)</td>
</tr>
<tr>
<td>- difference between overseas tax rates and Cyprus tax rates</td>
<td>4 952</td>
<td>7 916</td>
</tr>
<tr>
<td></td>
<td>11 871</td>
<td>10 766</td>
</tr>
<tr>
<td>Effect of the decrease of Cyprus corporation tax rates from 15% to 10% after 2004</td>
<td>(1 005)</td>
<td></td>
</tr>
<tr>
<td>Adjustments for prior year taxes</td>
<td>1 542</td>
<td>625</td>
</tr>
<tr>
<td></td>
<td>12 408</td>
<td>11 391</td>
</tr>
</tbody>
</table>

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income up to Cí1 million and at 15% on taxable income over Cí1 million.

For life assurance business there is a minimum tax charge of 1.5% on gross premiums.

As from 1 January 2003, the defence contribution on profits has been abolished. The rate of defence contribution on rental income is 3%.

At 31 December 2004 the accumulated tax losses amount to Cí21 665 thousand (2003: losses of Cí34 248 thousand). Tax losses were partly utilised against the taxable profit of year 2004. It is expected that the remaining tax losses will be utilised against future taxable profits.

An additional tax charge of about Cí5.1 million will arise in the event of distribution of the total undistributed profits of overseas branches.
Notes to the Financial Statements

11. Basic and diluted earnings/(losses) per share

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) after tax (CÍ thousand)</td>
<td>37 508</td>
<td>(28 803)</td>
</tr>
<tr>
<td>Weighted average number of shares in issue during the year (thousand)</td>
<td>464 771</td>
<td>442 598</td>
</tr>
<tr>
<td>Basic and diluted earnings/(losses) per share</td>
<td>8.1</td>
<td>(6.5)</td>
</tr>
</tbody>
</table>

At 31 December 2004 and 2003 there were no potentially dilutive ordinary shares.

12. Cash and balances with central banks

Balances with central banks include obligatory deposits for liquidity purposes which amount to CÍ343 268 thousand (2003: CÍ361 117 thousand).

13. Trading investments

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>67 980</td>
<td>139 403</td>
</tr>
<tr>
<td>Equity shares</td>
<td>1 906</td>
<td>2 703</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>2 304</td>
<td>344</td>
</tr>
<tr>
<td></td>
<td>72 190</td>
<td>143 450</td>
</tr>
<tr>
<td>Debt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus government</td>
<td>67 442</td>
<td>138 360</td>
</tr>
<tr>
<td>Local authorities</td>
<td>280</td>
<td>775</td>
</tr>
<tr>
<td>Cyprus public companies</td>
<td>258</td>
<td>268</td>
</tr>
<tr>
<td></td>
<td>67 980</td>
<td>139 403</td>
</tr>
</tbody>
</table>

Repayable

Within one year | - | 499 |
Between one and five years | 67 868 | 138 509 |
After five years | 112 | 395 |
|                   | 67 980 | 139 403 |

Listed on the Cyprus Stock Exchange | 67 700 | 138 628 |
Unlisted certificates of deposit and bank and local authority bonds | 280 | 775 |
|                   | 67 980 | 139 403 |

Equity shares

Listed on the Cyprus Stock Exchange | 1 864 | 2 518 |
Unlisted | 42 | 185 |
|                   | 1 906 | 2 703 |

14. Loans and advances to customers

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and other advances</td>
<td>5 808 403</td>
<td>5 207 646</td>
</tr>
<tr>
<td>Hire purchase and finance lease debtors (Note 15)</td>
<td>641 883</td>
<td>481 485</td>
</tr>
<tr>
<td>Gross loans and advances to customers</td>
<td>6 450 286</td>
<td>5 689 131</td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>(471 034)</td>
<td>(409 239)</td>
</tr>
<tr>
<td></td>
<td>5 979 252</td>
<td>5 279 892</td>
</tr>
</tbody>
</table>

By economic activity

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>1 068 278</td>
<td>1 060 822</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>374 669</td>
<td>366 170</td>
</tr>
<tr>
<td>Tourism</td>
<td>581 679</td>
<td>533 779</td>
</tr>
<tr>
<td>Property and construction</td>
<td>818 393</td>
<td>758 903</td>
</tr>
<tr>
<td>Personal, home loans and professional</td>
<td>3 227 385</td>
<td>2 662 810</td>
</tr>
<tr>
<td>Other sectors</td>
<td>379 882</td>
<td>306 647</td>
</tr>
<tr>
<td></td>
<td>6 450 286</td>
<td>5 689 131</td>
</tr>
</tbody>
</table>

By geographic segment

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>3 320 243</td>
<td>2 962 946</td>
</tr>
<tr>
<td>Greece</td>
<td>2 594 527</td>
<td>2 116 560</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>522 527</td>
<td>514 861</td>
</tr>
<tr>
<td>Australia</td>
<td>112 899</td>
<td>94 764</td>
</tr>
<tr>
<td></td>
<td>6 450 286</td>
<td>5 689 131</td>
</tr>
</tbody>
</table>

Provisions for bad and doubtful debts

<table>
<thead>
<tr>
<th></th>
<th>Provisions</th>
<th>Suspended</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CÍ000</td>
<td>CÍ000</td>
<td>CÍ000</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January</td>
<td>287 484</td>
<td>121 755</td>
<td>409 239</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(730)</td>
<td>(135)</td>
<td>(865)</td>
</tr>
<tr>
<td>Applied in writing off advances</td>
<td>(32 884)</td>
<td>(18 819)</td>
<td>(51 703)</td>
</tr>
<tr>
<td>Suspended income for the year net of current year’s collections</td>
<td>-</td>
<td>42 432</td>
<td>42 432</td>
</tr>
<tr>
<td>Collection of prior years’ suspended income</td>
<td>-</td>
<td>(11 764)</td>
<td>(11 764)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>83 695</td>
<td>-</td>
<td>83 695</td>
</tr>
<tr>
<td>At 31 December</td>
<td>337 565</td>
<td>133 469</td>
<td>471 034</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January</td>
<td>187 203</td>
<td>89 700</td>
<td>276 903</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>664</td>
<td>1 18</td>
<td>782</td>
</tr>
<tr>
<td>Applied in writing off advances</td>
<td>(10 573)</td>
<td>(345)</td>
<td>(10 918)</td>
</tr>
<tr>
<td>Suspended income for the year net of current year’s collections</td>
<td>-</td>
<td>37 121</td>
<td>37 121</td>
</tr>
<tr>
<td>Collection of prior years’ suspended income</td>
<td>-</td>
<td>(4 839)</td>
<td>(4 839)</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>110 190</td>
<td>-</td>
<td>110 190</td>
</tr>
<tr>
<td>At 31 December</td>
<td>287 484</td>
<td>121 755</td>
<td>409 239</td>
</tr>
</tbody>
</table>
14. Loans and advances to customers (continued)

Loans and advances to customers include loans and advances net of provisions and suspended income of €279.605 thousand (2003: €279.605 thousand) for which income is suspended.

The basis of calculation of loans and advances for which income is suspended has been revised as from 1 January 2004 as stated in the Summary of Significant Accounting Policies.

15. Hire purchase and finance lease debtors

Deduction of the provisions for bad and doubtful debts.

The fair value of loans and advances is approximately equal to the amount as shown on the balance sheet after the deduction of the provisions for bad and doubtful debts.

The fair value of loans and advances is approximately equal to the amount as shown on the balance sheet after the deduction of the provisions for bad and doubtful debts.

The basis of calculation of loans and advances for which income is suspended has been revised as from 1 January 2004 as stated in the Summary of Significant Accounting Policies.

The basis of calculation of loans and advances for which income is suspended has been revised as from 1 January 2004 as stated in the Summary of Significant Accounting Policies.

Loans and advances to customers include loans and advances net of provisions and suspended income of €279.605 thousand (2003: €279.605 thousand) for which income is suspended.

Loans and advances to customers include loans and advances net of provisions and suspended income of €279.605 thousand (2003: €279.605 thousand) for which income is suspended.

16. Non-trading investments

Available-for-sale

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>1 379 172</td>
<td>924 088</td>
</tr>
<tr>
<td>Equity shares</td>
<td>28 112</td>
<td>32 036</td>
</tr>
<tr>
<td>Other governments</td>
<td>10 396</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
</tbody>
</table>

Held-to-maturity

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
<tr>
<td>Debt securities</td>
<td>927 085</td>
<td>1 547 865</td>
</tr>
<tr>
<td>Equity shares</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other governments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
</tbody>
</table>

17. Non-trading investments

Available-for-sale

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>1 379 172</td>
<td>924 088</td>
</tr>
<tr>
<td>Equity shares</td>
<td>28 112</td>
<td>32 036</td>
</tr>
<tr>
<td>Other governments</td>
<td>10 396</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
</tbody>
</table>

Held-to-maturity

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
<tr>
<td>Debt securities</td>
<td>927 085</td>
<td>1 547 865</td>
</tr>
<tr>
<td>Equity shares</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other governments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
</tbody>
</table>

17. Non-trading investments

Available-for-sale

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>1 379 172</td>
<td>924 088</td>
</tr>
<tr>
<td>Equity shares</td>
<td>28 112</td>
<td>32 036</td>
</tr>
<tr>
<td>Other governments</td>
<td>10 396</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>34 335</td>
<td>(102 941)</td>
</tr>
</tbody>
</table>

Held-to-maturity

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>C€000</td>
<td>C€000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
<tr>
<td>Debt securities</td>
<td>927 085</td>
<td>1 547 865</td>
</tr>
<tr>
<td>Equity shares</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other governments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>924 088</td>
<td>1 379 172</td>
</tr>
</tbody>
</table>

Notes to the Financial Statements

Bank of Cyprus Group
16. Non-trading investments (continued)
Treasury bills and debt securities
The movement for the year 2004 in treasury bills and debt securities is summarised below:

<table>
<thead>
<tr>
<th></th>
<th>Treasury bills</th>
<th>Debt securities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Available-for-sale</td>
<td>Held-to-maturity</td>
</tr>
<tr>
<td></td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>At 1 January 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>261 348</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(428)</td>
<td>(62 407)</td>
</tr>
<tr>
<td>Additions</td>
<td>34 914</td>
<td>261 894</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(252 790)</td>
</tr>
<tr>
<td>Redemptions</td>
<td>-</td>
<td>(429 456)</td>
</tr>
<tr>
<td>Change in fair value</td>
<td>107</td>
<td>(3 260)</td>
</tr>
<tr>
<td>Amortisation of premiums/discounts</td>
<td>(256)</td>
<td>9 155</td>
</tr>
<tr>
<td>As 31 December 2004</td>
<td>34 335</td>
<td>102 941</td>
</tr>
</tbody>
</table>

Held-to-maturity treasury bills include obligatory placements for liquidity purposes of C'38 890 thousand (2003: C'77 676 thousand).

The fair value of held-to-maturity investments is summarised below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>Treasury bills</td>
<td>156 241</td>
<td>77 260</td>
</tr>
<tr>
<td>Debt securities</td>
<td>233 529</td>
<td>206 104</td>
</tr>
</tbody>
</table>

17. Property and equipment

<table>
<thead>
<tr>
<th></th>
<th>Property</th>
<th>Equipment</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost or valuation</td>
<td>C'000</td>
<td>C'000</td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>At 1 January</td>
<td>156 241</td>
<td>77 260</td>
<td>233 529</td>
<td>206 104</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(576)</td>
<td>(326)</td>
<td>(902)</td>
<td>234</td>
</tr>
<tr>
<td>Additions</td>
<td>7 125</td>
<td>6 019</td>
<td>13 144</td>
<td>14 745</td>
</tr>
<tr>
<td>Surplus on revaluation upon revaluation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20 157</td>
</tr>
<tr>
<td>Reversal of depreciation upon revaluation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(5 167)</td>
</tr>
<tr>
<td>Transfer to investment property</td>
<td>(647)</td>
<td>-</td>
<td>(647)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals and write-offs</td>
<td>(3 114)</td>
<td>(1 993)</td>
<td>(5 107)</td>
<td>(2 298)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>159 029</td>
<td>80 988</td>
<td>240 017</td>
<td>233 529</td>
</tr>
</tbody>
</table>

Depreciation

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>At 1 January</td>
<td>19 334</td>
<td>51 427</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(136)</td>
<td>(252)</td>
</tr>
<tr>
<td>Reversal of depreciation upon revaluation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to investment property</td>
<td>(7)</td>
<td>-</td>
</tr>
<tr>
<td>Disposals and write-offs</td>
<td>(22)</td>
<td>(1 522)</td>
</tr>
<tr>
<td>At 31 December</td>
<td>15 972</td>
<td>7 456</td>
</tr>
</tbody>
</table>

Net book value

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>At 31 December</td>
<td>133 888</td>
<td>23 643</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C'000</td>
<td>C'000</td>
</tr>
<tr>
<td>Freehold property</td>
<td>117 365</td>
<td>120 310</td>
</tr>
<tr>
<td>Improvements on property leased for a period of up to 50 years</td>
<td>16 523</td>
<td>16 597</td>
</tr>
<tr>
<td>At 31 December</td>
<td>133 888</td>
<td>136 907</td>
</tr>
</tbody>
</table>

Property includes land amounting to C'65 800 thousand (2003: C'65 1 832 thousand) for which no depreciation is charged.

The cumulative revaluation surplus on 31 December 2004 amounted to C'67 782 thousand (2003: C'64 224 thousand) and is included in the property revaluation reserve. The latest estimate of market value by independent qualified valuers took place in 2003.

The net book value of freehold land and buildings, on a cost less accumulated depreciation basis, would be C'76 804 thousand (2003: C'76 886 thousand).

There are no fixed charges in favour of third parties on the Group’s tangible fixed assets as at 31 December 2004 and 2003.
18. Intangible assets

<table>
<thead>
<tr>
<th>Intangible asset</th>
<th>2004</th>
<th>2003</th>
<th>Total</th>
<th>2004</th>
<th>2003</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill on consolidation of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>subsidiary company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer software fees</td>
<td>3 607</td>
<td>1 173</td>
<td>4 780</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43 105</td>
<td>3 607</td>
<td>47 885</td>
<td>44 776</td>
<td>40 147</td>
<td>84 923</td>
</tr>
</tbody>
</table>

Amortisation

| At 1 January                  | 28 093   | 4 51     | 32 604  |      |      |         |
| Exchange adjustments          | (140)    | -        | (140)   | 63   |      |         |
| Additions                     | 3 327    | -        | 3 327   | 4 670|      |         |
| Write-offs                    | (78)     | -        | (78)    | (104)|      |         |
| At 31 December                | 43 105   | 3 607    | 47 885  | 44 776| 40 147| 84 923  |

At 1 January

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 043</td>
<td>2 972</td>
</tr>
</tbody>
</table>

Exchange adjustments

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>(27)</td>
<td>55</td>
</tr>
</tbody>
</table>

Transfer from property and equipment

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>640</td>
<td>-</td>
</tr>
</tbody>
</table>

Additions

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>228</td>
</tr>
</tbody>
</table>

Charge in fair value for the year

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>(328)</td>
<td>(212)</td>
</tr>
</tbody>
</table>

At 31 December

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 328</td>
<td>3 043</td>
</tr>
</tbody>
</table>

Deferred tax

The deferred tax asset is attributable to the following items:

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 224)</td>
<td>-</td>
</tr>
</tbody>
</table>

Property revaluation

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3 415)</td>
<td>-</td>
</tr>
</tbody>
</table>

Investments revaluation

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>505</td>
<td>116</td>
</tr>
</tbody>
</table>

Other temporary differences

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 434</td>
<td>1 082</td>
</tr>
</tbody>
</table>

Unutilised tax losses carried forward

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 709</td>
<td>375</td>
</tr>
</tbody>
</table>

20. Prepayments and accrued income

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>94 728</td>
<td>98 246</td>
</tr>
</tbody>
</table>

21. Life assurance business

The value placed on the life assurance business of the subsidiary company Eurolife Ltd comprises of:

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>36 863</td>
<td>34 507</td>
</tr>
</tbody>
</table>

The goodwill on consolidation of subsidiary company arose on the acquisition of the brokerage company Victory Securities SA, which was renamed Kyprou Securities SA. The goodwill is amortised systematically over its expected useful life which was estimated at 10 years.
21. Life assurance business (continued)
The movement of the embedded value is summarised below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>34,507</td>
<td>28,300</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>4,162</td>
<td>5,598</td>
</tr>
<tr>
<td>Increase in the value of in-force policies</td>
<td>2,260</td>
<td>3,005</td>
</tr>
<tr>
<td>Share capital increase</td>
<td>0</td>
<td>6,000</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(3,500)</td>
<td>(11,000)</td>
</tr>
<tr>
<td>Revaluation of property and investments, net of deferred tax</td>
<td>(556)</td>
<td>2,591</td>
</tr>
<tr>
<td>Exchange differences and other adjustments</td>
<td>(10)</td>
<td>13</td>
</tr>
<tr>
<td>At 31 December</td>
<td>36,863</td>
<td>34,507</td>
</tr>
</tbody>
</table>

Life assurance business net assets attributable to policyholders comprise of investments in:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares</td>
<td>78,543</td>
<td>65,766</td>
</tr>
<tr>
<td>Debt securities</td>
<td>62,031</td>
<td>53,364</td>
</tr>
<tr>
<td>Property</td>
<td>460</td>
<td>370</td>
</tr>
<tr>
<td>Mortgages and loans</td>
<td>5,011</td>
<td>6,456</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>48,767</td>
<td>60,545</td>
</tr>
<tr>
<td>Other assets less liabilities</td>
<td>194,812</td>
<td>186,501</td>
</tr>
<tr>
<td>Life assurance business net assets attributable to policyholders</td>
<td>195,551</td>
<td>189,070</td>
</tr>
</tbody>
</table>

In determining the value of in-force policies, assumptions are made relating to future mortality, persistency, the level of expenses and gross investment yields. The main assumptions used in determining the value of the in-force policies for the years 2004 and 2003 are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (after tax)</td>
<td>10%</td>
</tr>
<tr>
<td>Return on investment</td>
<td>6%</td>
</tr>
<tr>
<td>Expenses inflation</td>
<td>5%</td>
</tr>
</tbody>
</table>

22. Customer deposits and other accounts

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>By category</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand</td>
<td>1,036,643</td>
<td>742,485</td>
</tr>
<tr>
<td>Savings</td>
<td>613,540</td>
<td>488,108</td>
</tr>
<tr>
<td>Time</td>
<td>7,005,679</td>
<td>6,159,466</td>
</tr>
<tr>
<td></td>
<td>8,655,882</td>
<td>7,390,059</td>
</tr>
<tr>
<td>By geographic segment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>4,751,758</td>
<td>4,371,614</td>
</tr>
<tr>
<td>Greece</td>
<td>3,283,636</td>
<td>2,422,157</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>525,900</td>
<td>508,890</td>
</tr>
<tr>
<td>Australia</td>
<td>94,588</td>
<td>87,398</td>
</tr>
<tr>
<td></td>
<td>8,655,882</td>
<td>7,390,059</td>
</tr>
</tbody>
</table>

23. Debt securities in issue

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three month Euribor plus</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Senior Debt in Euro (€250 million) 2003/2006</td>
<td>0.35%</td>
<td>143,684</td>
</tr>
<tr>
<td>Senior Debt in Euro (€5 million) 2003/2006</td>
<td>0.40%</td>
<td>2,900</td>
</tr>
<tr>
<td>Senior Debt in Euro (€33 million) 2003/2008</td>
<td>0.45%</td>
<td>1,740</td>
</tr>
<tr>
<td>Interest-free loan from the European Development Bank</td>
<td>288</td>
<td>288</td>
</tr>
<tr>
<td></td>
<td>148,612</td>
<td>151,263</td>
</tr>
</tbody>
</table>

Bank of Cyprus Public Company Ltd has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1,000 million (2003: €750 million). Under the EMTN Programme, the Company has issued €250 million of Senior Debt. The Senior Debt has a three year term, bears a floating rate of interest and was issued at the price of 99.883%. Under the Programme, a further two floating rate Senior Bonds were issued at par, amounting to €8 million. The Senior Debt in Euro (€250 million) 2003/2006 and the Senior Debt in Euro (€5 million) 2003/2006 are listed on the Luxembourg Stock Exchange.

The fair value of the debt securities in issue at 31 December 2004 was €148,612 thousand (2003: €151,263 thousand).

At 31 December 2004 the amount of the Senior Debt in Euro (€250 million) 2003/2006 outstanding amounted to €248 million, as Debt amounting to €2 million was held by the Company for trading purposes.
24. Other liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>General insurance business reserves</td>
<td>12 904</td>
<td>10 500</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>6 449</td>
<td>10 854</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>6 261</td>
<td>9 324</td>
</tr>
<tr>
<td>Fair value of derivative financial instruments</td>
<td>27 065</td>
<td>28 704</td>
</tr>
<tr>
<td>Net liability of retirement benefit plans</td>
<td>2 462</td>
<td>1 797</td>
</tr>
<tr>
<td>Provision for pending litigation or claims</td>
<td>2 148</td>
<td>4 000</td>
</tr>
<tr>
<td>Items in course of settlement and other liabilities</td>
<td>77 510</td>
<td>63 093</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134 799</strong></td>
<td><strong>128 272</strong></td>
</tr>
</tbody>
</table>

Deferred tax

The deferred tax liability is attributable to the following items:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between wear and tear allowances and depreciation</td>
<td>192 Cí000</td>
</tr>
<tr>
<td>Property revaluation</td>
<td>4 075 Cí000</td>
</tr>
<tr>
<td>Investments revaluation</td>
<td>1 601 Cí000</td>
</tr>
<tr>
<td>Other temporary differences</td>
<td>887 Cí000</td>
</tr>
<tr>
<td>Unutilised tax losses carried forward</td>
<td>(23) Cí000</td>
</tr>
</tbody>
</table>

Provision for pending litigation or claims

The movement for the year 2004 in the provision for pending litigation or claims is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2004</td>
<td>4 000 Cí000</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>773 Cí000</td>
</tr>
<tr>
<td>Provision utilised</td>
<td>(2 475) Cí000</td>
</tr>
<tr>
<td>Release of provision</td>
<td>(150) Cí000</td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>2 148 Cí000</td>
</tr>
</tbody>
</table>

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.

At 31 December 2003 there were pending proceedings before the Committee for the Protection of Competition against three commercial banks, including Bank of Cyprus Public Company Ltd. The Committee imposed a penalty on the three commercial banks which, for Bank of Cyprus Public Company Ltd, amounted to Cí2 475 thousand. The penalty was fully covered by the provision in place as at 31 December 2003.

25. Accruals and deferred income

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest, fees and commissions</td>
<td>60 643</td>
<td>68 933</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>4 234</td>
<td>4 287</td>
</tr>
<tr>
<td>Deferred income</td>
<td>2 176</td>
<td>2 652</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67 053</strong></td>
<td><strong>75 872</strong></td>
</tr>
</tbody>
</table>

26. Subordinated loan stock

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subordinated Bonds 2006/2011 in Euro</td>
<td>159 238</td>
<td>160 816</td>
</tr>
<tr>
<td>Subordinated Bonds 2008/2013 in Euro</td>
<td>115 582</td>
<td>114 958</td>
</tr>
<tr>
<td>Capital Securities Series A</td>
<td>62 781</td>
<td>65 000</td>
</tr>
<tr>
<td>Capital Securities Series B</td>
<td>29 992</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>367 593</strong></td>
<td><strong>340 774</strong></td>
</tr>
</tbody>
</table>

All subordinated loan stock has been issued by Bank of Cyprus Public Company Ltd. The subordinated loan stock is not secured and the rights and claims of loan stockholders are subordinated to the claims of depositors and other creditors of the Company, but have priority over the shareholders of the Company.

The Subordinated Bonds 2006/2011 bear a floating rate of interest, mature on 20 June 2011 and were issued in Euro (€275 million) on 20 June 2001. The Company has the option to redeem the Bonds in whole or in part at any time after 20 June 2006. The interest rate is 1.20% above the three month Euribor until 20 June 2006 and will increase to 2.40% thereafter. The Bonds are listed on the Luxembourg Stock Exchange.

Bank of Cyprus Public Company Ltd has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1 000 million (2003: €750 million).

Under the EMTN Programme, the Company has issued €200 million floating rate Subordinated Bonds in Euro maturing in October 2013. The Company has the option to call the Bonds during or after October 2008. The interest rate was set at 1.00% above the three month Euribor until October 2008 and will increase to 2.20% thereafter. The issue price of the Bonds was at 99.766%. The Bonds are listed on the Luxembourg Stock Exchange. On 31 December 2004, Bonds outstanding amounted to €200 million (2003: €197 million, as Bonds amounting to €3 million were held by the Company for trading purposes).

Capital Securities Series A and Series B were issued in Euro pounds on 20 February 2003 and 22 March 2004 respectively, and have been offered in Cyprus. The Capital Securities rank as Tier I capital and have no maturity date. However, they may be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their principal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter. The Capital Securities bear floating interest rate, which is revised every three months. The interest rate is equal to the base rate of the Company at the beginning of each three month period plus 1.00%. Interest is payable quarterly. The Capital Securities are listed on the Cyprus Stock Exchange. At 31 December 2004 the Capital Securities Series A and Series B outstanding amounted to Cí62 781 thousand and Cí29 992 thousand respectively, as Cí2 197 thousand of Capital Securities Series A and Cí58 thousand of Capital Securities Series B were held by the Company for trading purposes.

The fair value of the subordinated loan stock at 31 December 2004 was Cí368 626 thousand (2003: Cí341 571 thousand).
The following table summarises the nominal principal amount of contingent liabilities and commitments as at 31 December:

<table>
<thead>
<tr>
<th>Liabilities and Commitments</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent liabilities</td>
<td>32 045 CIE00</td>
<td>33 148 CIE00</td>
</tr>
<tr>
<td>Guarantees and performance bonds</td>
<td>678 555 CIE00</td>
<td>656 684 CIE00</td>
</tr>
<tr>
<td>Commitments</td>
<td>710 600 CIE00</td>
<td>689 832 CIE00</td>
</tr>
</tbody>
</table>

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer in the event that payment is not honoured by the customer. Most acceptances are expected to be presented for payment but reimbursement by the customer is usually immediate.

Endorsements are residual liabilities in respect of bills of exchange, which have been discounted by the bank and subsequently rediscounted.

Guarantees and performance bonds are generally written by a bank to support the performance of a customer to third parties. As the bank will only be required to meet these obligations in the event of the customer’s default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Documentary credits commit the bank to make payments to third parties on production of the relevant documents; provided that the terms of the documentary credit are satisfied. The repayment by the customer is usually immediate.

Commitments to lend are agreements to grant a loan to a customer in the future subject to certain conditions. Such commitments are made for a fixed period of time and are cancellable by the bank subject to notice requirements. Most commitments expire without being fully drawn upon and hence the cash requirements of such commitments are considerably less than the commitment limits that are reported.

Capital commitments

Commitments for contracted capital expenditure as at 31 December 2004 amount to CIE5 479 thousand (2003: CIE5 452 thousand).

Liquidity

The Group’s provision for pending litigation or claims is set out in Note 24.

There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group’s financial position and operations.
31. Derivative financial instruments and hedge accounting

The use of derivatives and their sale to customers as risk management products is an integral part of the Group’s trading activities.

These instruments are also used to manage the Group’s own exposure to fluctuations in interest rates, exchange rates and equity price indices as part of its asset and liability management activities.

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

A currency swap involves the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate on the maturity date of the swap.

An interest rate swap is an agreement 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.

An equity linked swap is an agreement between two parties to exchange the return on an equity index for a stream of cash flows based on a short-term interest rate index.

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

The credit exposure of derivative financial instruments represents the cost to replace contracts with a positive value as at the balance sheet date. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as those used for lending decisions.

The nominal amounts of certain types of derivative financial instruments provide a basis for comparison with 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 derivative financial instruments becomes positive (assets) or negative (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity price indices in accordance with their terms. The aggregate fair value of derivative financial instruments may fluctuate significantly from time to time.

Changes in fair value of derivatives held-for-trading are recognised in the income statement.

The Group applies either fair value or cash flow hedge accounting for derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (against 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 profit or loss arising from changes in their fair value is recognised in the income statement.

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

In cash flow hedge accounting, the effective portion of the gain or loss on revaluation of derivatives is recognised in equity (consolidated statement of changes in equity) and the ineffective portion is recognised in the income statement.

Fair value hedges

The Group uses interest rate swaps of nominal value €159,500 thousand (2003: €161,252 thousand) to hedge the interest rate risk arising as a result of the possible decrease in the fair value of fixed rate bonds classified as available-for-sale or of fixed interest rate advances. The fair value of those derivatives at 31 December 2004 was €4,034 thousand (2003: €6,321 thousand) and the change in the fair value of the relevant hedged items was €2,789 thousand (gain) (2003: €8,391 thousand (loss)).

Cash flow hedges

The Group uses interest rate swaps of nominal value €159,500 thousand (2003: €161,252 thousand) to hedge the future cash flows from the floating rate Subordinated Bonds 2006/2011 in Euro. The net negative fair value of these derivatives at 31 December 2004 was €4,034 thousand (2003: €6,321 thousand).

Hedges of net investments in foreign entities

The Group hedges the currency risk arising on the retranslation into Cyprus pounds of the net assets of the overseas subsidiaries and branches. Liabilities amounting to €203,382 thousand (2003: €181,028 thousand) have been designated as hedges and have given rise to a gain of €2,789 thousand (2003: loss of €7,237 thousand) which was taken to the exchange adjustments reserve against the profit/loss that arose on the retranslation of the net assets into Cyprus pounds.

The nominal amounts and fair values of derivative financial instruments are summarised below:

<table>
<thead>
<tr>
<th>Derivatives held-for-trading</th>
<th>31 December 2004</th>
<th>31 December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal amount</td>
<td>Fair value</td>
<td>Nominal amount</td>
</tr>
<tr>
<td>Cí000</td>
<td>Cí000</td>
<td>Cí000</td>
</tr>
<tr>
<td>Forward exchange rate contracts</td>
<td>203,551</td>
<td>3,753</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>267,426</td>
<td>3,276</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>662,182</td>
<td>1,494</td>
</tr>
<tr>
<td>Equity swaps</td>
<td>267,426</td>
<td>3,276</td>
</tr>
<tr>
<td>Equity options</td>
<td>231,811</td>
<td>8,680</td>
</tr>
<tr>
<td>Total</td>
<td>1,145,340</td>
<td>9,153</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Derivatives qualifying for hedge accounting</th>
<th>31 December 2004</th>
<th>31 December 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal amount</td>
<td>Fair value</td>
<td>Nominal amount</td>
</tr>
<tr>
<td>Cí000</td>
<td>Cí000</td>
<td>Cí000</td>
</tr>
<tr>
<td>Fair value hedges:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>183,521</td>
<td>114,926</td>
</tr>
<tr>
<td>Cash flow hedges:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>159,500</td>
<td>4,034</td>
</tr>
<tr>
<td>Total</td>
<td>343,021</td>
<td>8,960</td>
</tr>
<tr>
<td>Total</td>
<td>1,488,361</td>
<td>9,307</td>
</tr>
</tbody>
</table>
32. Net cash flow from operating activities

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) before tax</td>
<td>49,916</td>
<td>(17,412)</td>
</tr>
<tr>
<td>Adjustments for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for bad and doubtful debts</td>
<td>83,695</td>
<td>110,190</td>
</tr>
<tr>
<td>Depreciation of property and equipment</td>
<td>13,664</td>
<td>13,124</td>
</tr>
<tr>
<td>Amortisation of intangible assets</td>
<td>5,814</td>
<td>5,943</td>
</tr>
<tr>
<td>Amortisation of discount/premium</td>
<td>(3,598)</td>
<td>(4,567)</td>
</tr>
<tr>
<td>Increase/(decrease) in prepayments and accrued income</td>
<td>3,518</td>
<td>(2,469)</td>
</tr>
<tr>
<td>Decrease in accrued and deferred income</td>
<td>(8,819)</td>
<td>(19,696)</td>
</tr>
<tr>
<td>Profit on disposal of property and equipment and write-offs of intangible assets</td>
<td>(562)</td>
<td>(441)</td>
</tr>
<tr>
<td>Interest on treasury bills</td>
<td>(10,126)</td>
<td>(8,852)</td>
</tr>
<tr>
<td>Interest on debt securities</td>
<td>(44,546)</td>
<td>(38,383)</td>
</tr>
<tr>
<td>Dividend income from equity shares</td>
<td>(201)</td>
<td>(135)</td>
</tr>
<tr>
<td>Profit on sale of investments in equity shares</td>
<td>(66)</td>
<td>(22)</td>
</tr>
<tr>
<td>Profit on sale of investments in debt securities</td>
<td>(175)</td>
<td>(1,275)</td>
</tr>
<tr>
<td>Fair value gain of available-for-sale debt securities qualifying for fair value hedge accounting</td>
<td>(2,218)</td>
<td>(1,293)</td>
</tr>
<tr>
<td>Provision for impairment of available-for-sale investments</td>
<td>5,927</td>
<td>7,799</td>
</tr>
<tr>
<td>Interest on subordinated loan stock</td>
<td>14,645</td>
<td>11,575</td>
</tr>
<tr>
<td>Increase in amounts due to banks</td>
<td>105,868</td>
<td>54,086</td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>439,314</td>
<td>545,602</td>
</tr>
<tr>
<td>Placements with banks repayable within three months</td>
<td>1,944,401</td>
<td>1,812,728</td>
</tr>
</tbody>
</table>

33. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>1,812,728</td>
<td>1,420,029</td>
</tr>
<tr>
<td>Exchange adjustments</td>
<td>(449)</td>
<td>(374)</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents for the year</td>
<td>132,122</td>
<td>393,073</td>
</tr>
<tr>
<td>At 31 December</td>
<td>1,944,401</td>
<td>1,812,728</td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>439,314</td>
<td>545,602</td>
</tr>
<tr>
<td>Placements with banks repayable within three months</td>
<td>1,505,087</td>
<td>1,267,126</td>
</tr>
<tr>
<td></td>
<td>1,944,401</td>
<td>1,812,728</td>
</tr>
</tbody>
</table>

The comparative amounts of cash and cash equivalents have been adjusted and do not include instruments that are not readily convertible into cash.

34. Operating leases

The total future minimum lease payments under non-cancellable operating leases at 31 December, for each of the following periods are:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>1,363</td>
<td>1,297</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>3,167</td>
<td>2,583</td>
</tr>
<tr>
<td>After five years</td>
<td>1,099</td>
<td>1,870</td>
</tr>
<tr>
<td>Total</td>
<td>5,629</td>
<td>5,750</td>
</tr>
</tbody>
</table>

35. Risk management

In the ordinary course of business, the Group is exposed to a variety of risks, the most important of which are credit risk, exchange rate risk, interest rate risk and liquidity risk.

These risks are identified, measured and 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

Credit risk is the risk of failure by counterparties to perform under their contractual commitments.

The management of credit risk is devolved to individual business units. 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 business unit. Credit exposures from related accounts are aggregated and are monitored on a consolidated basis.

The Group Credit Risk Management Unit sets targets and limits on the composition and quality of the loans and advances portfolio and monitors compliance with them. The assessment of the portfolio quality is carried out using credit rating and credit scoring systems.

Portfolio lending is carried out on the basis of customers’ creditworthiness, sector of the economy and country of operations. As in other parts of the Group, regular audits are carried out by a specialist unit of the Group Internal Audit Division.
35. Risk management (continued)

Credit risk (continued)

The Group’s exposure to risk derived from its credit dispensing activities is diversified both geographically and across the various sectors of the economy (Note 14).

The Group’s policy regarding the definition of loans and advances for which income is suspended and the determination of provisions for bad and doubtful debts is set out in the Summary of Significant Accounting Policies.

Market risk

Market risk is the risk of loss arising from negative movements in exchange rates, interest rates, equity share prices or other prices. Market risk is actively managed at an individual business unit level and is monitored and reviewed at both individual business and Group level by an independent Group risk management function to ensure compliance with market risk limits. The Group Asset/Liability Management Committee defines specific strategies and sets strict open position and other limits for managing these risks. The position of the Group regarding interest rate risk and currency risk is analysed below.

Interest rate risk

Analysis of assets and liabilities as at 31 December 2004, according to their contractual repricing or maturity date:

<table>
<thead>
<tr>
<th></th>
<th>Up to one month</th>
<th>Between one and three months</th>
<th>Between one and five years</th>
<th>Over five years</th>
<th>Non-interest bearing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
</tr>
<tr>
<td><strong>2004</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>389 390 49 924</td>
<td>439 314</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placements with banks</td>
<td>1 441 136 5 130</td>
<td>1 511 577</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading investments</td>
<td>392 4 210</td>
<td>4 210</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>4 511 715 5 979 252</td>
<td>8 655 882</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>303 529 72 190</td>
<td>348 846</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>6 646 162</td>
<td>1 375 954 559 646</td>
<td>924 033</td>
<td>98 022</td>
<td>460 615</td>
<td>10 064 432</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>51 970 131 380</td>
<td>214 330</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated loan stock</td>
<td>115 844 251 749</td>
<td>976 903</td>
<td>968 062</td>
<td>207 414 6 000</td>
<td>587 537</td>
<td>8 655 882</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>6 400 320</td>
<td>1 114 025</td>
<td>968 062</td>
<td>207 414 6 000</td>
<td>769 677</td>
<td>9 305 319</td>
</tr>
<tr>
<td>Total position</td>
<td>245 842 261 999</td>
<td>7 714 619</td>
<td>92 022</td>
<td>529 062</td>
<td>559 113</td>
<td></td>
</tr>
<tr>
<td>Nominal value of interest rate derivative instruments</td>
<td>(32 269) (70 314)</td>
<td>(719 648)</td>
<td>(70 314)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net position</td>
<td>213 573 467 279</td>
<td>220 552</td>
<td>396 971</td>
<td>21 708</td>
<td>(528 866)</td>
<td>559 113</td>
</tr>
</tbody>
</table>
35. Risk management (continued)

Interest rate risk (continued)

Analysis of assets and liabilities as at 31 December 2003, according to their contractual repricing or maturity date:

<table>
<thead>
<tr>
<th>Period:</th>
<th>Amounts</th>
<th>Cyprus pounds</th>
<th>Euro</th>
<th>US Dollars</th>
<th>British pounds</th>
<th>Other currencies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td></td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>497,086</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48,516</td>
<td>-</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>1,244,196</td>
<td>26,866</td>
<td>54,247</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,325,309</td>
</tr>
<tr>
<td>Trading investments</td>
<td>395</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,047</td>
<td>142,450</td>
<td>-</td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>268,215</td>
<td>330,896</td>
<td>161,167</td>
<td>325,796</td>
<td>102,359</td>
<td>1,220,469</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>309,036</td>
<td>309,036</td>
<td>-</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,995,054</td>
<td>1,150,068</td>
<td>546,517</td>
<td>611,331</td>
<td>127,153</td>
<td>8,872,758</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>142,924</td>
<td>77,753</td>
<td>41,557</td>
<td>-</td>
<td>-</td>
<td>263,234</td>
<td>-</td>
</tr>
<tr>
<td>Customer deposits and other accounts</td>
<td>529,374</td>
<td>787,710</td>
<td>1,018,011</td>
<td>104,471</td>
<td>-</td>
<td>7,390,019</td>
<td>-</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>-</td>
<td>150,975</td>
<td>-</td>
<td>-</td>
<td>302,293</td>
<td>1,321,243</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>204,144</td>
<td>204,144</td>
<td>-</td>
</tr>
<tr>
<td>Subordinated loan stock</td>
<td>575,498</td>
<td>1,016,438</td>
<td>1,060,568</td>
<td>104,471</td>
<td>-</td>
<td>8,039,700</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,14,958</td>
<td>235,816</td>
<td>-</td>
<td>-</td>
<td>340,774</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total position</td>
<td>6,140,012</td>
<td>1,385,884</td>
<td>1,510,585</td>
<td>1,385,792</td>
<td>1,061,922</td>
<td>10,213,532</td>
<td>-</td>
</tr>
<tr>
<td>Nominal value of interest rate derivative instruments</td>
<td>(33,273)</td>
<td>(148,378)</td>
<td>175,348</td>
<td>189,759</td>
<td>(102,087)</td>
<td>(1,393)</td>
<td>-</td>
</tr>
<tr>
<td>Net position</td>
<td>374,325</td>
<td>56,192</td>
<td>(338,703)</td>
<td>317,101</td>
<td>(25,966)</td>
<td>(110,697)</td>
<td>523,284</td>
</tr>
</tbody>
</table>

Bank of Cyprus Group

Notes to the Financial Statements

35. Risk management (continued)

Currency risk

Analysis of assets and liabilities as at 31 December 2004 by currency:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Cyprus pounds</th>
<th>Euro</th>
<th>US Dollars</th>
<th>British pounds</th>
<th>Other currencies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td></td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>268,921</td>
<td>118,289</td>
<td>45,542</td>
<td>2,298</td>
<td>439,314</td>
<td></td>
</tr>
<tr>
<td>Placements with banks</td>
<td>123,797</td>
<td>316,760</td>
<td>809,669</td>
<td>192,255</td>
<td>1,511,577</td>
<td></td>
</tr>
<tr>
<td>Trading investments</td>
<td>69,886</td>
<td>2,304</td>
<td>-</td>
<td>-</td>
<td>72,190</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>2,403,609</td>
<td>2,818,809</td>
<td>86,437</td>
<td>477,640</td>
<td>192,737</td>
<td>5,799,233</td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>380,119</td>
<td>505,923</td>
<td>597,281</td>
<td>236,930</td>
<td>-</td>
<td>1,713,253</td>
</tr>
<tr>
<td>Property, equipment and intangible assets</td>
<td>115,434</td>
<td>48,076</td>
<td>-</td>
<td>6,851</td>
<td>466</td>
<td>179,327</td>
</tr>
<tr>
<td>Other assets</td>
<td>57,187</td>
<td>30,462</td>
<td>2,573</td>
<td>2,345</td>
<td>721</td>
<td>83,291</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>34,069</td>
<td>42,573</td>
<td>6,114</td>
<td>9,684</td>
<td>2,238</td>
<td>94,728</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,455,922</td>
<td>3,873,196</td>
<td>1,547,686</td>
<td>918,003</td>
<td>249,625</td>
<td>10,064,432</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>35,275</td>
<td>87,937</td>
<td>7,737</td>
<td>157</td>
<td>131,380</td>
<td></td>
</tr>
<tr>
<td>Customer deposits and other accounts</td>
<td>2,653,825</td>
<td>3,262,918</td>
<td>1,635,023</td>
<td>893,612</td>
<td>2,102,533</td>
<td>8,635,885</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>288</td>
<td>148,324</td>
<td>-</td>
<td>-</td>
<td>148,612</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>72,154</td>
<td>57,070</td>
<td>440</td>
<td>4,672</td>
<td>103</td>
<td>134,799</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>20,494</td>
<td>32,607</td>
<td>1,772</td>
<td>10,165</td>
<td>2,045</td>
<td>67,033</td>
</tr>
<tr>
<td>Subordinated loan stock</td>
<td>2,782,006</td>
<td>3,588,867</td>
<td>1,645,372</td>
<td>908,806</td>
<td>212,675</td>
<td>9,127,726</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>92,773</td>
<td>274,820</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>367,593</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>92,773</td>
<td>274,820</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>367,593</td>
</tr>
<tr>
<td>Equity</td>
<td>559,113</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>559,113</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>3,455,892</td>
<td>3,863,678</td>
<td>1,645,372</td>
<td>908,806</td>
<td>2,122,675</td>
<td>10,064,432</td>
</tr>
<tr>
<td>Total position</td>
<td>22,030</td>
<td>9,509</td>
<td>(17,664)</td>
<td>9,197</td>
<td>56,950</td>
<td>-</td>
</tr>
<tr>
<td>Nominal value of currency derivative instruments</td>
<td>(47,901)</td>
<td>8,848</td>
<td>97,897</td>
<td>(2,968)</td>
<td>55,876</td>
<td>-</td>
</tr>
<tr>
<td>Net currency position</td>
<td>(25,871)</td>
<td>(18,357)</td>
<td>21</td>
<td>6,229</td>
<td>1,074</td>
<td>-</td>
</tr>
</tbody>
</table>

Bank of Cyprus Group

Notes to the Financial Statements

Currency risk results from adverse movements in the rates of exchange between currencies arising as a result of the existence of a net currency position in one or more currencies. Losses may arise from the trading book positions and from asset/liability management.

There are limits for the total foreign currency position by currency or group of currencies as well as for the total open position. These limits apply for each banking unit separately and are bigger for intraday positions. Smaller limits apply for overnight positions. Trading book positions are also subject to daily and monthly stop-loss limits. The open positions as well as the stop-loss limits are monitored daily by the Group Treasury/Market Risk Management Unit.

Currency risk exposure also arises on the net position of the Group’s branches and subsidiaries that have a reporting currency other than the Cyprus pound. The Group hedges the greater part of this risk by maintaining liabilities for the same amount in the same currency as the net position of the subsidiary/branches.
35. Risk management (continued)

Currency risk (continued)

Analysis of assets and liabilities as at 31 December 2003 by currency:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyprus</td>
<td>£000</td>
</tr>
<tr>
<td>US Dollars</td>
<td>£000</td>
</tr>
<tr>
<td>British Pounds</td>
<td>£000</td>
</tr>
<tr>
<td>Other Currencies</td>
<td>£000</td>
</tr>
<tr>
<td>Total</td>
<td>£000</td>
</tr>
</tbody>
</table>

2003

Assets
- Cash and balances with central banks: 307,419
- Placements with banks: 123,890
- Trading investments: 142,106
- Non-trading investments: 359,586
- Property, equipment and intangible assets: 119,724
- Other assets: 55,993
- Prepayments and accrued income: 34,776

Liabilities
- Amounts due to banks: 69,233
- Customer deposits and other accounts: 2,645,709
- Debt securities in issue: 288,150
- Other liabilities: 60,363
- Accruals and deferred income: 25,911
- Subordinated loan stock: 64,121
- Equity: 523,284
- Total liabilities and equity: 3,402,584

Prepayments and accrued income: 34,776

Total position: 13,675,169

Nominal value of currency derivative instruments: 44,525

Net currency position: (30,850)

Liquidity risk

Liquidity risk is the risk that the Group is unable to fully 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 businesses require a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facility commitments and the level of outstanding contingent obligations are taken into consideration in monitoring the Group’s liquidity position. The main source of Group funding is core deposits. The distribution of sources and the maturity of deposits are actively managed in order to avoid a concentration of funding needs at any point in time or from a small number of depositors. The Group manages this risk by maintaining at all times a diversified stock of highly liquid assets in the principal currencies in which it transacts.

35. Risk management (continued)

Liquidity risk

Analysis of assets and liabilities as at 31 December 2004 according to their maturity:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>On demand and up to one month</th>
<th>Between one and three months</th>
<th>Between three months and one year</th>
<th>Between one and five years</th>
<th>Over five years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
<td>C000</td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>188,795</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>250,519</td>
<td>429,314</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>1,440,805</td>
<td>64,282</td>
<td>6,990</td>
<td>-</td>
<td>1,511,577</td>
<td>772,190</td>
</tr>
<tr>
<td>Trading investments</td>
<td>4,210</td>
<td>-</td>
<td>-</td>
<td>67,868</td>
<td>112</td>
<td>72,980</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>1,873,804</td>
<td>253,781</td>
<td>752,879</td>
<td>1,895,549</td>
<td>1,266,339</td>
<td>5,979,252</td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>87,969</td>
<td>59,935</td>
<td>231,137</td>
<td>1,326,051</td>
<td>1,068,135</td>
<td>1,713,252</td>
</tr>
<tr>
<td>Property, equipment and intangible assets</td>
<td>-</td>
<td>-</td>
<td>170,827</td>
<td>170,827</td>
<td>282</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>3,901</td>
<td>14,077</td>
<td>26,160</td>
<td>9,840</td>
<td>29,313</td>
<td>93,298</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>32,370</td>
<td>17,514</td>
<td>31,559</td>
<td>9,424</td>
<td>3,861</td>
<td>94,728</td>
</tr>
<tr>
<td>Total assets</td>
<td>3,631,374</td>
<td>409,589</td>
<td>1,048,225</td>
<td>3,205,638</td>
<td>1,769,606</td>
<td>10,064,432</td>
</tr>
</tbody>
</table>

Liabilities
- Amounts due to banks | 51,970 | 39,949 | 39,441 | - | - | 131,360 |
- Customer deposits and other accounts | 4,877,242 | 2,576,860 | 950,467 | 380,310 | 11,003 | 8,655,882 |
- Debt securities in issue | - | - | - | 148,324 | 288 | 148,612 |
- Other liabilities | 190,159 | 11,086 | 20,552 | 9,060 | 3,942 | 134,799 |
- Accruals and deferred income | 26,475 | 12,913 | 16,284 | 9,511 | 1,870 | 67,531 |
- Subordinated loan stock | 5,045,846 | 2,000,928 | 1,052,734 | 447,215 | 27,103 | 9,157,726 |
| Total liabilities | 5,045,846 | 2,000,928 | 1,052,734 | 447,215 | 384,696 | 9,505,319 |

Net position | (1,414,472) | (2,191,239) | (21,491) | 2,758,453 | 3,384,910 | 539,113 |

Liquidity risk is the risk that the Group is unable to fully 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.
35. Risk management (continued)

Liquidity risk (continued)

The responsibility for liquidity risk management rests with the treasury units at each location in co-operation with the Group Treasury Unit.

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

The liquidity risk tables have been prepared in accordance with International Financial Reporting Standards which provide that assets and liabilities are analysed in time bands according to the remaining period to maturity from the balance sheet date. Regulatory authorities set liquidity ratios for the open liquidity position up to one month in accordance with their own guidelines.

Analysis of assets and liabilities as at 31 December 2003 according to their maturity:

<table>
<thead>
<tr>
<th></th>
<th>On demand and up to one month</th>
<th>Between one and three months</th>
<th>Between three and one year</th>
<th>Between one and five years</th>
<th>Over five years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>C(\text{€000})</td>
<td>C(\text{€000})</td>
<td>C(\text{€000})</td>
<td>C(\text{€000})</td>
<td>C(\text{€000})</td>
<td>C(\text{€000})</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and balances with central banks</td>
<td>300 514</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>245 088</td>
<td>545 602</td>
</tr>
<tr>
<td>Placements with banks</td>
<td>1 288 955</td>
<td>28 171</td>
<td>50 183</td>
<td>-</td>
<td>-</td>
<td>1 335 109</td>
</tr>
<tr>
<td>Trading investments</td>
<td>3 546</td>
<td>-</td>
<td>-</td>
<td>395</td>
<td>143 450</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>1 140 176</td>
<td>271 534</td>
<td>754 168</td>
<td>1 536 827</td>
<td>1 367 187</td>
<td>5 279 892</td>
</tr>
<tr>
<td>Non-trading investments</td>
<td>-19 547</td>
<td>63 772</td>
<td>195 638</td>
<td>780 054</td>
<td>131 408</td>
<td>1 220 469</td>
</tr>
<tr>
<td>Property, equipment and intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>178 649</td>
<td>178 649</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>16 738</td>
<td>7 026</td>
<td>13 860</td>
<td>9 701</td>
<td>19 122</td>
<td>58 612</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>29 814</td>
<td>18 389</td>
<td>35 633</td>
<td>11 565</td>
<td>7 385</td>
<td>98 946</td>
</tr>
<tr>
<td>Total assets</td>
<td>3 048 375</td>
<td>386 892</td>
<td>1 057 482</td>
<td>2 470 314</td>
<td>1 907 695</td>
<td>8 872 758</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts due to banks</td>
<td>142 924</td>
<td>77 753</td>
<td>42 557</td>
<td>-</td>
<td>-</td>
<td>263 234</td>
</tr>
<tr>
<td>Customer deposits and other accounts</td>
<td>3 999 040</td>
<td>1 771 655</td>
<td>1 019 835</td>
<td>592 695</td>
<td>16 834</td>
<td>7 390 059</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>150 975</td>
<td>284</td>
<td>151 263</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>66 310</td>
<td>17 015</td>
<td>16 124</td>
<td>9 701</td>
<td>19 122</td>
<td>138 272</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>22 592</td>
<td>19 896</td>
<td>20 425</td>
<td>10 093</td>
<td>2 066</td>
<td>75 872</td>
</tr>
<tr>
<td>Subordinated loan stock</td>
<td>4 220 866</td>
<td>1 886 319</td>
<td>1 098 941</td>
<td>764 264</td>
<td>38 310</td>
<td>8 008 700</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4 220 866</td>
<td>1 886 319</td>
<td>1 098 941</td>
<td>764 264</td>
<td>379 084</td>
<td>8 349 474</td>
</tr>
</tbody>
</table>

36. Directors' interest in the share capital of the Company

The beneficial interest in shares of the Company of the directors, their spouses, minor children and of companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2004 and 23 February 2005, is set out below:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2004</th>
<th>23 February 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>S. A. Triantafyllides</td>
<td>0.057</td>
<td></td>
</tr>
<tr>
<td>V. G. Relagi</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>Chr. S. Pantzaris</td>
<td>0.100</td>
<td></td>
</tr>
<tr>
<td>A. Agathocleous</td>
<td>0.010</td>
<td></td>
</tr>
<tr>
<td>D. P. Ioannou</td>
<td>0.374</td>
<td></td>
</tr>
<tr>
<td>C. Z. Severs</td>
<td>0.434</td>
<td></td>
</tr>
<tr>
<td>Th. Antizedemou</td>
<td>0.019</td>
<td></td>
</tr>
<tr>
<td>D. Z. Pierides</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>E. Xenophontos</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td>Chr. G. Christofides</td>
<td>0.026</td>
<td></td>
</tr>
<tr>
<td>A. Pittas</td>
<td>0.027</td>
<td></td>
</tr>
<tr>
<td>P. G. Polyanou</td>
<td>0.022</td>
<td></td>
</tr>
<tr>
<td>G. A. David</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>A. Artemis</td>
<td>0.366</td>
<td></td>
</tr>
<tr>
<td>A. Diogenous</td>
<td>0.192</td>
<td></td>
</tr>
<tr>
<td>G. M. Georgiades</td>
<td>0.048</td>
<td></td>
</tr>
<tr>
<td>A. Jacobides</td>
<td>0.026</td>
<td></td>
</tr>
<tr>
<td>Chr. Plouakis</td>
<td>0.028</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,808</td>
<td></td>
</tr>
</tbody>
</table>

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

There are no shareholders holding more than 5% of the issued share capital of the Company.

38. Transactions with directors

<table>
<thead>
<tr>
<th></th>
<th>Number of directors</th>
<th>Total C(\text{€000})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and other advances to directors and their connected persons</td>
<td>6</td>
<td>80 576</td>
</tr>
<tr>
<td>More than 1% of the Company's net assets, per director</td>
<td>12</td>
<td>8 278</td>
</tr>
<tr>
<td>Less than 1% of the Company's net assets, per director</td>
<td>18</td>
<td>88 854</td>
</tr>
</tbody>
</table>

In addition to the loans and other advances set out in the table above, there were contingent liabilities in the form of documentary credits, guarantees and commitments to lend amounting to C\(\text{€35 952 thousand}\). Of these, C\(\text{€35 372 thousand}\) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Company, per director.

Connected persons include spouses, minor children and companies in which a director holds, directly or indirectly, at least 20% of the voting shares.

Transactions with directors and with their connected persons are made on normal business terms.
Notes to the Financial Statements

39. Group companies
The Group companies and their activities are:

Cyprus
- Bank of Cyprus Public Company Ltd: Commercial bank
- Mortgage Bank of Cyprus Ltd: Real estate and industrial development bank
- Bank of Cyprus Finance Corporation Ltd: Hire purchase and leasing business
- Bank of Cyprus (Factors) Ltd: Factoring services
- The Cyprus Investment and Securities Corporation Ltd (CISCO): Investment banking services
- General Insurance of Cyprus Ltd: General insurance business
- Eurolife Ltd: Life insurance business
- Kerma Ltd: Property trading and development
- Kerma Properties & Investments Ltd: Property development
- Kerma Hotels Ltd: Hotel business
- BOC Ventures Ltd: Management of venture capital investments
- Telfias Investments Ltd: Investments fund
- Bank of Cyprus Mutual Funds Ltd: Distribution of mutual funds
- JCC Payment Systems Ltd: Processing of credit card transactions

Greece
- Bank of Cyprus Public Company Ltd (branch): Commercial bank
- Kyprou Leasing SA: Leasing business
- Kyprou Commercial SA: Financing of motor vehicles and other consumer products
- Kyprou Leasing SA: Leasing business services
- Kyprou Mutual Fund Management Company (Kyprou AEDAM): Management of mutual funds
- Kyprou Securities SA: Property management
- Kyprou Insurance Services Ltd: General insurance brokers
- Kyprou Zois (branch): Life assurance business
- Kyprou Antifaliko (branch): General insurance business

United Kingdom
- Old Company (BCL) Ltd, previously Bank of Cyprus (London) Ltd: Commercial bank
- Bank of Cyprus United Kingdom (branch): Commercial bank

Channel Islands
- Bank of Cyprus (Channel Islands) Ltd: Commercial bank
- Telfias Investments (CI) Ltd: Investments fund

Australia
- Bank of Cyprus Australis Pty Ltd: Commercial bank

Ireland
- BOC International Fund Management Ltd: Management of mutual funds

39. Group companies (continued)

With effect from 1 November 2004, pursuant to an order of the High Court in London dated 7 October 2004, the business of the Group’s subsidiary company, Bank of Cyprus (London) Ltd was transferred to the branch of Bank of Cyprus in the United Kingdom. This branch of Bank of Cyprus in the United Kingdom operates under the business name Bank of Cyprus United Kingdom. Bank of Cyprus (London) Ltd has been renamed Old Company (BCL) Ltd and does not carry out any activities since 1 November 2004.

All the above companies are wholly owned subsidiaries, except for JCC Payment Systems Ltd in which the Group holds 45% of the issued share capital which amounts to CÍ1 million. This company is accounted for as an interest in a jointly controlled entity.

The Group’s share in the main financial statement items of the jointly controlled entity is as follows:

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>5 255</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2 384</td>
</tr>
<tr>
<td>Net assets</td>
<td>7 793</td>
</tr>
<tr>
<td>Total assets</td>
<td>8 483</td>
</tr>
</tbody>
</table>

40. Events after the balance sheet date

Acquisition of the insurance portfolio of Georgios Giabra Pierides Ltd
On 14 January 2005, the Group’s subsidiary company, General Insurance of Cyprus Ltd acquired the insurance portfolio of the company Georgios Giabra Pierides Ltd for a consideration of CÍ100 000. Georgios Giabra Pierides Ltd have been general agents of General Insurance of Cyprus Ltd since 2000 and before then, general agents of Guardian Royal Exchange and AXA, which withdrew from the Cyprus market. The Chairman of the Board of Directors of Bank of Cyprus Public Company Ltd Mr. S. A. Triantafyllides and Mr. P. G. Polyviou, a director of Bank of Cyprus Public Company Ltd and General Insurance of Cyprus Ltd together with connected persons (as defined in the Cyprus Securities and Stock Exchange Laws) owned 99% of Georgios Giabra Pierides Ltd.

The acquisition is not expected to significantly influence the Group’s profitability.

Rights issue
Having regard to the Group’s capital needs in view of its business development plans as well as the regulatory requirements of the Central Bank of Cyprus, on 24 February 2005, the Board of Directors of the Company decided to proceed with a share capital increase before the end of 2005. The share capital increase will take the form of a rights issue. It is currently estimated that the total proceeds of the issue will be in the range of CÍ80 million to CÍ100 million and will be used to strengthen the Group’s capital adequacy ratio and specifically the Group’s Tier 1 capital.

The specific details of the issue, such as the ratio of rights to existing shares; the exercise price and the exact size of the issue will be decided by the Board of Directors of the Company closer to the time of the issue and will depend on the conditions prevailing at that time in the Cyprus and Greek markets. It is anticipated that the issue will take place in the last quarter of 2005.

Dividend Reinvestment Plan
The Company has a Dividend Reinvestment Plan in force since February 2002. The Company’s Board of Directors decided to increase the discount offered under the Plan to 10%, from 7.5% which was the discount offered at the most recent dividend payment in respect of the 2001 dividend.
Auditors’ Report to the Members of Bank of Cyprus Public Company Limited

Report on the Financial Statements
1. We have audited the consolidated financial statements of Bank of Cyprus Public Company Limited (the Company) and its subsidiaries (the Group) on Pages 79 to 127, which comprise the consolidated balance sheet as at 31 December 2004 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the related notes. These financial statements are the responsibility of the Company’s Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company’s members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements
4. Pursuant to the requirements of the Cyprus 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 Page 78 is consistent with the financial statements.

Ernst & Young

Nicosia
24 February 2005
Shareholder Information

Shareholder Analysis, 31 December 2004

<table>
<thead>
<tr>
<th>Shareholder Category</th>
<th>Number</th>
<th>Shares Held</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private individuals</td>
<td>64,023</td>
<td>241,154,264</td>
<td>52.96</td>
</tr>
<tr>
<td>Public or private companies</td>
<td>403</td>
<td>101,183,112</td>
<td>21.77</td>
</tr>
<tr>
<td>Insurance companies, provident funds and trusts</td>
<td>378</td>
<td>81,035,303</td>
<td>17.43</td>
</tr>
<tr>
<td>Staff</td>
<td>3,752</td>
<td>15,352,966</td>
<td>3.39</td>
</tr>
<tr>
<td>Church</td>
<td>53</td>
<td>12,671,227</td>
<td>2.72</td>
</tr>
<tr>
<td>Schools, clubs, public institutions, etc.</td>
<td>72</td>
<td>8,173,723</td>
<td>1.76</td>
</tr>
<tr>
<td></td>
<td>69,679</td>
<td>464,370,595</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Shareholder Analysis, 31 December 2004

As at 31 December 2004, 379,724,136 Bank of Cyprus shares (81.70% of total share capital) were registered on the Central Registry and Central Depository of the Cyprus Stock Exchange (CSE) and 81,046,459 shares (18.30% of total share capital) were registered on the Dematerialised Securities System (DSS) of the Athens Central Depository (ACD). All the above shares are listed both on the CSE and the Athens Exchange (ATHEX).

Dividend Reinvestment Plan

The Dividend Reinvestment Plan, which was introduced by Bank of Cyprus in 2002, is still in force. Under this Plan, all shareholders have the opportunity to reinvest all or part of the dividend that they are entitled to receive from time to time, in additional Bank of Cyprus shares at a discount of 10% on the average current market price of the shares. Bank of Cyprus reserves the right to change the percentage of discount offered under the Plan, or even abolish it altogether. Participation in the Plan is voluntary. Shareholders have the right to participate in the Plan or to withdraw from it at any time, by notifying Bank of Cyprus in writing. Participation in the Plan remains in effect for all future dividend payments until revoked by the shareholder.

Transfer of shares from Cyprus to Greece and vice versa

All shareholders, without exception, may transfer their shareholding (in whole or in part) from the CSE to the DSS in Greece and trade them on the ATHEX. Equally, they can transfer their shares from the DSS to the CSE in order to trade them on the CSE. In order for the above transfers to be effected, the shares to be transferred must have been settled beforehand (trade date plus three working days). Additionally, the shares must be free from any pledges or any obligations to third parties. The time required for the completion of the transfer procedures for settled shares is two working days from the date of receipt of the transfer application by the ACD or the CSE (provided that the investor has correctly declared the information required for the recording of the shares on the DSS or the CSE).

Share ticker | Participation in indices (01/01/2005)
--- | ---
CSE: BOG | CSE: General Index, FTSE/CYSE 20, FTSE Med 100, FTSE New EU, DJ STOXX EU Enlarged TMI
ATHEX: BOG | CSE: General Index
Reuters: BOG:AT | CSE: General Index
Bloomberg: BOG:CA | ISIN: GRP 1

Milestones in the Group’s History

1899 • Establishment and operation of eNicolaio Savings Bank.
1912 • Renaming to “Bank of Cyprus” and recognition as a limited company.
1943 • Merger of Bank of Cyprus with the banking institutions of other towns and expansion across Cyprus.
1980-1990 • Acquisition of the operations of the Chartered Bank in Cyprus and establishment of the Cyprus Investment and Securities Corporation (CISCO) (1982).
1991 • Commencement of operation of the first Bank of Cyprus branch in Greece.
1992 • Establishment of Bank of Cyprus Factors.
1994 • Establishment of ABC Factors in collaboration with and equal participation of Alpha Bank.
1995 • Establishment of a Representative Office in South Africa.
1996 • Establishment of Bank of Cyprus (Channel Islands) and operation of a Representative Office in Canada.
1997 • Establishment of Kyprou Leasing in Greece.
1999 • Operation of the Bank of Cyprus Oncology Centre.
2000 • Listing of the Bank’s shares on the Athens Exchange (ATHEX) and issue of 39 million shares to the Greek investing public.
2001 • Establishment of Kyprou Asfaltikis, a branch of General Insurance of Cyprus in Greece and Kypros Zois, a branch of EuroLife in Greece.
2002 • Acquisition of Victory Securities, which was renamed Kyprou Securities.
2003 • Sale of 50% shareholding in ABC Factors to Alpha Bank.
2004 • Merger of the operations of Bank of Cyprus (London) with the branch of Bank of Cyprus in the United Kingdom.
**Activities of Principal Group Subsidiaries**

**Bank of Cyprus**
Bank of Cyprus (the Bank) is the Group holding company. It offers a wide range of financial products and services to the retail and corporate sectors and to public institutions. The Bank holds a leading position in Cyprus, where it operates through 167 points of sale. Bank of Cyprus has a significant presence abroad. In 1991, the Bank commenced its rapid expansion in Greece and has steadily expanded across the whole country, where it now offers a full range of financial services through its 96 branches. Additionally, the Bank operates representative offices in the USA, Canada, South Africa, Russia and Romania. In 1997, the Bank established a branch in London. The Bank currently operates six branches in the United Kingdom which mainly service the Cypriot and Greek community.

**Mortgage Bank of Cyprus**
Specialises in the granting of medium and long term loans for the development of the tourist and manufacturing industries in Cyprus.

**Bank of Cyprus Australia**
Established in 2000 as a wholly owned subsidiary of the Group, for the provision of banking services in Australia. It is the first bank established in Australia by a Cypriot or Greek banking institution. It operates through nine branches and one representative office. It offers a continuously increasing range of banking products and services in order to serve the Cypriot and Greek community of Australia.

**Bank of Cyprus (Channel Islands)**
Established in 1996 as a licensed offshore bank regulated by the Guernsey Financial Services Commission in Guernsey, Channel Islands, one of the world’s most reputable financial centres. It offers specialised deposit and lending products as well as a wide range of investment products.

**Bank of Cyprus Finance Corporation**
It is the largest finance corporation in Cyprus. It provides hire purchase and leasing products to finance purchases of vehicles, machinery, electronic and other equipment.

**Kyprou Leasing**
Kyprou Leasing is a subsidiary of the Bank operating in Greece. It offers a full range of leasing products, such as property leasing and leasing of equipment, motor cars and commercial vehicles.

**Kyprou Commercial**
Kyprou Commercial was established in 1999 for the provision of consumer loans in Greece. The enactment of legislation for the liberalisation of consumer credit enabled the transfer of the largest part of the Company’s activities to the Bank in Greece.

**Bank of Cyprus Factors**
The Company operates in Cyprus, providing factoring, invoice and cheque discounting services for domestic and international transactions. In addition to the provision of working capital finance, the Company offers specialised sales ledger administration and debt collection services, non-recourse factoring, as well as advisory services covering credit policy and working capital management.

**The Cyprus Investment and Securities Corporation (CISCO)**
The Company operates in Cyprus, providing factoring, invoice and cheque discounting services for domestic and international transactions. In addition to the provision of working capital finance, the Company offers specialised sales ledger administration and debt collection services, non-recourse factoring, as well as advisory services covering credit policy and working capital management.

**The Cyprus Investment and Securities Corporation (CISCO)**
The Company offers a wide range of specialised finance and investment services in Cyprus and holds a financial service provider licence from the Cyprus Securities and Exchange Commission. It provides brokerage, fund management and capital market services. The Company is a member of the Cyprus Stock Exchange.

**Kyprou Securities**
The Company operates in Greece. It offers brokerage services for transactions on the Athens Exchange and the Derivatives Market of the Athens Exchange, fund management services, custody, margin accounts, etc.

**BOC Ventures**
BOC Ventures was established in Cyprus for the provision of venture capital services. The Company operates through two investment companies, Telfrokes Investments Ltd and Telfrokes Investments (CI) Ltd, both of which are subsidiaries of the Bank, registered in Cyprus and the Channel Islands, respectively.

**Bank of Cyprus Mutual Funds**
The Company was established for the management of mutual funds in Cyprus and their distribution to institutional investors and the wider investing public.

**Kyprou Mutual Fund Management Company (AEDAK)**
Kyprou Mutual Fund Management Company (AEDAK) was established for the management and distribution of Greek mutual funds to institutional investors and the wider investing public.

**BOC International Fund Management**
Based in Ireland, the Company offers the BOC International Fund, an umbrella fund, under which a series of investment funds are operated. These funds are used in the management of investment portfolios offered by the Group’s Private Banking Units.

**General Insurance of Cyprus**
It specialises in the provision of general insurance services in Cyprus and provides a wide range of insurance products, which fully cover the personal and commercial insurance needs of customers. In 2001, the Company established a branch in Greece which operates under the name Kyprou Asfalistiki, offering general insurance products.

**EureLife**
The Company specialises in life insurance, offering a wide range of modern and flexible insurance products in Cyprus. In 2001, the Company established a branch in Greece that operates under the name Kyprou Zois, offering bancassurance products through the branch network of Bank of Cyprus Greece.

**Kermia and Kermia Properties & Investments**
These Companies specialise in property development and trading and in real estate management in Cyprus. Kermia has constructed and operates the Kermia Beach Bungalow Hotel in Ayia Napa, Cyprus.
Notice of Annual General Meeting

Bank of Cyprus Public Company Ltd

Notice is hereby given that the Annual General Meeting of Bank of Cyprus Public Company Ltd will be held at the Group Headquarters, 31 Stassinos Street, Ayia Paraskevi, Strovolos, Nicosia, on Wednesday 18 May 2005 at 4.30 p.m. to transact the following business:


2. To elect members of the Board of Directors.

3. To determine the remuneration of the Directors.

4. To re-appoint the auditors and authorise the Board of Directors to determine their remuneration.

Y. Kyprí
Secretary

23 March 2005

Notes:
A member entitled to attend and vote at the Annual General Meeting of Bank of Cyprus Public Company Ltd (the Company) is entitled to appoint a proxy to attend and vote on his/her behalf. Such a proxy need not be a shareholder of the Company. The instrument appointing a proxy must be deposited at the registered office of the Company, 51 Stassinos Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, at least 48 hours before the time of the Meeting.

At its meeting on 24 February 2005, the Board of Directors of the Company decided to propose for approval Thursday, 26 May 2005 at the ex-dividend date. Consequently, transactions that take place until Wednesday, 25 May 2005 (inclusive), will be eligible to receive the dividend for 2004.

The dividend for 2004 will be paid to eligible shareholders on Thursday, 16 June 2005, provided that it is approved by the Annual General Meeting.
Shareholder Enquiries

Shareholders and brokerage houses may contact the Group’s Shares & Bonds Department regarding any matters relating to the Company’s registered securities, share dividend payments, interest coupons on bonds and capital securities, pledges and release of pledges on securities, change of shareholder details and transfers of shares from the Central Registry and Central Depository of the Cyprus Stock Exchange to the Dematerialised Securities System of the Athens Central Depository and vice versa. Copies of the Annual and Interim Reports of the Group are also available.

Cyprus
Shares & Bonds Department
EuroLife House, 4 Evrou Street, Strovolos, P.O. Box 24884, CY-1398 Nicosia
Telephone: +357 22884200, Fax: +357 22336258
shares@zenon.logos.cy.net

Greece
Custody, Shareholders and Derivatives Clearing Department
170 Alexandras Avenue, 115 21 Athens
Telephone: +30 210 64 77 332, Fax: +30 210 64 77 329
metaxiologi@bankofcyprus.gr

Investor Relations

Institutional investors and investment houses in general, brokers and investment analysts may direct their enquiries relating to the valuation and financial strength of the Company to the Investor Relations Department.

Investor Relations Department
EuroLife House, 4 Evrou Street, Strovolos, P.O. Box 24884, CY-1398 Nicosia
Telephone: +357 22881740, Fax: +357 22336258
investors@bankofcyprus.com

Annual Bulletin

Shareholders can obtain copies of the Annual Bulletin published in accordance with the provisions set out in Article 16 of the Greek Capital Market Committee’s «Code of Conduct for companies listed on the Athens Exchanges» by contacting the Shares & Bonds Department of the Group in Cyprus or the Custody, Shareholders and Derivatives Clearing Department in Greece, or by accessing the Group’s website, www.bankofcyprus.com (Investor Relations/Prospectuses).

Group Headquarters

51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 21472, CY-1599 Nicosia, Cyprus
Telephone: +357 22842100, Fax: +357 22378111
www.bankofcyprus.com
info@cy.bankofcyprus.com

Direct Banking (in Cyprus) 800 00 800 or +357 22880000 (international calls)
Phone Banking (in Greece) 801 11 802 803 or +30 210 64 18 888 (international calls)

Coordination: E. Ioannidou Procopiou
Editing: M. Nicola, E. Livadiotou, M. Lazaridou
Design: Oudo Creative Concepts
Portraits: D. Vattis
Page composition and graphs: Oudo Creative Concepts
Printing and binding: Chr. Nicolaou & Sons Ltd
Paper supplier: Cartiere Burgo SPA