annual report
2004

Know-how / Trust / Dynamism / Creativity

annual report **2004** Bank of Cyprus Group

Bank of Cyprus Group

Contents

Group Profile

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. Pantzaris Andronicos Agathocleous Dimitris P. Ioannou Costas Z. Severis Theodoros Aristodemou Demetris Z. Pierides Evdokimos Xenophontos Christakis G. Christofides	Andreas Pittas Polys G. Polyviou George A. David Andreas Artemis Anna Diogenous George M. Georgiades Andreas J. Jacovides Christos Mouskis
Group Executive Management	Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER	
	Charilaos G. Stavrakis CHIEF EXECUTIVE OFFICER - CYPRUS AND DEPUTY GROUP CHIEF EXECUTIVE OFFICER	
	Yiannis Kypri GROUP CHIEF GENERAL MANAGER	
Group General Managers	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 Kypri	
Legal Advisers	Chryssafinis & Polyviou	
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

	2004	2003	2002
Key profitability indicators (C£ million)			
Net interest income	**246**	199	176
Profit before provisions	**140**	101	90
Profits/(losses) after tax	**38**	(29)	(21)
Key balance sheet indicators (C£ million)			
Total assets	**10 260**	9 062	8 126
Shareholders' funds	**559**	523	506
Loans and advances to customers	**6 450**	5 689	5 044
Customer deposits	**8 656**	7 390	6 836
Per share data (cent)			
Earnings/(losses) per share	**8,1**	(6,5)	(4,9)
Dividend per share (proposed)	**4,0**		
Capital adequacy			
Tier 1 capital	**9,0%**	8,5%	7,7%
Total	**13,7%**	13,2%	11,6%
Number of employees	**5 890**	5 703	5 518

Credit rating (31/03/2005)	Long term	Short term
Moody's	Baa1	P-2
Fitch Ratings	A-	F-2

Contribution to indices

CSE General Index
FTSE CySE 20 Index
FTSE Med 100 Index
FTSE New EU Index
DJ Stoxx EU Enlarged TMI Index

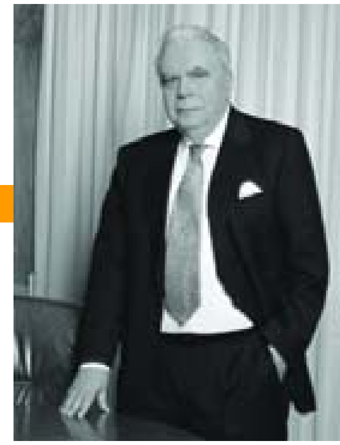
vision: in know-how, in trust, in dynamism, in creativity

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



Solon A. Triantafyllides
Chairman
Bank of Cyprus Group

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 C£38 million against a loss of C£29 million for 2003.
- Group core profit (profit before provisions and before taxation) reached C£140 million, up by 39% against C£101 million for the prior year.
- Net interest income increased significantly (24%) to C£246 million compared to C£199 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 C£927 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 further 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 C£80-C£100 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 C£10,26 billion, recording a 13% annual increase. Group total loans and advances recorded a 13% annual increase and reached C£6,45 billion at 31 December 2004. Group customer deposits at 31 December 2004 reached C£8,66 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. Eliades 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. Kypri 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. Pantzaris 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

Chairman's Statement *(continued)*

exchange controls. This course will continue and we intend to exploit all synergies emanating from our presence in so many markets, including Greece, the United Kingdom, the Channel Islands and Australia. The new organisational structure of the Group enables us to develop these synergies, expand our activities, while at the same time to effectively manage Group-wide risks.

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.

The year 2004 was a milestone in the Group's history. 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. We believe that the new Senior Executive Management Team will give a new momentum to the Group.

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

Retirement of the Senior Executive Management

Christos S. Pantzaris

Evdokimos Xenophontos

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.

To this end, the positions of Group Chief Executive Officer, Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer, and Group Chief General Manager were established in order to assume the executive responsibilities of the Senior Executive Management of the Group, comprising the Group Chairman (Mr S. A. Triantafyllides), the Chief Executive of Bank of Cyprus (Mr Chr. S. Pantzaris) and the Group Chief General Manager (Mr E. Xenophontos).

The Board of Directors appointed, as of 1 January 2005, Mr A. Eliades to the position of Group Chief Executive Officer, Mr C. Stavrakis to the position of Chief Executive Officer Cyprus and Deputy Group Chief Executive Officer, and Mr Y. Kypri to the position of Group Chief General Manager.

The end of 2004 marked the end of office at an executive level for 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.

Mr Chr. S. Pantzaris was Group Vice Chairman from 1988 until May 2004 and Chief Executive of Bank of Cyprus from 1995 until his retirement. He is also Chairman of Bank of Cyprus in the United Kingdom since 2001.

Mr E. Xenophontos served the Group for 37 consecutive years. He was recruited by the Bank in 1967 and was appointed General Manager of Bank of Cyprus (Holdings) in 1974. From 1993 to his retirement he served as Group Chief General Manager.

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.

Group Chief Executive Officer's Statement

Andreas Eliades
Chief Executive Officer
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 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 Basle 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 will 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 fared 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 citizens of EU nations at a later stage.

In the economic sphere, 2004 boosted the economic recovery paths of the Eurozone, with the average GDP growth rising to 1,8%[1]. 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 disguise 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 faint 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

[1] European Central Bank, March 2005 (constant prices 1995, seasonally adjusted data).

accelerate, and in the legislative sphere, where compromising a larger number of national interests and cultures may prove a complicated task.

Greek Economy

The rapid 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 3,3% 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%[1] 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 drew 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 96,6% 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 1,0% 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 25,9%) 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 9,2%, 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 Official Population Census performed in 2001. The highest unemployment rate in the third quarter of 2004 is observed in the group of people aged 15-29 (19,9%), 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 2,9%, 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 even

[1] European Central Bank, March 2005 (constant prices 1995, seasonally adjusted data).

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 2000-2003. 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 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 goods 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 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.

Key Economic Indicators

	2001	2002	2003	2004	2005[1]
Annual change (%)					
GDP (at constant prices)	4,3	3,8	4,7	4,2	3,9
Private consumption	2,8	3,1	4,0	3,3	3,5
Public consumption	-3,2	8,3	-2,3	6,5	1,5
Gross Fixed Capital Formation	4,9	4,9	15,1	4,8	4,1
Exports	-1,0	-7,7	1,0	10,0	6,2
Imports	-5,2	-2,9	4,8	8,2	4,1
%					
Inflation (based on National General CPI)	3,4	3,6	3,5	2,9	2,9
Unemployment (% of labour force)	10,8	10,3	9,7	10,1*	10,5
General Government Deficit (% GDP)	3,6	4,1	5,2	6,1	2,8**
General Government Debt (% GDP)	114,8	112,2	109,3	110,5	109,5**

Source: National Statistical Service of Greece (Quarterly National Accounts, 11.3.2005), Bank of Greece (Inflation, Unemployment), Eurostat (Fiscal Indicators 18.3.2005). Changes in GDP and expenditure components are based on provisional data (2001-2004) and are calculated on the basis of constant prices 1995.
* Unemployment rate for the 3rd quarter of 2004.
** These figures are expected to be updated in the revised update of the Stability and Growth Programme (SGP) 2004-2007 that will be presented by the Ministry of Economy and Finance at the end of March 2005.
[1] Estimates - Projections, Government Budget Report 2005 (Ministry of Economy and Finance, Department of Macroeconomic Analysis and Projections).

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 demand and consumer spending, 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 3,4% 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 channelling 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, from 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.

Banking Environment

The Greek Banking Sector

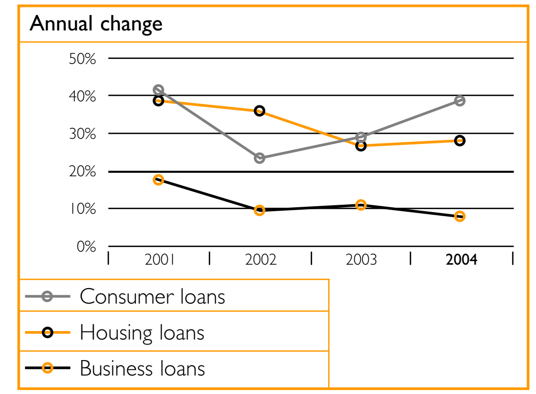
In 2004, the Greek banking system comprised 63 banks. Of these, 22 are banks based in Greece, 19 are branches of foreign banks based in a European Union (EU) country, four are branches of banks based in a country outside the EU, two are specialised credit institutions and 16 are co-operative banks. The 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 €154 706 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.

The annual growth rate of advances in the Greek banking market has remained stable (16-18%) during the past two years. The balance of loans to local businesses and households in December 2004 was €117 202 million.

Business loans increased by 7,5% per annum and reached €65 566 million in December 2004.



Source: Bank of Greece

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 €34 052 million, marking an annual change of 27,2%. The penetration level of housing loans in Greece during the last quarter of 2004 reached 20,6% and lags significantly behind the Eurozone levels (34,4%), a fact pointing to the great expansion potential of this sector.

Balances as a percentage of GDP (%)

	Total Advances		Business Loans		Housing Loans		Consumer Loans*		Deposits	
	Greece	Eurozone	Greece	Eurozone	Greece	Eurozone	Greece	Eurozone	Greece	Eurozone
Dec. 2003	66,6	97,7	39,7	49,2	17,4	32,5	8,9	16,0	88,5	92,4
Dec. 2004	72,1	100,1	39,7	49,7	20,6	34,4	11,2	16,1	90,4	95,1

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

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 40% 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.

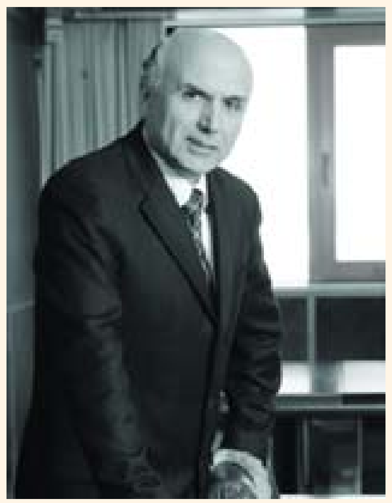
In addition to its responsibilities for the formulation of monetary policy, the Central Bank of Cyprus is the main authority responsible for ensuring the stability and security of the financial system. It is also responsible for safeguarding the confidence of the public and the protection of depositors. 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.

Bank of Cyprus Group

Group Review of Operations / Introduction

Charilaos G. Stavrakis
Chief Executive Officer-Cyprus and Deputy Group Chief Executive Officer



Yiannis Kypri
Group Chief General Manager

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 a 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 also 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.

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.

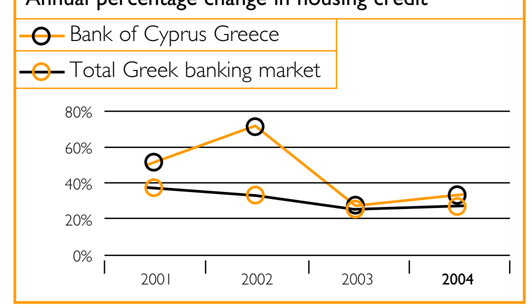
In **Greece**, the SMEs and Shipping Division services medium sized businesses with annual turnover up to €12 million, as well as shipping businesses of all sizes. For this purpose, 51 specialised Business Centres have been established throughout Greece, clustered in six regions. Given the importance 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 TUV 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.

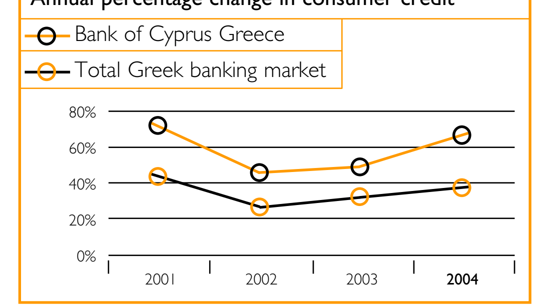
The competitive advantages of Bank of Cyprus Greece in the SMEs sector are the specialisation of its Business Centres and the Bank's speed and flexibility, elements that contribute to the creation of a special relationship with customers.

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.

Annual percentage change in housing credit



Annual percentage change in consumer credit



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 servicing the SMEs. It also continued to service its 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	2004	2003
New leasing advances (€ million)		
Total Greek market[1]	2 500	1 964
Kyprou Leasing	417	276
Market share of Kyprou Leasing	**18%**	**14%**

[1]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, was positively received and its usage by customers increased by 103%.

In **Greece**, the alternative distribution channels comprise the internet, telephone, mobile phone and ATMs. By the end of 2004 Bank of Cyprus Greece had a network of 132 ATMs, 22% higher than 2003, of which 25% are at off-site locations such as bus stations, supermarkets, hotels, public places, etc.

In the first quarter of 2004, the new Internet Banking application was implemented (enabling customers to view their accounts and make transactions via the internet) which provides a wide range of facilities to Retail and Business customers, thus further exploiting the Bank's investment in Customer Relationship Management (CRM) applications. Customer response has been very encouraging and the usage level of the new Internet Banking application is already five times that of the previous application.

The new Internet Banking application receives approximately 30 000 visits per month from authorised users.

During 2004 the Bank's call centre, Phone Banking, and the Loan by Phone service received approximately 100 000 calls from customers.

In the **United Kingdom**, in addition to ATMs, the Bank also offers internet banking services.

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.

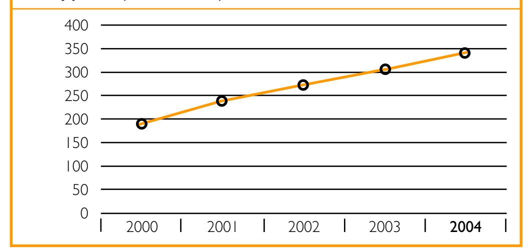
Bank of Cyprus currently issues Visa, MasterCard, Diners Club and American Express cards. As part of the strategy to satisfy the needs of the market to the largest possible degree, the Bank proceeded with the introduction of the new see-through credit card *Blue* by American Express that represented 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 (C£ 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-year journey and the experience we acquired along the way have made us strong and allow us in an expert manner 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, investment and insurance 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 business with existing 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 C£531 million in 2003 to C£595 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.

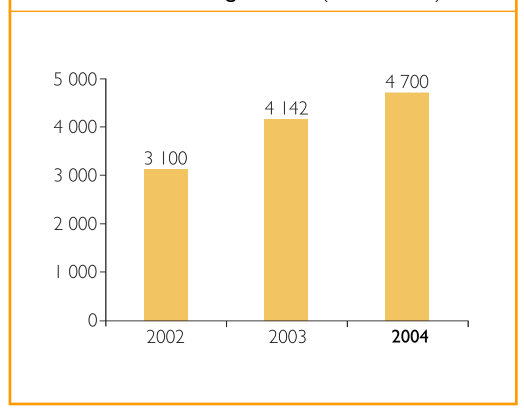
The noteworthy path of Kyprou Factors, which in less than three years of operation has managed to establish itself among the top companies/divisions in the market, was the result of the comparative advantages of the Unit. These advantages include the Bank's expertise and long experience in the factoring 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.

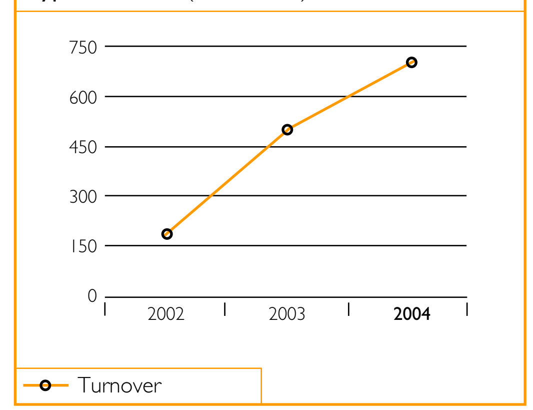
It is noteworthy that the key growth objective of Kyprou Factors remains its parallel expansion in the domestic and international market (export and import factoring) where great opportunities exist for significant market share improvements.

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.

Total Greek factoring market (€ thousand)



Kyprou Factors (€ thousand)



Corporate Banking *(continued)*

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-recource 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 and Asset Management

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.

The recovery of the international stock markets and the abolition of exchange controls in Cyprus had a very positive impact on the development of the Division's activities and profitability. During 2004, the Private Banking Division continued its close cooperation with the Fund Management Division of the Group's investment banking company, CISCO, through which discretionary global fund management services are offered. This cooperation was successfully extended to the Investment Banking and Brokerage Divisions of CISCO.

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.

Private Banking and Asset Management *(continued)*

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 their 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.

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.

	Return		Ranking	Annual increase in funds under management in 2004	
Mutual Fund (MF) [1,2,3,4,5]	Kyprou AEDAK MF	Market average for category	Kyprou AEDAK MF	Kyprou AEDAK	Total market
Money market [1]	+2,70%	+1,72%	2 of 35	+25,84%	-2,67%
Bond [2]	+3,91%	+2,45%	4 of 32	-16,59%	+7,11%
Equity [3]	+3,59%	+9,81%	48 of 68	-6,54%	-8,06%
Asset Allocation [4]	+6,38%	+8,07%	18 of 26	+9,46%	-9,89%
Dynamic Equity [5]	-1,62%	+9,81%	59 of 68	-17,86%	-8,06%

MF Benchmark Indices:
[1] 1-year Treasury Bill, [2] 10-year Greek Government Bond, [3] ATHEX General Index, [4] ATHEX General Index & 10-year Greek Goverment Bond (40/60), [5] FTSE / ASE-40.
Source: Association of Greek Institutional Investors, Kyprou AEDAK

Bank of Cyprus Group

Treasury

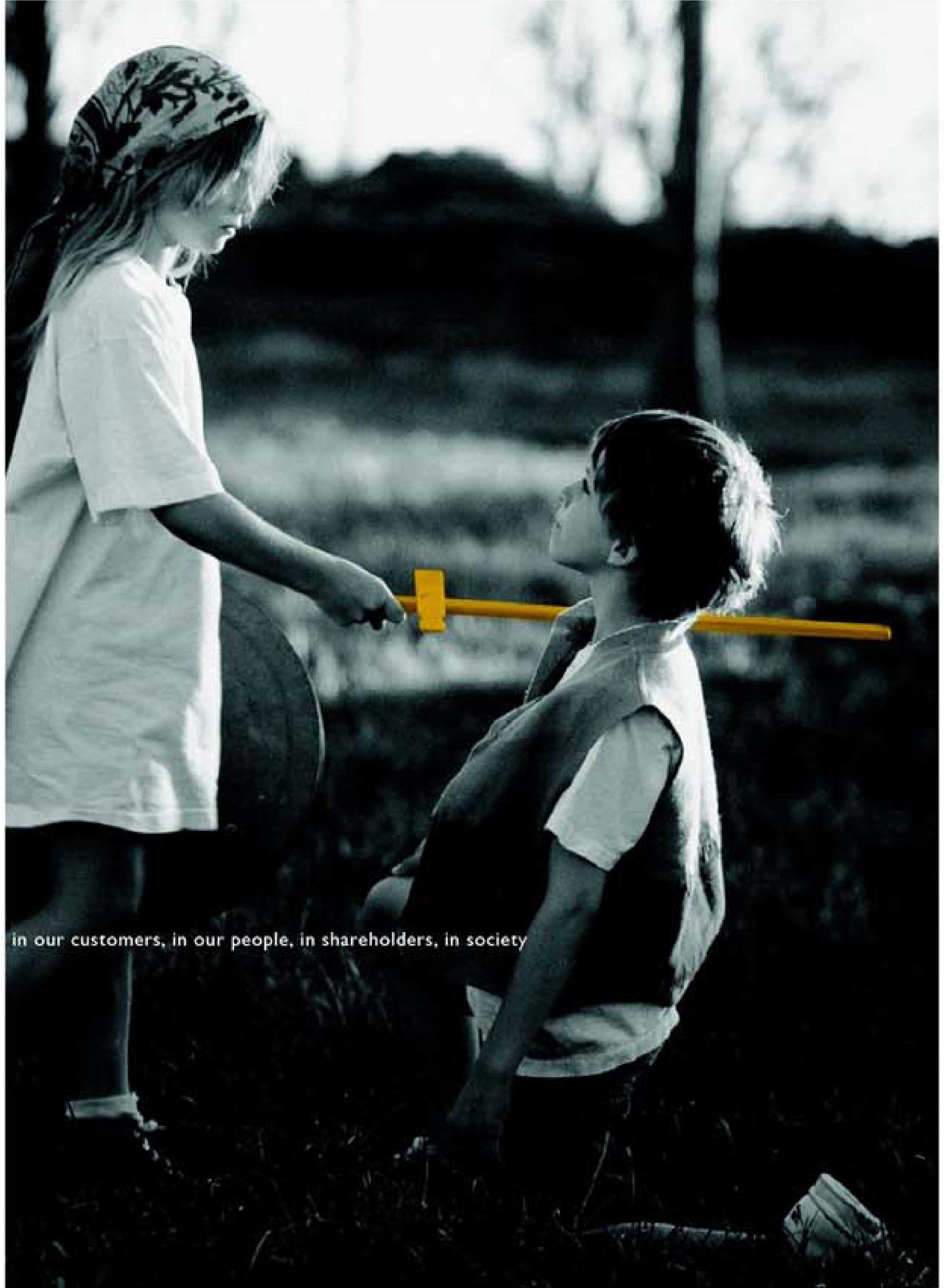
Group Treasury has the responsibility for managing the Group's assets and liabilities, in the context of the strategy set out by the Group Asset and Liability Committee (ALCO).

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 C£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, in our people, in shareholders, in society

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.

Risk Management

The area of risk management is becoming all the more significant given the requirements of the Basle 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 Basle 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 Basle 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 ensure that the set strategy is implemented.

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.

Bank of Cyprus Group

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 defined 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, continued 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 endeavour 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 personalised service to their customers, despite the geographical distance from customers that arises 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

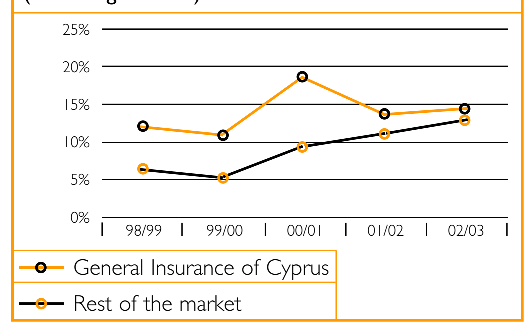
The Group offers general insurance services through its subsidiary company, General Insurance of Cyprus, which is based in Cyprus. In 2001 the Company established a branch in Greece, under the name *Kyprou Asfalistiki*.

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 C£20,6 million, compared to C£18,0 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 2000.

Growth rate of general insurance premiums (excluding aviation)



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-focussed 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 *Telefthia*, 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.

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 of general insurance services to the customers of the Bank, which is achieved through a specialised customer service network, manned by highly skilled employees. The customer service officers 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.

Total gross premiums of *Kyprou Asfalistiki* in 2004 reached €4,0 million, against €1,9 million in 2003, marking an increase of 115%. This increase is impressive when compared to the increase in the general insurance sector of around 13%. Despite having operated for only two and a half years, *Kyprou Asfalistiki* has not only managed to recover its

Bank of Cyprus Group

Insurance Services *(continued)*

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 C£6,3 million, marking a 23% increase compared to 2003 (C£5,1 million). The Company's total premium income for 2004 was C£42,1 million. Based on the indications so far, this upward trend was not indicative of the whole market, a fact that is expected to result in the further increase in the market share of EuroLife.

Having recognised the changing preferences of its customers, the Company has mobilised itself dynamically in the medical insurance market by introducing a new product, the *Medica* health plan. This plan, which is differentiated from the competition through its high level of coverage, its international application and reasonable premiums, has found immediate success in the market. Sales of the *Medica* plan have exceeded 4 700 insured members in the first nine months from its introduction.

The Company's investment funds continued their recovery achieving positive returns for all the funds, which however are still affected by the general adverse investment climate and do not yet provide a return above the level of interest rates. The complete recovery of returns to satisfactory levels is expected with the steady recovery of the world economy and international stock markets.

Despite the fact that claims paid out in 2004 marked a significant increase and reached the highest level from the establishment of the Company, the financial results of EuroLife were again very satisfactory and its profit after tax reached C£6,2 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

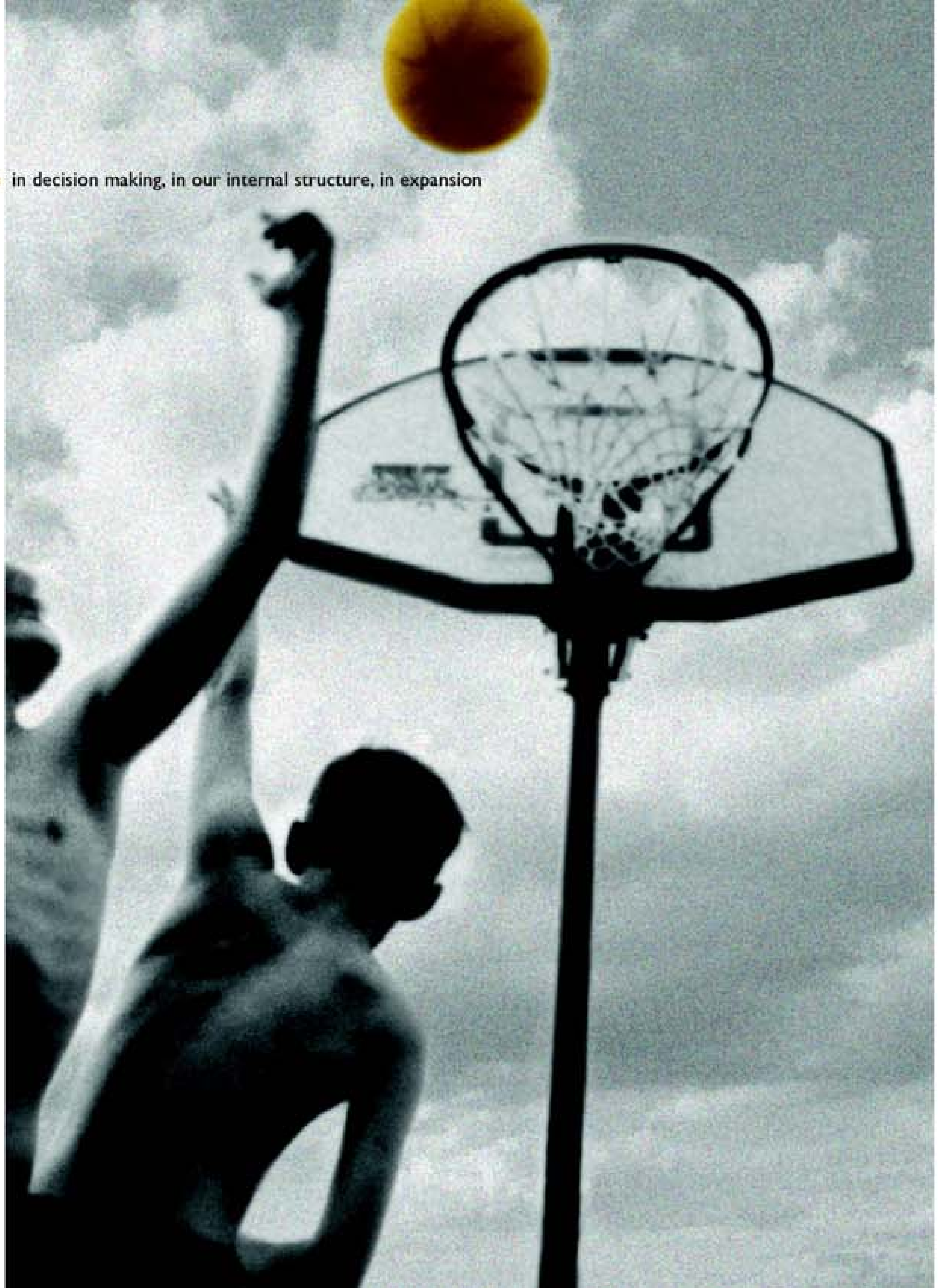
Kyprou Zois is the branch of EuroLife operating in the life insurance market in **Greece.**

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, in our internal structure, in expansion



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 market.

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 Hellenism exists.

Investment Banking

Investment Banking Services

The Group provides investment banking and related services through two subsidiaries: the Cyprus Investment and Securities Corporation (CISCO) in Cyprus and Kyprou Securities in Greece.

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.

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.

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.

Venture Capital Services

BOC Ventures

As a result of the prevailing recession in the venture capital market, BOC Ventures does not carry out any new investments and proceeds with the gradual divestment from existing investments in this sector.

Property Development and Management

Kermia and Kermia Properties & Investments

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

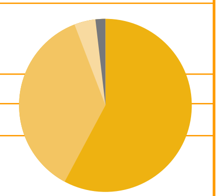
At 31 December 2004, the Group employed 5 890 members of staff, against 5 703 in 2003, marking an increase of 3%. The sex distribution of employees is 51% female and 49% male.

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 promotion and career progression within the Group, attracts both experienced officers as well as inexperienced employees. An indication of this preference of candidates is that, during 2004, 16 207 CVs/applications were received and assessed. The attraction of such 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.

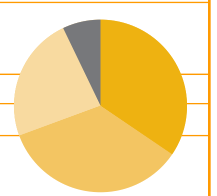
Geographic distribution of employees

Cyprus	57%
Greece	38%
United Kingdom	4%
Australia	1%



Age distribution of employees

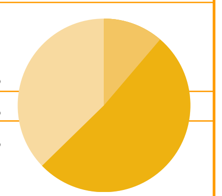
21-30 years old	31%
31-40 years old	41%
41-50 years old	20%
51+ years old	8%



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

Level of education of employees

Tertiary education	52%
Secondary education	36%
Postgraduate education	12%



64% of Group employees have post-secondary education.

Bank of Cyprus Group

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 improve to 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 superiors, 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.

Human Resources *(continued)*

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 performance. 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 Nicosia.

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.

Information Technology

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 software applications, the technological infrastructure of branches/divisions was significantly upgraded and is ready to respond to any support, accounting and information needs which aim at a secure, faster and high quality service to branches/divisions/customers.

In the context of the creation of a new centralised Collections department, the Information Technology Department (ITD) promptly responded implementing a new specialised software application. The new application is based on business rules which realise the vital importance of the customer-Bank relationship and which clearly prescribe the treatment of customers with arrears. The system provides all the necessary functionality that supports the complete control over contact with the customer and helps the flow and organisation of operations as well as the recording and monitoring of action taken.

During 2004 the first phase of the project, for managing individuals with arrears, was completed. The system is currently in pilot phase and its rollout to the whole of Cyprus is planned to be completed at the beginning of 2005.

As part of the Group's policy to support the cooperation and communication between employees, as well as to minimise the level of paper and documents circulated (paperless office), the Bank introduced a local closed communication network (Intranet). The Intranet applies internet technology to the closed environment of a company, such as the Bank. In the context of upgrading the services provided by the Intranet, a Portal has been introduced on pilot phase. Every user has direct access to Intranet applications and information, such as training programmes, electronic diary with announcements and events, etc. Every Group department can set up its own site in the Portal to display its internal communications. At this stage the development of the Portal's content is performed in cooperation with the Human Resources Department, the Retail Division and the Communications Department.

Access to the Group's corporate websites was rolled out at the beginning of 2004. Each user can easily, quickly 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*.

Information Technology *(continued)*

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 to them an electronic current account *(e-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.

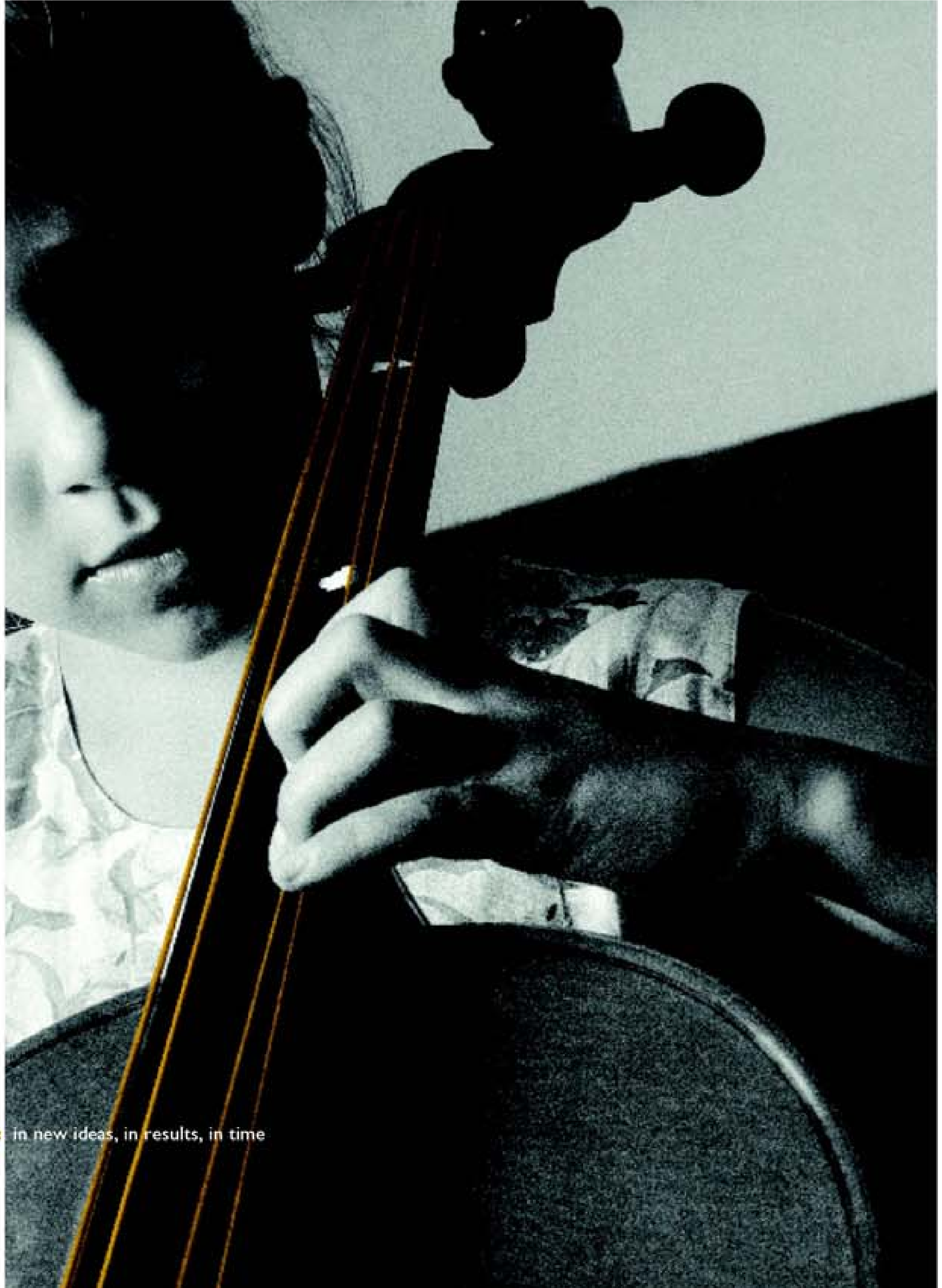
The installation of a new system at the Bank of Cyprus Finance Corporation commenced during 2004. The new system will enable the Company to offer new products especially in the leasing sector, given the anticipated enactment of the relevant legislation.

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 services 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.

Bank of Cyprus Group



creativity: in new ideas, in results, in time

Creativity:

In new ideas

The intense technological progress which characterises 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.
Exploitation of the possibilities offered by technology and our excellent infrastructure, to enable us to annihilate time and turn it in our favour.

Social and Cultural Contribution

Bank of Cyprus Activities

In the course of 2004, Bank of Cyprus continued its multidimensional 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 at informing young Cypriots 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 *Oikade* 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.oikade.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 *Oikade*, 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 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 Greek origin that 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 Militos publications) and *Despina 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 Cypriot Coinage, was inaugurated.
- In July, the Cultural Foundation organised in collaboration with the Embassy of Greece in Cyprus the event *Epidavria, 50 years of performance*. The event included a presentation of the Publication of the Foundation (co-published with Militos publications) *Epidaurus, the Ancient theatre, the performances* by its author Costas Georgousopoulos. The second part of the event entitled *The Cyprus Theatrical Organisation (CTO) at Epidaurus*, consisted of monologues from tragedies and comedies staged by the CTO at the ancient theatre of Epidaurus, performed by well-known Cypriot actors.
- In September, Nikos Casinis presented the lecture *Condition and preservation of the Moufflon in Cyprus* and scenes from the documentary *In search of the Moufflon in the Paphos forest* by Loukas Christoforou were screened.
- In November, the exhibition *Empuries, the voyage of return* organised in collaboration with the Caixa de Girona Foundation of Spain was inaugurated at the Foundation's building in Nicosia. The exhibition which was devoted to the memory of Alexis Eudald Solà was also presented in Girona and will travel to Athens and Thessaloniki where it will be presented in cooperation with the Cultural Foundation of the National Bank of Greece.
- In November, 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 École Pratique des Hautes Études, 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 *Telemachos Kanthos, the portrait of a creator* published, in the series Cyprological Studies and Lectures the work of Estienne de Lusignan, *Chorograffia, 1573* and *Description de toute l'isle de Cypre, 1580*, were reprinted, in the Archaeological Guides, the *Guide to Palaipaphos (Kouklia)*, and in the series Guide to Byzantine Monuments, the guide *The church of the Holy Cross of Ayiasmati* were produced. On the occasion of the exhibition *Empuries, the voyage of return*, a catalogue has been issued and the edition *Empuries, un viatge de return*, was reprinted in Greek.

Social and Cultural Contribution *(continued)*

- 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 *Agora* of the Foundation.

Historical Archive

The Bank of Cyprus 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 (AE), 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. Triantafyllides, the Board of Directors comprises the Vice Chairman, Vassilis G. Rologis 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. Stavrakis, and the Group Chief General Manager Yiannis Kypri.

In accordance with the stricter Director independence criteria adopted by the Group, for two years following their retirement from executive duties, Solon A. Triantafyllides, 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. Triantafyllides (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. Rologis (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 Eurocypria 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

Report on Corporate Governance *(continued)*

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.

- *Andronicos Agathocleous*

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 Archbishopric of Cyprus and as Real Estate Manager of the Archbishopric of Cyprus in Limassol. From 1999 to September 2003 he was a real estate consultant of the Archbishopric of Cyprus.

- *Theodoros Aristodemou*

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 1942. He studied in the UK and holds a Higher National Diploma in Business Administration and Marketing. During the period 1984-1990 he served as Chairman of the Famagusta Chamber of Commerce and Industry and from 1991 to 1996 as Vice Chairman of the Cyprus Chamber of Commerce and Industry. He served as Chairman of the Institute of Directors (Cyprus Branch) in the period 1994-1997 and as Chairman of the Cyprus International Fairs Authority in the period 1997-2000. He is a member of the Board of Directors of a number of companies. He has been working in his commercial and real estate family businesses since 1967.

- *Christos Mouskis*

He was born in 1964. He studied Business Administration and Marketing in the USA. He started his career at Muskita Aluminium Industries Ltd. He then undertook the expansion of the Muskita group of companies into the tourist sector. He is Executive Chairman of Muskita 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. Pantzaris*

He was born in 1934. He holds a B.Sc. 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.

- *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

Bank of Cyprus Public Company Ltd

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.

- *Polys G. Polyviou*

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.

- *Evdokimos Xenophontos*

He was born in 1938. He studied in London on a scholarship from the Republic of Cyprus and obtained the professional qualification of Chartered Accountant (FCA) in 1962. During the period 1963-1967, he worked as an Audit Manager for the international audit firm Ernst & Young in Cyprus. In 1967 he was appointed Chief Accountant of Bank of Cyprus and in 1974 he became General Manager of Bank of Cyprus (Holdings) which, until August 1999, was the holding company of the Group. In 1993 he was appointed to the Board of Directors of Bank of Cyprus and was promoted to Group Chief General Manager, a position that he held until the end of 2004 when he retired. From 1 January 2005, he continues to provide his services to the Group as a member of the Board of Directors of the Bank, of Board Sub-committees and as Chairman or member of the Boards of Group subsidiary companies. He is Chairman of the Board of Directors of the Cyprus Anticancer Society and a member of the Board of Directors of the Cyprus Institute of Genetics and Neurology and of the Cyprus Chamber of Commerce and Industry. He served as Chairman of the Institute of Certified Public Accountants of Cyprus and as a member of the Board of Directors of the Cyprus Electricity Authority for a number of years.

Independent non-executive Directors:

- *Andreas Artemis*

He was born in 1954. He studied Civil Engineering at the Queen Mary and Imperial Colleges of the University of London and holds a B.Sc. (Engineering) and a M.Sc. degree. He is Executive Chairman of Commercial Union Cyprus and of CGU Hellas insurance companies and Chairman or member of the Board of Directors of a number of other companies. He is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation and has served as member of the Board of Directors of the Cyprus Telecommunications Authority for a number of years. Since 1996 he is Consul General of South Africa in Cyprus.

- *Christakis G. Christofides*

He was born in 1948. He holds a B.Sc. Hons degree in Chemical Engineering from Birmingham University and an MBA from City University. He is a Chartered Engineer and a member of the Institute of Chemical Engineers in the United Kingdom. He is Consul General of Austria in Cyprus. He is a businessman.

- *George A. David*

He was born in Cyprus in 1937. He graduated from the University of Edinburgh in 1959. In the same year he started his career at the Leventis Group of Companies in Nigeria. Today, he is Chairman of Coca-Cola Hellenic Bottling Company SA. He is a member of the Board of Directors of other Greek companies, as well as of the A.G. Leventis Foundation and ELIAMEP. He is also Chairman of the Campion English School in Athens.

- *Anna Diogenous*

She was born in 1947. She holds a B.Sc. (Econ.) degree from the London School of Economics. She is

Report on Corporate Governance *(continued)*

the Managing Director of P.M. Tseriotis Ltd (the holding company of the Tseriotis Group of Companies). She is a member of the Board of Directors of various companies. She served as a Board member of the Junior School in Nicosia.

• *George M. Georgiades*
He was born in 1946. He provides consultancy services in the hotel and tourism sector. He graduated in commercial and economic sciences from the University of Lausanne, Switzerland and also in hotel and tourism studies from the Centre International de Glion in Switzerland. He also followed an advanced programme on hotel management at Cornell University in the USA. He has been Chairman of the Cyprus Electricity Authority since 1999 and Chairman of the Board of the Cyprus International Institute for the Environment & Public Health-Harvard School of Public Health. He is Vice Chairman of the Cyprus Association of Directors and member of the Board of Directors of various public and other companies. He is also a member of the Board of the Cyprus Chamber of Commerce and Industry and Vice Chairman of Tourism of the Limassol Chamber of Commerce and Industry. He is Honorary Chairman of the Pancyprian Organisation of Hotel Managers. He served as Chairman of the Cyprus Broadcasting Corporation during 1994-1996.

• *Andreas J. Jacovides*
He was born in Nicosia in 1936. He studied Law at the University of Cambridge (MA, LLB, LLM), the Inns of Court (Barrister-at-Law) and Harvard Law School (Henry Fellow). He served as Ambassador of Cyprus to the USA, including the World Bank and the International Monetary Fund, to Germany and the United Nations. He also served as Permanent Secretary of the Ministry of Foreign Affairs. He is currently an international lawyer and consultant and an Arbitrator with the ICSID of the World Bank and other international bodies. He is a member of the Board of Directors of other Cypriot and foreign organisations and companies. He has written many studies on scientific subjects and he is an honorary citizen of many American cities and honorary doctor of American universities. He has been decorated by the governments of Greece and Austria and he is an Honorary Fellow of St John's College, Cambridge.

• *Andreas Pittas*
He was born in 1943. He obtained his Ph.D. in Medicine from the Karl-Franz Graz University in Austria. His post-graduate studies were in Pharmacology and Pharmaceutical Medicine. During his business career, he studied Business Administration and Marketing. He served as Chairman of the Cyprus Employers and Industrialists Federation. He is a member of the Board of Directors of various companies and organisations in Cyprus as well as organisations and scientific committees abroad. He is a businessman.

• *Costas Z. Severis*
He was born in 1949. He studied Economics (M.A. Honours) at the University of Cambridge. He is Honorary Consul of Finland since 1989. His main business activities are in paper import, insurance and real estate development. He is also a member of the Board of Directors of the Cyprus Employers and Industrialists Federation and of other public companies.

The Board of Directors meets at least once every month and has a formal schedule of matters for consideration. During 2004, 29 Board meetings were held, which included a meeting for the discussion of the Group's strategic plans.

All Directors have access to the advice and services of the Company Secretary. Independent professional advice may also be made available to the Bank's Directors in accordance with the internal policy that was formulated and approved by the Board of Directors.

At each Annual General Meeting, 1/3 of the Directors retire and offer themselves for re-election. In practice, this means that every Director stands for re-election at least once every three years, as required by the provisions of the Corporate Governance Code.

Senior Executive Management Team

• *Andreas Eliades (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.

• *Charilaos 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 Kypri (Group Chief General Manager)*
He was born in 1951. He studied Economics at the London School of Economics on a scholarship and obtained his degree with distinction 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 Group 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 Jacouris (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 Shiarly (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).

• *Christis Hadjimitsis (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 M.Sc. 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.

• *Constantinos Vasilakopoulos (Group General Manager Bank of Cyprus Greece)*
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*
- Andronicos Agathocleous
- Christakis G. Christofides
- 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 Aristodemou
- George A. David
- Anna Diogenous
- Andreas J. Jacovides
- Christos Mouskis
- Vassilis G. Rologis

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 Mouskis
- Christos S. Pantzaris
- Demetris Z. Pierides
- Andreas Pittas
- Polys G. Polyviou

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. Christofides
- George M. Georgiades
- Solon A. Triantafyllides
- Evdokimos Xenophontos

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. Triantafyllides, *Chairman*
- Andreas Artemis
- Dimitris P. Ioannou
- Christos S. Pantzaris
- Polys G. Polyviou
- Vassilis G. Rologis
- Costas Z. Severis
- Evdokimos Xenophontos

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. Rologis
- Costas Z. Severis
- Evdokimos Xenophontos

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 Xenophontos, *Chairman*
- Andreas Artemis
- Christos S. Pantzaris
- 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
Polys 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 Ellas, which provides Bank of Cyprus Greece 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 C£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. Triantafyllides, and Polys 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)02 respectively, Solon A. Triantafyllides and Polys 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

Financial Performance Review

I. Summary of Results

• Group profit after tax for 2004 reached C£38 million against a loss of C£29 million for 2003.

• Group core profit (profit before provisions for bad and doubtful debts and before tax) reached C£140 million, up by 39% against C£101 million for the prior year.

• Net interest income increased significantly (24%) to C£246 million compared to C£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.
Total costs recorded a 10% annual increase in 2004, mainly due to the increase in staff costs (12%). The increase in other operating expenses was contained at a relatively lower level of 8% compared to the increase in total assets (13%). The containment of costs to acceptable levels and the resultant reduction of the cost to income ratio remains a major challenge for the Group. Even though the number of staff employed by the Group in Cyprus is gradually decreasing (81 people in 2004), staff costs remain high, mainly due to the wage increases that formed part of the three-year collective agreement with the labour union which expired in December 2004.

• In Cyprus, core profit recorded a 57% increase to reach C£79 million against C£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.

• In Greece, core profit increased by 17% to C£49 million compared to C£42 million for the prior year, contributing 35% to the Group total core profit.
The significant expansion of the Group's Greek operations continues with high profitability and very satisfactory return on assets and equity and cost to income ratio.

• The provision charge for bad and doubtful debts decreased to C£84 million against C£110 million for 2003. The charge for 2004 represents 1,3% of total loans and advances.

Condensed Income Statement of the Bank of Cyprus Group

	2004 C£ million	2003 C£ million	± %
Net interest income	245,9	198,5	+24%
Net fees and commissions	85,9	75,6	+14%
Foreign exchange income	15,5	14,2	+9%
Net losses on sale and revaluation of financial instruments	(2,8)	(0,8)	+251%
Income from insurance business	18,1	15,4	+17%
Other income	4,7	4,2	+12%
Total income	**367,3**	**307,1**	**+20%**
Staff costs	(138,3)	(123,3)	+12%
Other operating expenses	(89,5)	(83,2)	+8%
Core profit (profit before provisions)	**139,5**	**100,6**	**+39%**
Provisions for bad and doubtful debts	(83,7)	(110,2)	-24%
Provision for impairment of available-for-sale investments	(5,9)	(7,8)	
Profit/(loss) before tax	**49,9**	**(17,4)**	
Tax	(12,4)	(11,4)	
Profit/(loss) after tax	**37,5**	**(28,8)**	
Earnings/(losses) per share (cent)	**8,1**	**(6,5)**	
Dividend per share (cent)	**4,0**	**-**	
Cost/income ratio	**62,0%**	**67,3%**	

Core profit by geographic sector

	2004 C£ million	2003 C£ million	± %
Cyprus	79,3	50,4	+57%
Greece	49,1	41,8	+17%
United Kingdom and Australia	11,1	8,4	+34%
Total core profit	**139,5**	**100,6**	**+39%**

II. Analysis of Results

Net interest income and net interest margin

Net interest income for 2004 reached C£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 C£31 million, 5% down against the 2003 charge of C£32 million, resulting from the collections of arrears.

The net interest income generated by the Group's operations in Greece reached C£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

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 2,82% 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 C£86 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 the 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

	2004 C£ million	2003 C£ million	±%
Cyprus	145,6	133,3	+9%
Greece	64,9	55,6	+17%
United Kingdom and Australia	17,3	17,6	-1%
Total operating expenses	**227,8**	**206,5**	**+10%**

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 C£10 million against 2003 and contributed 21% towards Group profit before tax.

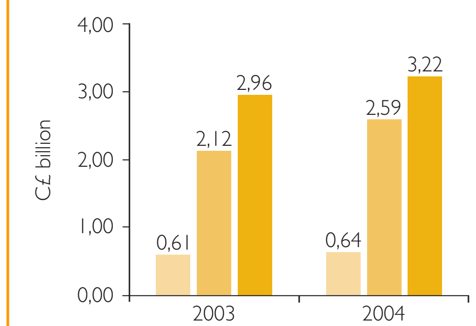
III. Financial Footings

Total assets

Group total assets reached C£10,26 billion, recording a 13% annual increase. The total assets of the Group's Greek operations reached C£4,28 billion, registering a 31% annual increase.

Group loans and advances

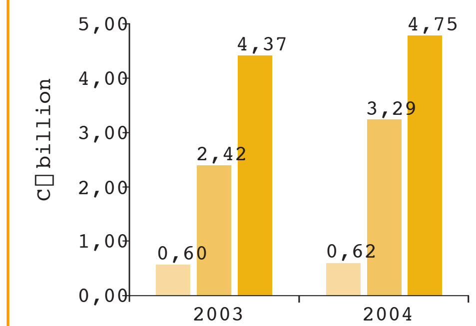
Total = C£6,45 billion
Annual growth = 13%



Share:			Annual growth
Cyprus	52%	50%	9%
Greece	37%	40%	23%
UK & Australia	11%	10%	4%

Group customer deposits

Total = C£8,66 billion
Annual growth = 17%



Share:			Annual growth
Cyprus	59%	55%	9%
Greece	33%	38%	36%
UK & Australia	8%	7%	4%

Loans and advances

The Group's total loans and advances recorded a 13% annual increase and reached C£6,45 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 C£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 C£8,66 billion recording a 17% annual increase. The customer deposits of the Group's Greek operations recorded an impressive increase (36%) and reached C£3,29 billion. This rate of expansion is much higher than the one for the Greek banking market (14%). 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%.

Financial Performance Review *(continued)*

Group capital base

The Group maintains a strong capital base, which amounted to C£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 C£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.

Financial Statements

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. Xenophontos 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. Diogenous and G. M. Georgiades 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

	Notes	2004 C£000	2003 C£000
Turnover	2	**691 411**	593 564
Interest income	3	**512 293**	432 436
Interest expense	4	**(266 413)**	(233 906)
Net interest income		**245 880**	198 530
Fee and commission income		**90 941**	79 518
Fee and commission expense		**(5 028)**	(4 008)
Foreign exchange income		**15 489**	14 216
Net losses on sale and revaluation of financial instruments	5	**(2 778)**	(792)
Income from insurance business	6	**18 106**	15 437
Other income	7	**4 720**	4 211
		367 330	307 112
Staff costs	8	**(138 288)**	(123 337)
Other operating expenses		**(89 504)**	(83 198)
Profit before provisions		**139 538**	100 577
Provisions for bad and doubtful debts	14	**(83 695)**	(110 190)
Profit/(loss) before provision for impairment of available-for-sale investments		**55 843**	(9 613)
Provision for impairment of available-for-sale investments	16	**(5 927)**	(7 799)
Profit/(loss) before tax	9	**49 916**	(17 412)
Tax	10	**(12 408)**	(11 391)
Profit/(loss) after tax		**37 508**	(28 803)
Basic and diluted earnings/(losses) per share (cent)	11	**8,1**	(6,5)

Consolidated Balance Sheet

as at 31 December 2004

	Notes	2004 C£000	2003 C£000
Assets			
Cash and balances with central banks	*12*	**439 314**	545 602
Placements with banks		**1 511 577**	1 325 309
Trading investments	*13*	**72 190**	142 450
Loans and advances to customers	*14*	**5 979 252**	5 279 892
Non-trading investments	*16*	**1 713 253**	1 220 469
Property and equipment	*17*	**157 531**	162 768
Intangible assets	*18*	**13 296**	15 881
Other assets	*19*	**83 291**	82 141
Prepayments and accrued income	*20*	**94 728**	98 246
		10 064 432	8 872 758
Life assurance business net assets attributable to policyholders	*21*	**195 551**	189 070
Total assets		**10 259 983**	9 061 828
Liabilities			
Amounts due to banks		**131 380**	263 234
Customer deposits and other accounts	*22*	**8 655 882**	7 390 059
Debt securities in issue	*23*	**148 612**	151 263
Other liabilities	*24*	**134 799**	128 272
Accruals and deferred income	*25*	**67 053**	75 872
		9 137 726	8 008 700
Life assurance business liabilities to policyholders	*21*	**195 551**	189 070
Subordinated loan stock	*26*	**367 593**	340 774
Equity			
Share capital	*27*	**232 385**	232 385
Share premium		**238 955**	238 955
Revaluation reserves		**54 063**	54 140
Exchange adjustments reserve		**(2 828)**	(2 379)
Retained earnings		**36 538**	183
		559 113	523 284
Total liabilities and equity		**10 259 983**	9 061 828
Contingent liabilities and commitments			
Contingent liabilities	*30*	**710 600**	689 832
Commitments	*30*	**1 184 972**	1 015 169

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

	Share capital C£000	Share premium C£000	Revaluation reserves C£000	Exchange adjustments reserve C£000	Retained earnings C£000	Total equity C£000
At 1 January 2003	218 724	218 464	38 846	(2 005)	31 991	506 020
Loss after tax	-	-	-	-	(28 803)	(28 803)
Revaluation of available-for-sale investments - debt securities	-	-	(1 189)	-	-	(1 189)
- equity shares	-	-	(10 513)	-	-	(10 513)
Fair value change of financial instruments designated as cash flow hedges	-	-	672	-	-	672
Property revaluation	-	-	20 157	-	-	20 157
Deferred tax	-	-	(3 331)	-	-	(3 331)
Transfer to the income statement of impairment loss of available-for-sale investments in equity shares	-	-	7 799	-	-	7 799
Exchange adjustments	-	-	-	(374)	-	(374)
Conversion of loan stock into shares	733	1 099	-	-	-	1 832
Exercise of Share Warrants	12 928	19 392	-	-	-	32 320
Increase in value of life assurance policies in force	-	-	3 005	-	(3 005)	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(1 306)	-	-	(1 306)
At 31 December 2003	**232 385**	**238 955**	**54 140**	**(2 379)**	**183**	**523 284**
Profit after tax	-	-	-	-	37 508	37 508
Revaluation of available-for-sale investments - treasury bills and debt securities	-	-	(6 371)	-	-	(6 371)
- equity shares	-	-	(5 201)	-	-	(5 201)
Fair value change of financial instruments designated as cash flow hedges	-	-	2 287	-	-	2 287
Deferred tax	-	-	1 185	-	-	1 185
Transfer to the income statement of impairment loss of available-for-sale investments in equity shares	-	-	7 090	-	-	7 090
Exchange adjustments	-	-	-	(449)	-	(449)
Increase in value of life assurance policies in force	-	-	2 260	-	(2 260)	-
Transfer of realised profits on disposal of property	-	-	(1 107)	-	1 107	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(220)	-	-	(220)
At 31 December 2004	**232 385**	**238 955**	**54 063**	**(2 828)**	**36 538**	**559 113**

The reserve which is available for dividend distribution is 'retained earnings'.

Consolidated Cash Flow Statement

for the year ended 31 December 2004

	Notes	2004 C£000	2003 C£000
Net cash flow from operating activities	32	**578 279**	347 481
Cash flow from investing activities			
Purchases of investments			
- treasury bills		**(296 808)**	(487 912)
- debt securities		**(1 179 547)**	(459 158)
- equity shares		**(1 095)**	(1 079)
Proceeds from sale/redemption of investments			
- treasury bills		**429 456**	458 178
- debt securities		**543 113**	330 589
- equity shares		**785**	687
Interest on treasury bills		**10 126**	8 852
Interest on debt securities		**44 546**	38 383
Dividend income from equity shares		**201**	135
Purchase of property and equipment		**(13 144)**	(14 745)
Proceeds from disposal of property and equipment		**4 182**	1 456
Purchase of intangible assets		**(3 327)**	(4 670)
Net cash flow used in investing activities		**(461 512)**	(129 284)
Cash flow from financing activities			
Issue of share capital		**-**	32 320
Issue of subordinated loan stock		**30 000**	181 215
Redemption of subordinated loan stock		**-**	(27 084)
Interest on subordinated loan stock		**(14 645)**	(11 575)
Net cash flow from financing activities		**15 355**	174 876
Net increase in cash and cash equivalents for the year	33	**132 122**	393 073

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 (C£) 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.

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.

Loans and advances to customers *(continued)*
For certain homogeneous loan portfolios, such as consumer credit and the credit card portfolio, provisions are calculated after a collective assessment of the whole portfolio, having regard to a number of factors such as the level of watchlist or potential problem debts, the time period for which amounts are overdue, the prevailing economic climate and prior period loss rates.

Impaired loans are monitored continuously and are reviewed for provision purposes every six months. Any subsequent changes to the estimated recoverable amounts and timing of the expected future cash flows, are compared to the prior estimates and any difference arising results in a corresponding charge/credit in the income statement. A provision for an impaired loan is reversed only when the credit quality has improved to such extent that there is reasonable assurance that all principal and interest according to the original terms of the loan will be collected timely.

Leasing and hire purchase transactions
Assets leased to customers are classified as finance leases if the lease agreement transfers substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Income from both finance and operating leases is credited to the income statement in proportion to the net cash invested so as to give a constant rate of return over each period after taking account of tax. Income from hire purchase transactions is credited to the income statement using the sum of the digits method. In those cases where the Group is the lessee, operating lease costs are charged to the income statement on a straight line basis over the life of the lease.

Trading and non-trading investments
All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Investments are classified into three categories: held-to-maturity, available-for-sale and held-for-trading. Investments held-to-maturity and available-for-sale are classified on the balance sheet as non-trading investments. Management determines the appropriate classification at the time of purchase.

Investments with fixed maturity, where the Group has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Investments intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Investments which were either acquired for generating a profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists, regardless of why they were acquired, are classified as held-for-trading.

Held-to-maturity investments are carried at amortised cost, which is calculated by taking into account acquisition cost, any unamortised discount or premium and any provision for impairment.

Available-for-sale investments are measured at fair value, based on quoted bid prices for listed securities. The fair value of unlisted securities is estimated using appropriate models and valuation methods and/or on the basis of the investee's financial results, conditions and prospects compared to similar companies for which quoted market prices are available.

Trading and non-trading investments *(continued)*
Gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity. In case of sale or impairment, the profit or loss recognised in equity is transferred to the income statement.

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 revalued 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 as 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

Subordinated loan stock and debt securities in issue *(continued)*

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

Interest on subordinated loan stock and debt securities in issue is included in interest expense.

Provisions for pending litigation or claims

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

Derivatives and hedge accounting

Derivative financial instruments include forward foreign exchange contracts, currency and interest rate swaps, equity linked swaps, options and other derivative financial instruments.

Derivatives are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently measured at fair value. Fair values are estimated using quoted market prices, discounted cash flow models and options pricing models, as appropriate.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivatives held for trading are recognised in the income statement.

The Group also uses derivative financial instruments to hedge risks associated with interest rate and exchange rate fluctuations. The Group applies either fair value or cash flow hedge accounting for derivatives when the specified criteria for hedge accounting are met. Where hedge accounting criteria are not met, gains or losses arising from changes in the fair value of derivatives are recognised in the income statement.

In relation to fair value hedges which meet the criteria for hedge accounting, any gain or loss from the revaluation of the hedging instrument at fair value is recognised in the income statement. Gains or losses on the revaluation of hedged items attributable to the hedged risk are adjusted against the carrying amount of the hedged items and are also recognised in the income statement.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the revaluation of the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is recognised in the income statement. For cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged transaction affects the net profit and loss.

Hedge accounting is discontinued when the hedged item expires or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. If a hedging transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

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.

Summary of Significant Accounting Policies

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)*
Business segments

	Banking and financial services C£000	Insurance business C£000	Property and hotel business C£000	**Total C£000**
2004				
Turnover	621 282	65 632	4 497	**691 411**
Profit before tax				
As per the income statement	38 521	10 215	1 180	**49 916**
Provision for impairment of available-for-sale investments	5 841	86	-	**5 927**
Provisions for bad and doubtful debts	83 695	-	-	**83 695**
Profit before provisions	128 057	10 301	1 180	**139 538**
Assets	9 960 042	280 737	31 045	**10 271 824**
Inter-segment assets				**(11 841)**
Total assets				**10 259 983**
Liabilities	9 468 322	234 385	11 416	**9 714 123**
Inter-segment liabilities				**(13 253)**
Total liabilities				**9 700 870**
Capital expenditure	16 006	389	76	**16 471**
Depreciation and amortisation	18 619	655	204	**19 478**
2003				
Turnover	528 498	60 934	4 132	**593 564**
(Loss)/profit before tax				
As per the income statement	(27 287)	8 185	1 690	**(17 412)**
Provision for impairment of available-for-sale investments	7 788	11	-	**7 799**
Provisions for bad and doubtful debts	110 190	-	-	**110 190**
Profit before provisions	90 691	8 196	1 690	**100 577**
Assets	8 779 459	261 503	30 427	**9 071 389**
Inter-segment assets				**(9 561)**
Total assets				**9 061 828**
Liabilities	8 321 527	218 566	11 776	**8 551 869**
Inter-segment liabilities				**(13 325)**
Total liabilities				**8 538 544**
Capital expenditure	18 781	463	171	**19 415**
Depreciation and amortisation	18 305	557	205	**19 067**

2. Segmental analysis *(continued)*

Geographic segments

	Cyprus C£000	Greece C£000	Other countries C£000	Total C£000
2004				
Turnover	437 956	217 723	56 441	**712 120**
Inter-segment turnover, mainly interest	(14 568)	(4 319)	(1 822)	**(20 709)**
Turnover with third parties	423 388	213 404	54 619	**691 411**
Profit before tax				
As per the income statement	13 301	24 841	11 774	**49 916**
Provision for/(reversal of) impairment of available-for-sale investments	6 250	-	(323)	**5 927**
Provisions for bad and doubtful debts	59 741	24 245	(291)	**83 695**
Profit before provisions	79 292	49 086	11 160	**139 538**
Assets	5 651 794	4 276 576	1 017 766	**10 946 136**
Inter-segment assets				**(686 153)**
Total assets				**10 259 983**
Capital expenditure	8 119	7 604	748	**16 471**
2003				
Turnover	378 930	180 086	48 425	**607 441**
Inter-segment turnover, mainly interest	(10 279)	(3 348)	(250)	**(13 877)**
Turnover with third parties	368 651	176 738	48 175	**593 564**
(Loss)/profit before tax				
As per the income statement	(40 528)	22 459	657	**(17 412)**
Provision for impairment of available-for-sale investments	3 591	-	4 208	**7 799**
Provisions for bad and doubtful debts	87 335	19 362	3 493	**110 190**
Profit before provisions	50 398	41 821	8 358	**100 577**
Assets	5 325 644	3 277 632	954 808	**9 558 084**
Inter-segment assets				**(496 256)**
Total assets				**9 061 828**
Capital expenditure	11 993	6 920	502	**19 415**

3. Interest income

	2004 C£000	2003 C£000
Loans and advances to customers	**410 417**	339 466
Placements with banks	**47 204**	45 735
Treasury bills	**10 126**	8 852
Debt securities	**44 546**	38 383
	512 293	432 436

4. Interest expense

	2004 C£000	2003 C£000
Customer deposits and other accounts	**244 810**	215 048
Amounts due to banks	**3 027**	6 940
Subordinated loan stock and debt securities in issue	**18 576**	11 918
	266 413	233 906

5. Net losses on sale and revaluation of financial instruments

	2004 C£000	2003 C£000
Losses from trading portfolio		
- equity shares	**(510)**	(335)
- debt securities	**(1 605)**	(466)
- derivatives	**(768)**	(1 424)
Gains on sale of available-for-sale investments	**241**	1 297
(Losses)/gains on revaluation of financial instruments designated as fair value hedges	**(136)**	136
	(2 778)	(792)

6. Income from insurance business

	2004 C£000	2003 C£000
Life assurance business	**10 653**	11 319
General insurance business	**7 453**	4 118
	18 106	15 437

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

	2004 C£000	2003 C£000
Dividend income from equity shares	**201**	135
Profit on disposal of property held for sale	**2 359**	1 951
Rental income from investment property	**35**	24
Other income	**2 125**	2 101
	4 720	4 211

8. Staff costs

	2004 C£000	2003 C£000
Salaries and employer's contribution	**113 976**	103 737
Retirement benefit plan costs	**24 312**	19 600
	138 288	123 337

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

Retirement benefit plan costs

	2004 C£000	2003 C£000
Programmes		
Defined benefit plans	**21 953**	17 929
Defined contribution plans	**394**	599
Early retirement plans	**1 965**	1 072
	24 312	19 600

The Group operates several retirement benefit plans covering substantially all its employees. The majority of the plans are funded and their assets are held in separately administered funds.

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.

8. Staff costs *(continued)*

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

	2004 C£000	2003 C£000
Net present value of funded obligations	**233 640**	224 584
Fair value of plan assets	**(129 508)**	(108 766)
	104 132	115 818
Net present value of unfunded obligations	**2 176**	1 697
Unrecognised actuarial losses	**(103 846)**	(115 718)
Net liability of retirement benefit plans *(Note 24)*	**2 462**	1 797

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:

	2004 C£000	2003 C£000
Ordinary shares	**45 877**	38 814
Loan stock	**12 822**	11 760
	58 699	50 574

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

	2004 C£000	2003 C£000
Current service cost	**12 251**	10 142
Interest expense	**11 811**	10 621
Expected return on plan assets	**(6 581)**	(6 081)
Actuarial loss	**4 472**	3 247
	21 953	17 929
Actual positive/(negative) return on plan assets	**8 909**	(1 468)

9. Profit/(loss) before tax

	2004 C£000	2003 C£000
Profit/(loss) before tax is stated after crediting/(charging):		
Change in fair value of investment property	**(328)**	(212)
Profit on disposal of property and equipment and write-offs of intangible assets	**562**	441
Interest on subordinated loan stock	**(14 645)**	(11 575)
Operating lease rentals for land and buildings	**(7 444)**	(6 225)
Depreciation of property and equipment	**(13 664)**	(13 124)
Amortisation of computer software and licence fees	**(5 697)**	(5 826)
Amortisation of goodwill arising on consolidation of subsidiary company	**(117)**	(117)
Auditors' remuneration	**(451)**	(424)
Directors' emoluments:		
Executives		
Fees: - 2004	**(60)**	-
- 2003	**(23)**	(37)
Emoluments in executive capacity	**(379)**	(370)
Non executives		
Fees	**(202)**	(144)

During 2004 the emoluments of three executive directors (excluding payments relating to 2003) were in the range of C£100 thousand to C£150 thousand each (2003: C£100 thousand to C£150 thousand each).

A provision of C£1100 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 C£471 thousand from his participation in the Staff Provident Fund/Retirement Scheme.

10. Tax

	2004 C£000	2003 C£000
Corporation tax:		
- Cyprus	**1 491**	1 161
- overseas	**11 100**	12 004
Cyprus defence contribution	**39**	67
Deferred tax	**(1 764)**	(2 466)
Adjustments for prior year taxes	**1 542**	625
	12 408	11 391

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:

	2004 C£000	2003 C£000
Profit/(loss) before tax	**49 916**	(17 412)
Tax at the normal tax rates in Cyprus	**7 374**	(1 141)
Tax effect of:		
- expenses not deductible for tax purposes	**1 093**	4 626
- income not subject to tax	**(1 548)**	(635)
- difference between overseas tax rates and Cyprus tax rates	**4 952**	7 916
	11 871	10 766
Effect of the decrease of Cyprus corporation tax rates from 15% to 10% after 2004	**(1 005)**	-
Adjustments for prior year taxes	**1 542**	625
	12 408	11 391

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income up to C£1 million and at 15% on taxable income over C£1 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 C£21 665 thousand (2003: losses of C£34 248 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 C£5,1 million will arise in the event of distribution of the total undistributed profits of overseas branches.

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

	2004	2003
Basic and diluted earnings/(losses) per share		
Profit/(loss) after tax (C£ thousand)	37 508	(28 803)
Weighted average number of shares in issue during the year (thousand)	464 771	442 598
Basic and diluted earnings/(losses) per share (cent)	8,1	(6,5)

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 C£343 268 thousand (2003: C£361 117 thousand).

13. Trading investments

	2004 C£000	2003 C£000
Debt securities	67 980	139 403
Equity shares	1 906	2 703
Mutual funds	2 304	344
	72 190	142 450
Debt securities		
Cyprus government	67 442	138 360
Local authorities	280	775
Cyprus public companies	258	268
	67 980	139 403
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

	2004 C£000	2003 C£000
Loans and other advances	5 808 403	5 207 646
Hire purchase and finance lease debtors *(Note 15)*	641 883	481 485
Gross loans and advances to customers	6 450 286	5 689 131
Provisions for bad and doubtful debts	(471 034)	(409 239)
	5 979 252	5 279 892
By economic activity		
Trade	1 068 278	1 060 822
Manufacturing	374 669	366 170
Tourism	581 679	533 779
Property and construction	818 393	758 903
Personal, home loans and professional	3 227 385	2 662 810
Other sectors	379 882	306 647
	6 450 286	5 689 131
By geographic segment		
Cyprus	3 220 243	2 962 946
Greece	2 594 527	2 116 560
United Kingdom	522 527	514 861
Australia	112 989	94 764
	6 450 286	5 689 131

Provisions for bad and doubtful debts

	Provisions C£000	Suspended income C£000	Total C£000
2004			
At 1 January	287 484	121 755	409 239
Exchange adjustments	(730)	(135)	(865)
Applied in writing off advances	(32 884)	(18 819)	(51 703)
Suspended income for the year net of current year's collections	-	42 432	42 432
Collection of prior years' suspended income	-	(11 764)	(11 764)
Charge for the year	83 695	-	83 695
At 31 December	337 565	133 469	471 034
2003			
At 1 January	187 203	89 700	276 903
Exchange adjustments	664	118	782
Applied in writing off advances	(10 573)	(345)	(10 918)
Suspended income for the year net of current year's collections	-	37 121	37 121
Collection of prior years' suspended income	-	(4 839)	(4 839)
Charge for the year	110 190	-	110 190
At 31 December	287 484	121 755	409 239

14. Loans and advances to customers *(continued)*

Loans and advances to customers include loans and advances net of provisions and suspended income of C£343 336 thousand (2003: C£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.

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.

15. Hire purchase and finance lease debtors

	2004 C£000	2003 C£000
Gross investment in hire purchase and finance leases	**786 016**	572 928
Unearned finance income	**(144 133)**	(91 443)
Present value of minimum hire purchase and finance lease payments	**641 883**	481 485
Repayable		
Within one year	**110 536**	128 065
Between one and five years	**541 685**	362 669
After five years	**133 795**	82 194
Gross investment in hire purchase and finance leases	**786 016**	572 928
Repayable		
Within one year	**110 115**	125 121
Between one and five years	**436 527**	295 828
After five years	**95 241**	60 536
Present value of minimum hire purchase and finance lease payments	**641 883**	481 485

The provisions for bad and doubtful debts relating to the total value of the hire purchase and finance lease debtors at 31 December 2004 was C£32 453 thousand (2003: C£26 054 thousand) and are included in the total provisions for bad and doubtful debts *(Note 14)*.

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

Under finance lease contracts: (a) the lessee takes over the items under the lease for the rental period and makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) the rentals and other amounts payable are subject to interest and include leasing fees and Value Added Tax, (c) the lessee undertakes to maintain the items in good condition and to compensate the owner for any damage or loss incurred, and (d) upon the expiry of the contract, the lessee can either return the items to their owner or continue to pay a nominal annual fee in exchange for the right to continue to use the items.

16. Non-trading investments

	Available-for-sale		Held-to-maturity		**Total**	
	2004 C£000	2003 C£000	**2004 C£000**	2003 C£000	**2004 C£000**	2003 C£000
Treasury bills	**34 335**	-	**102 941**	261 348	**137 276**	261 348
Debt securities	**1 379 172**	924 088	**168 693**	2 997	**1 547 865**	927 085
Equity shares	**28 112**	32 036	**-**	-	**28 112**	32 036
	1 441 619	956 124	**271 634**	264 345	**1 713 253**	1 220 469
Treasury bills						
Cyprus government	**23 939**	-	**102 941**	261 348	**126 880**	261 348
Other governments	**10 396**	-	**-**	-	**10 396**	-
	34 335	-	**102 941**	261 348	**137 276**	261 348
Debt securities						
Cyprus government	**236 457**	78 123	**-**	-	**236 457**	78 123
Other governments	**401 148**	319 168	**-**	-	**401 148**	319 168
Local authorities	**879**	679	**-**	-	**879**	679
Banks and other organisations	**739 404**	524 820	**168 693**	2 997	**908 097**	527 817
Cyprus public companies	**1 284**	1 298	**-**	-	**1 284**	1 298
	1 379 172	924 088	**168 693**	2 997	**1 547 865**	927 085
Repayable						
Within one year	**78 968**	82 135	**168 436**	2 734	**247 404**	84 869
Between one and five years	**1 210 676**	737 146	**257**	-	**1 210 933**	737 146
After five years	**89 528**	104 807	**-**	263	**89 528**	105 070
	1 379 172	924 088	**168 693**	2 997	**1 547 865**	927 085
Listed on the Cyprus Stock Exchange	**233 501**	71 242	**-**	-	**233 501**	71 242
Listed on European stock exchanges	**1 144 154**	851 867	**257**	2 997	**1 144 411**	854 864
Unlisted certificates of deposit and bank and local authority bonds	**1 517**	979	**168 436**	-	**169 953**	979
	1 379 172	924 088	**168 693**	2 997	**1 547 865**	927 085
Geographical dispersion by country of issuer						
Cyprus	**238 921**	80 404	**-**	-	**238 921**	80 404
Greece	**271 404**	277 825	**-**	-	**271 404**	277 825
United Kingdom and Ireland	**186 522**	174 511	**12 635**	2 734	**199 157**	177 245
France	**91 918**	56 982	**35 801**	-	**127 719**	56 982
Germany	**58 562**	48 830	**78 042**	263	**136 604**	49 093
Other European countries	**258 182**	120 914	**42 215**	-	**300 397**	120 914
USA and Canada	**154 448**	114 510	**-**	-	**154 448**	114 510
Australia	**83 725**	50 112	**-**	-	**83 725**	50 112
Other countries	**4 244**	-	**-**	-	**4 244**	-
Multinational organisations	**31 246**	-	**-**	-	**31 246**	-
	1 379 172	924 088	**168 693**	2 997	**1 547 865**	927 085
Equity shares						
Listed on the Cyprus Stock Exchange	**12 061**	14 681	**-**	-	**12 061**	14 681
Listed on European stock exchanges	**1 583**	1 876	**-**	-	**1 583**	1 876
Unlisted	**14 468**	15 479	**-**	-	**14 468**	15 479
	28 112	32 036	**-**	-	**28 112**	32 036

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:

	Treasury bills		Debt securities	
	Available-for-sale C£000	Held-to-maturity C£000	Available-for-sale C£000	Held-to-maturity C£000
At 1 January 2004	-	261 348	924 088	2 997
Exchange adjustments	(428)	-	(62 407)	(7 337)
Additions	34 914	261 894	1 041 143	200 811
Disposals	-	-	(252 390)	-
Redemptions	-	(429 456)	(262 476)	(28 243)
Change in fair value	107	-	(3 260)	-
Amortisation of premiums/discounts	(258)	9 155	(5 526)	465
As 31 December 2004	**34 335**	**102 941**	**1 379 172**	**168 693**

Held-to-maturity treasury bills include obligatory placements for liquidity purposes of C£38 890 thousand (2003: C£77 767 thousand).

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

	2004 C£000	2003 C£000
Treasury bills	**103 022**	261 260
Debt securities	**168 632**	3 023
	271 654	264 283

Equity shares

The movement for the year 2004 in available-for-sale investments in equity shares is summarised below:

	Cost less impairment C£000	Revaluation C£000	Book value C£000
At 1 January 2004	32 771	(735)	32 036
Exchange adjustments	(70)	(143)	(213)
Additions	1 095	-	1 095
Disposals	(719)	(49)	(768)
Change in fair value	-	(5 201)	(5 201)
Provision for impairment	(7 090)	7 090	-
Reversal of provision for impairment	1 163	-	1 163
At 31 December 2004	**27 150**	**962**	**28 112**

The provision for impairment of available-for-sale investments as shown in the income statement amounts to C£5 927 thousand (2003: C£7 799 thousand) and includes the provision for impairment of C£7 090 thousand (2003: C£7 799 thousand) and the reversal of prior year provision for impairment of C£1 163 thousand (2003: nil).

17. Property and equipment

	Property 2004 C£000	Equipment 2004 C£000	**Total 2004 C£000**	Total 2003 C£000
Cost or valuation				
At 1 January	156 241	77 288	**233 529**	206 104
Exchange adjustments	(576)	(326)	**(902)**	234
Additions	7 125	6 019	**13 144**	14 745
Surplus on revaluation for the year	-	-	**-**	20 157
Reversal of depreciation upon revaluation	-	-	**-**	(5 167)
Impairment loss-transfer to the income statement	-	-	**-**	(246)
Transfer to investment property	(647)	-	**(647)**	-
Disposals and write-offs	(3 114)	(1 993)	**(5 107)**	(2 298)
At 31 December	159 029	80 988	**240 017**	233 529
Depreciation				
At 1 January	19 334	51 427	**70 761**	64 470
Exchange adjustments	(136)	(252)	**(388)**	(110)
Reversal of depreciation upon revaluation	-	-	**-**	(5 167)
Transfer to investment property	(7)	-	**(7)**	-
Disposals and write-offs	(22)	(1 522)	**(1 544)**	(1 556)
Charge for the year	5 972	7 692	**13 664**	13 124
At 31 December	25 141	57 345	**82 486**	70 761
Net book value				
At 31 December	**133 888**	**23 643**	**157 531**	162 768

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

	2004 C£000	2003 C£000
Freehold property	**117 365**	120 310
Improvements on property leased for a period of up to 50 years	**16 523**	16 597
	133 888	136 907

Property includes land amounting to C£50 800 thousand (2003: C£51 832 thousand) for which no depreciation is charged.

The cumulative revaluation surplus on 31 December 2004 amounted to C£42 782 thousand (2003: C£44 224 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£75 004 thousand (2003: C£76 086 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

	Computer software 2004 C£000	Licence fees 2004 C£000	Goodwill on consolidation of subsidiary company 2004 C£000	**Total 2004 C£000**	Total 2003 C£000
Cost					
At 1 January	39 996	3 607	1 173	**44 776**	40 147
Exchange adjustments	(140)	-	-	**(140)**	63
Additions	3 327	-	-	**3 327**	4 670
Write-offs	(78)	-	-	**(78)**	(104)
At 31 December	43 105	3 607	1 173	**47 885**	44 776
Amortisation					
At 1 January	28 093	451	351	**28 895**	23 022
Exchange adjustments	(99)	-	-	**(99)**	7
Write-offs	(21)	-	-	**(21)**	(77)
Charge for the year	5 337	360	117	**5 814**	5 943
At 31 December	33 310	811	468	**34 589**	28 895
Net book value					
At 31 December	9 795	2 796	705	13 296	15 881

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.

19. Other assets

	2004 C£000	2003 C£000
Debtors	**14 125**	10 192
Property held for sale	**8 424**	8 533
Investment property	**3 328**	3 043
Value of in-force life assurance policies *(Note 21)*	**21 500**	19 240
Taxes refundable	**1 202**	4 615
Deferred tax	**2 009**	1 573
Fair value of derivative financial instruments *(Note 31)*	**9 307**	8 902
Items in course of collection and other assets	**23 396**	26 043
	83 291	82 141

19. Other assets *(continued)*

Investment property

The movement of investment property is summarised below:

	2004 C£000	2003 C£000
At 1 January	**3 043**	2 972
Exchange adjustments	**(27)**	55
Transfer from property and equipment	**640**	-
Additions	**-**	228
Charge in fair value for the year	**(328)**	(212)
At 31 December	**3 328**	3 043

Deferred tax

The deferred tax asset is attributable to the following items:

	2004 C£000	2003 C£000
Difference between wear and tear allowances and depreciation	**(1 224)**	-
Property revaluation	**(3 415)**	-
Investments revaluation	**505**	116
Other temporary differences	**4 434**	1 082
Unutilised tax losses carried forward	**1 709**	375
	2 009	1 573

20. Prepayments and accrued income

	2004 C£000	2003 C£000
Accrued interest, fees and commissions	**90 822**	83 520
Prepaid expenses	**3 906**	14 726
	94 728	98 246

21. Life assurance business

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

	2004 C£000	2003 C£000
Net assets attributable to shareholders	**15 363**	15 267
Value of in-force life assurance policies	**21 500**	19 240
Embedded value	**36 863**	34 507

21. Life assurance business *(continued)*

The movement of the embedded value is summarised below:

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

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

	2004	2003
Equity shares	78 543	65 766
Debt securities	62 031	53 364
Property	460	370
Mortgages and loans	5 011	6 456
Bank deposits	48 767	60 545
	194 812	186 501
Other assets less liabilities	739	2 569
Life assurance business net assets attributable to policyholders	195 551	189 070

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:

Discount rate (after tax)	10%
Return on investment	6%
Expenses inflation	5%

22. Customer deposits and other accounts

	2004 C£000	2003 C£000
By category		
Demand	1 036 663	742 485
Savings	613 540	488 108
Time	7 005 679	6 159 466
	8 655 882	7 390 059
By geographic segment		
Cyprus	4 751 758	4 371 614
Greece	3 283 636	2 422 157
United Kingdom	525 900	508 890
Australia	94 588	87 398
	8 655 882	7 390 059

23. Debt securities in issue

	Interest rate: Three month Euribor plus	2004 C£000	2003 C£000
Senior Debt in Euro (€250 million) 2003/2006	0,35%	143 684	146 284
Senior Debt in Euro (€5 million) 2003/2006	0,40%	2 900	2 932
Senior Debt in Euro (€3 million) 2003/2008	0,45%	1 740	1 759
Interest-free loan from the European Development Bank		288	288
		148 612	151 263

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 C£148 902 thousand (2003: C£150 966 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

	2004 C£000	2003 C£000
General insurance business reserves	**12 904**	10 500
Taxes payable	**6 449**	10 854
Deferred tax	**6 261**	9 324
Fair value of derivative financial instruments *(Note 31)*	**27 065**	28 704
Net liability of retirement benefit plans *(Note 8)*	**2 462**	1 797
Provision for pending litigation or claims	**2 148**	4 000
Items in course of settlement and other liabilities	**77 510**	63 093
	134 799	128 272

Deferred tax

The deferred tax liability is attributable to the following items:

	2004 C£000	2003 C£000
Difference between wear and tear allowances and depreciation	**192**	1 601
Property revaluation	**4 075**	7 985
Investments revaluation	**1 130**	2 552
Other temporary differences	**887**	272
Unutilised tax losses carried forward	**(23)**	(3 086)
	6 261	9 324

Provision for pending litigation or claims

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

	C£000
At 1 January 2004	4 000
Charge for the year	773
Provision utilised	(2 475)
Release of provision	(150)
At 31 December 2004	**2 148**

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 C£2 475 thousand. The penalty was fully covered by the provision in place as at 31 December 2003.

25. Accruals and deferred income

	2004 C£000	2003 C£000
Accrued interest, fees and commissions	**60 643**	68 933
Other accrued expenses	**4 234**	4 287
Deferred income	**2 176**	2 652
	67 053	75 872

26. Subordinated loan stock

	2004 C£000	2003 C£000
Subordinated Bonds 2006/2011 in Euro	**159 238**	160 816
Subordinated Bonds 2008/2013 in Euro	**115 582**	114 958
Capital Securities Series A	**62 781**	65 000
Capital Securities Series B	**29 992**	-
	367 593	340 774

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 on or at any date 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 set 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 Cyprus 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 C£62 781 thousand and C£29 992 thousand respectively, as C£2 219 thousand of Capital Securities Series A and C£8 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 C£368 626 thousand (2003: C£341 571 thousand).

27. Share capital

	2004 Shares (thousand)	2004 C£000	2003 Shares (thousand)	2003 C£000
Authorised				
Shares of 50 cent each	**600 000**	**300 000**	600 000	300 000
Issued and fully paid				
At 1 January	**464 771**	**232 385**	437 449	218 724
Conversion of convertible loan stock	**-**	**-**	1 466	733
Exercise of share warrants	**-**	**-**	25 856	12 928
At 31 December	**464 771**	**232 385**	464 771	232 385

During the year 2003, 1466 thousand shares were issued as a result of the conversion of C£1833 thousand Convertible Loan Stock due 2003.

As at 31 December 2002 there were 33 664 thousand unexercised Share Warrants 1999/2003 which could be exercised during October 2003 at the price of C£1,25 per 50 cent share. The number of Share Warrants exercised was 25 855 668 and the share capital and share premium of the Company increased by C£12 928 thousand (25 855 668 shares) and C£19 392 thousand respectively.

The Company has granted Share Options to all Group personnel who were in service on 31 December 2000. The total number of Share Options granted was 3 216 700 and they give the holder the right to buy one share of the Company at the price of C£3,50 per share. Up to 50% of the Share Options could be exercised in the period from 31 January 2003 to 31 December 2003. All Share Options can be exercised from 31 January 2004 to 31 December 2007. During 2004 and 2003 no Share Options were exercised and 3 216 700 options were outstanding as at 31 December 2004.

The Company has established a Dividend Reinvestment Plan. Under this Plan all shareholders have the opportunity to reinvest part or all of their dividend in Bank of Cyprus Public Company Ltd shares.

28. Dividends

The Board of Directors proposes the payment of a dividend for the year 2004 of 4 cent per share (total amount of proposed dividend C£18 591 thousand). The proposal will be submitted for approval at the Annual General Meeting of the shareholders which will take place on 18 May 2005. The Board of Directors proposes that the ex-dividend date will be 26 May 2005. As a result, registered shareholders on 25 May 2005 will be eligible to receive the final dividend for 2004. The proposed final dividend is not recognised as a liability in the financial statements until its approval by the Annual General Meeting and its subsequent payment to the shareholders.

The Company did not pay any dividends during the year 2004 and 2003.

29. Fiduciary transactions

The Group offers fund management services that result in the holding or placing of financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or third parties. The assets under management are not included in the balance sheet of the Group unless they are placed with the Group. The total assets under management on 31 December 2004 amounted to C£654 million (2003: C£473 million).

30. Contingent liabilities and commitments

Financial instruments

In common with other banking entities, the Group conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the balance sheet.

The following table summarises the nominal principal amount of contingent liabilities and commitments as at 31 December:

	2004 C£000	2003 C£000
Contingent liabilities		
Acceptances and endorsements	**32 045**	33 148
Guarantees and performance bonds	**678 555**	656 684
	710 600	689 832
Commitments		
Documentary credits	**39 133**	26 860
Undrawn formal standby facilities, credit lines and other commitments to lend	**1 145 839**	988 309
	1 184 972	1 015 169

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 C£5 479 thousand (2003: C£3 452 thousand).

Litigation

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.

31. Derivative financial instruments and hedge accounting *(continued)*

Fair value hedges

The Group uses interest rate swaps of nominal value C£183 521 thousand (2003: C£169 526 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 these derivatives at 31 December 2004 was C£8 391 thousand (loss) (2003: C£7 237 thousand (loss)) and the change in the fair value of the relevant hedged items was C£8 982 thousand (gain) (2003: C£8 280 thousand (gain)).

Cash flow hedges

The Group uses interest rate swaps of nominal value C£159 500 thousand (2003: C£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 C£4 034 thousand (2003: C£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 C£203 382 thousand (2003: C£181 028 thousand) have been designated as hedges and have given rise to a gain of C£2 789 thousand (2003: loss of C£998 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:

	31 December 2004			31 December 2003		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	C£000	C£000	C£000	C£000	C£000	C£000
Derivatives held-for-trading						
Forward exchange rate contracts	203 551	3 753	5 249	108 997	3 154	4 357
Currency swaps	267 426	3 276	5 205	494 404	2 672	9 413
Interest rate swaps	662 182	1 494	3 402	512 920	2 018	716
Equity linked swaps	-	-	-	4 161	398	-
Equity options	12 181	630	630	12 314	538	538
	1 145 340	9 153	14 486	1 132 796	8 780	15 024
Derivatives qualifying for hedge accounting						
Fair value hedges: Interest rate swaps	183 521	154	8 545	169 526	122	7 359
Cash flow hedges: Interest rate swaps	159 500	-	4 034	161 252	-	6 321
	343 021	154	12 579	330 778	122	13 680
Total	**1 488 361**	**9 307**	**27 065**	1 463 574	8 902	28 704

32. Net cash flow from operating activities

	2004 C£000	2003 C£000
Profit/(loss) before tax	**49 916**	(17 412)
Adjustments for		
Provisions for bad and doubtful debts	**83 695**	110 190
Depreciation of property and equipment	**13 664**	13 124
Amortisation of intangible assets	**5 814**	5 943
Amortisation of discount/premium	**(3 598)**	(4 567)
Decrease/(increase) in prepayments and accrued income	**3 518**	(2 469)
Decrease in accruals and deferred income	**(8 819)**	(19 696)
Profit on disposal of property and equipment and write-offs of intangible assets	**(562)**	(441)
Interest on treasury bills	**(10 126)**	(8 852)
Interest on debt securities	**(44 546)**	(38 383)
Dividend income from equity shares	**(201)**	(135)
Profit on sale of investments in equity shares	**(66)**	(22)
Profit on sale of investments in debt securities	**(175)**	(1 275)
Fair value gain of available-for-sale debt securities qualifying for fair value hedge accounting	**(3 218)**	(1 293)
Provision for impairment of available-for-sale investments	**5 927**	7 799
Interest on subordinated loan stock	**14 645**	11 575
	105 868	54 086
Increase in		
Amounts due to banks	**-**	57 338
Customer deposits and other accounts	**1 270 173**	558 762
General insurance business reserves	**2 404**	6 023
Assets of life assurance business	**(2 260)**	(1 413)
Loans and advances to customers	**(782 190)**	(624 122)
Other assets	**(1 254)**	-
Debt securities in issue	**-**	150 404
Other liabilities	**13 878**	-
Decrease in		
Placements with banks	**51 693**	15 957
Amounts due to banks	**(131 854)**	-
Trading investments	**70 260**	114 270
Other liabilities	**-**	(4 697)
Other assets	**-**	30 783
Subordinated loan stock held for trading	**(449)**	(1 755)
Debt securities in issue	**(1 270)**	-
	594 999	355 636
Tax paid	**(16 720)**	(8 155)
Net cash flow from operating activities	**578 279**	347 481

33. Cash and cash equivalents

	2004 C£000	2003 C£000
At 1 January	**1 812 728**	1 420 029
Exchange adjustments	**(449)**	(374)
Net increase in cash and cash equivalents for the year	**132 122**	393 073
At 31 December	**1 944 401**	1 812 728
Cash and balances with central banks	**439 314**	545 602
Placements with banks repayable within three months	**1 505 087**	1 267 126
	1 944 401	1 812 728

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:

	2004 C£000	2003 C£000
Within one year	**1 363**	1 297
Between one and five years	**3 167**	2 583
After five years	**1 099**	1 870
	5 629	5 750

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 monitoring 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:

	Up to one month C£000	Between one and three months C£000	Between three months and one year C£000	Between one and five years C£000	Over five years C£000	Non-interest bearing C£000	Total C£000
2004							
Assets							
Cash and balances with central banks	389 390	-	-	-	-	49 924	**439 314**
Placements with banks	1 441 136	64 091	1 220	-	-	5 130	**1 511 577**
Trading investments	392	-	-	67 588	-	4 210	**72 190**
Loans and advances to customers	4 511 715	862 344	346 384	205 543	28 873	24 393	**5 979 252**
Non-trading investments	303 529	449 519	212 042	650 902	69 149	28 112	**1 713 253**
Other assets	-	-	-	-	-	348 846	**348 846**
Total assets	6 646 162	1 375 954	559 646	924 033	98 022	460 615	**10 064 432**
Liabilities							
Amounts due to banks	51 970	39 969	39 441	-	-	-	**131 380**
Customer deposits and other accounts	6 232 506	673 963	948 462	207 414	6 000	587 537	**8 655 882**
Debt securities in issue	-	148 324	-	-	-	288	**148 612**
Other liabilities	-	-	-	-	-	201 852	**201 852**
	6 284 476	862 256	987 903	207 414	6 000	789 677	**9 137 726**
Subordinated loan stock	115 844	251 749	-	-	-	-	**367 593**
Total liabilities	6 400 320	1 114 005	987 903	207 414	6 000	789 677	**9 505 319**
Total position	245 842	261 949	(428 257)	716 619	92 022	(329 062)	**559 113**
Nominal value of interest rate derivative instruments	(32 269)	214 330	207 705	(319 648)	(70 314)	196	**-**
Net position	**213 573**	**476 279**	**(220 552)**	**396 971**	**21 708**	**(328 866)**	**559 113**

Bank of Cyprus Group

Notes to the Financial Statements

35. Risk management *(continued)*

Interest rate risk *(continued)*

Interest rate risk results from the Group's exposure to adverse movements in interest rates. It arises as a result of timing differences on the repricing of assets and liabilities.

The interest rate risk in the investment portfolio is the risk of a reduction in net interest income of the Group as a result of adverse movements in interest rates. This risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied by 1% (assumed change in interest rates) for the period from the repricing date until twelve months from the date of the analysis, to compute the annual impact of the change in interest rates on the Group's earnings over the next twelve months for each currency. In order to calculate the total annual impact for all currencies, correlation coefficients between the interest rates of the various currencies are used.

A parallel 1% increase in interest rates applied to the Group's balance sheet as at 31 December 2004, would result in an increase in annual profits before tax of C£7 million. A parallel 1% decrease in interest rates would result in a decrease in annual profits before tax of C£6 million. The sensitivity analysis performed in order to calculate the above figures differs from the tables presented, in respect of the width of the time bands and the assumptions used in analysing assets and liabilities. Specifically, the sensitivity analysis takes into account behavioural characteristics such as the elasticity of interest rates on deposits and loans to changes in market rates.

In order to monitor interest rate risk, limits have been set for each business unit for the maximum impact that an interest rate change of 1% can have on net interest income over the next twelve months. Each banking unit monitors these limits daily and the Group Treasury/Market Risk Management Unit monitors the consolidated Group position on a monthly basis.

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:

	Up to one month C£000	Between one and three months C£000	Between three months and one year C£000	Between one and five years C£000	Over five years C£000	Non-interest bearing C£000	Total C£000
2003							
Assets							
Cash and balances with central banks	497 086	-	-	-	-	48 516	**545 602**
Placements with banks	1 244 196	26 866	54 247	-	-	-	**1 325 309**
Trading investments	395	-	-	139 008	-	3 047	**142 450**
Loans and advances to customers	3 985 162	792 306	331 103	146 527	24 794	-	**5 279 892**
Non-trading investments	268 215	330 896	161 167	325 796	102 359	32 036	**1 220 469**
Other assets	-	-	-	-	-	359 036	**359 036**
Total assets	5 995 054	1 150 068	546 517	611 331	127 153	442 635	**8 872 758**
Liabilities							
Amounts due to banks	142 924	77 753	42 557	-	-	-	**263 234**
Customer deposits and other accounts	5 129 574	787 710	1 018 011	104 471	-	350 293	**7 390 059**
Debt securities in issue	-	150 975	-	-	-	288	**151 263**
Other liabilities	-	-	-	-	-	204 144	**204 144**
	5 272 498	1 016 438	1 060 568	104 471	-	554 725	**8 008 700**
Subordinated loan stock	114 958	225 816	-	-	-	-	**340 774**
Total liabilities	5 387 456	1 242 254	1 060 568	104 471	-	554 725	**8 349 474**
Total position	607 598	(92 186)	(514 051)	506 860	127 153	(112 090)	**523 284**
Nominal value of interest rate derivative instruments	(33 273)	148 378	175 348	(189 759)	(102 087)	1 393	**-**
Net position	**574 325**	**56 192**	**(338 703)**	**317 101**	**25 066**	**(110 697)**	**523 284**

35. Risk management *(continued)*

Currency risk

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

	Cyprus pounds C£000	Euro C£000	US Dollars C£000	British pounds C£000	Other currencies C£000	Total C£000
2004						
Assets						
Cash and balances with central banks	268 821	118 289	45 542	2 298	4 364	**439 314**
Placements with banks	123 797	316 760	809 669	192 255	69 096	**1 511 577**
Trading investments	69 886	2 304	-	-	-	**72 190**
Loans and advances to customers	2 403 609	2 818 809	86 457	477 640	192 737	**5 979 252**
Non-trading investments	383 119	505 923	597 281	226 930	-	**1 713 253**
Property, equipment and intangible assets	115 434	48 076	-	6 851	466	**170 827**
Other assets	57 187	20 462	2 573	2 345	724	**83 291**
Prepayments and accrued income	34 069	42 573	6 164	9 684	2 238	**94 728**
Total assets	3 455 922	3 873 196	1 547 686	918 003	269 625	**10 064 432**
Liabilities						
Amounts due to banks	35 275	87 937	7 737	157	274	**131 380**
Customer deposits and other accounts	2 653 825	3 262 969	1 635 023	893 812	210 253	**8 655 882**
Debt securities in issue	288	148 324	-	-	-	**148 612**
Other liabilities	72 154	57 030	840	4 672	103	**134 799**
Accruals and deferred income	20 464	32 607	1 772	10 165	2 045	**67 053**
	2 782 006	3 588 867	1 645 372	908 806	212 675	**9 137 726**
Subordinated loan stock	92 773	274 820	-	-	-	**367 593**
Equity	559 113	-	-	-	-	**559 113**
Total liabilities and equity	3 433 892	3 863 687	1 645 372	908 806	212 675	**10 064 432**
Total position	22 030	9 509	(97 686)	9 197	56 950	
Nominal value of currency derivative instruments	(47 901)	8 848	97 897	(2 968)	(55 876)	
Net currency position	**(25 871)**	**18 357**	**211**	**6 229**	**1 074**	

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 subsidiaries/branches.

35. Risk management *(continued)*

Currency risk *(continued)*

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

	Cyprus pounds C£000	Euro C£000	US Dollars C£000	British pounds C£000	Other currencies C£000	**Total C£000**
2003						
Assets						
Cash and balances with central banks	307 419	165 419	49 370	19 027	4 367	**545 602**
Placements with banks	123 890	148 717	806 114	180 657	65 931	**1 325 309**
Trading investments	142 106	344	-	-	-	**142 450**
Loans and advances to customers	2 259 090	2 301 322	85 724	453 092	180 664	**5 279 892**
Non-trading investments	359 586	420 814	265 482	174 587	-	**1 220 469**
Property, equipment and intangible assets	119 724	48 659	-	9 369	897	**178 649**
Other assets	55 993	23 878	-	2 270	-	**82 141**
Prepayments and accrued income	34 776	50 541	5 132	6 013	1 784	**98 246**
Total assets	3 402 584	3 159 694	1 211 822	845 015	253 643	**8 872 758**
Liabilities						
Amounts due to banks	69 233	117 335	65 202	294	11 170	**263 234**
Customer deposits and other accounts	2 645 709	2 346 951	1 344 636	853 079	199 684	**7 390 059**
Debt securities in issue	288	150 975	-	-	-	**151 263**
Other liabilities	60 363	60 087	1 590	5 783	449	**128 272**
Accruals and deferred income	25 911	38 338	1 928	7 924	1 771	**75 872**
	2 801 504	2 713 686	1 413 356	867 080	213 074	**8 008 700**
Subordinated loan stock	64 121	276 653	-	-	-	**340 774**
Equity	523 284	-	-	-	-	**523 284**
Total liabilities and equity	3 388 909	2 990 339	1 413 356	867 080	213 074	**8 872 758**
Total position	13 675	169 355	(201 534)	(22 065)	40 569	
Nominal value of currency derivative instruments	(44 525)	(147 062)	205 363	25 099	(39 521)	
Net currency position	(30 850)	22 293	3 829	3 034	1 048	

35. Risk management *(continued)*

Liquidity risk

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

	On demand and up to one month C£000	Between one and three months C£000	Between three months and one year C£000	Between one and five years C£000	Over five years C£000	**Total C£000**
2004						
Assets						
Cash and balances with central banks	188 795	-	-	-	250 519	**439 314**
Placements with banks	1 440 805	64 282	6 490	-	-	**1 511 577**
Trading investments	4 210	-	-	67 868	112	**72 190**
Loans and advances to customers	1 873 804	253 781	752 879	1 892 449	1 206 339	**5 979 252**
Non-trading investments	87 489	59 935	231 137	1 226 057	108 635	**1 713 253**
Property, equipment and intangible assets	-	-	-	-	170 827	**170 827**
Other assets	3 901	14 077	26 160	9 840	29 313	**83 291**
Prepayments and accrued income	32 370	17 514	31 559	9 424	3 861	**94 728**
Total assets	3 631 374	409 589	1 048 225	3 205 638	1 769 606	**10 064 432**
Liabilities						
Amounts due to banks	51 970	39 969	39 441	-	-	**131 380**
Customer deposits and other accounts	4 877 242	2 536 860	950 457	280 320	11 003	**8 655 882**
Debt securities in issue	-	-	-	148 324	288	**148 612**
Other liabilities	90 159	11 086	20 552	9 060	3 942	**134 799**
Accruals and deferred income	26 475	12 913	16 284	9 511	1 870	**67 053**
	5 045 846	2 600 828	1 026 734	447 215	17 103	**9 137 726**
Subordinated loan stock	-	-	-	-	367 593	**367 593**
Total liabilities	5 045 846	2 600 828	1 026 734	447 215	384 696	**9 505 319**
Net position	(1 414 472)	(2 191 239)	21 491	2 758 423	1 384 910	**559 113**

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.

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 *(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:

	On demand and up to one month C£000	Between one and three months C£000	Between three months and one year C£000	Between one and five years C£000	Over five years C£000	Total C£000
2003						
Assets						
Cash and balances with central banks	300 514	-	-	-	245 088	**545 602**
Placements with banks	1 238 955	28 171	58 183	-	-	**1 325 309**
Trading investments	3 546	-	-	138 509	395	**142 450**
Loans and advances to customers	1 410 176	271 534	754 168	1 536 827	1 307 187	**5 279 892**
Non-trading investments	49 547	63 772	195 638	780 054	131 458	**1 220 469**
Property, equipment and intangible assets	-	-	-	-	178 649	**178 649**
Other assets	16 783	7 026	13 860	3 359	41 113	**82 141**
Prepayments and accrued income	28 854	18 389	35 633	11 565	3 805	**98 246**
Total assets	3 048 375	388 892	1 057 482	2 470 314	1 907 695	**8 872 758**
Liabilities						
Amounts due to banks	142 924	77 753	42 557	-	-	**263 234**
Customer deposits and other accounts	3 989 040	1 771 655	1 019 835	592 695	16 834	**7 390 059**
Debt securities in issue	-	-	-	150 975	288	**151 263**
Other liabilities	66 310	17 015	16 124	9 701	19 122	**128 272**
Accruals and deferred income	22 592	19 896	20 425	10 893	2 066	**75 872**
	4 220 866	1 886 319	1 098 941	764 264	38 310	**8 008 700**
Subordinated loan stock	-	-	-	-	340 774	**340 774**
Total liabilities	4 220 866	1 886 319	1 098 941	764 264	379 084	**8 349 474**
Net position	(1 172 491)	(1 497 427)	(41 459)	1 706 050	1 528 611	523 284

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:

	31 December 2004 and 23 February 2005 %
S. A. Triantafyllides	0,057
V. G. Rologis	0,002
Chr. S. Pantzaris	0,100
A. Agathocleous	0,010
D. P. Ioannou	0,374
C. Z. Severis	0,434
Th. Aristodemou	0,019
D. Z. Pierides	0,001
E. Xenophontos	0,006
Chr. G. Christofides	0,056
A. Pittas	0,037
P. G. Polyviou	0,052
G. A. David	-
A. Artemis	0,366
A. Diogenous	0,192
G. M. Georgiades	0,048
A. Jacovides	0,026
Chr. Mouskis	0,028
	1,808

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

	Number of directors	Total C£000
Loans and other advances to directors and their connected persons		
More than 1% of the Company's net assets, per director	6	80 576
Less than 1% of the Company's net assets, per director	12	8 278
	18	**88 854**

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£35 952 thousand. Of these, C£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.

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 assurance business*
Kermia Ltd	*Property trading and development*
Kermia Properties & Investments Ltd	*Property development*
Kermia Hotels Ltd	*Hotel business*
BOC Ventures Ltd	*Management of venture capital investments*
Tefkros 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 Securities SA	*Investment banking services*
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	*Management of mutual funds*
Kyprou Properties SA	*Property management*
Kyprou Insurance Services Ltd	*General insurance brokers*
Kyprou Zois (branch)	*Life assurance business*
Kyprou Asfalistiki (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*
Tefkros Investments (CI) Ltd	*Investments fund*

Australia

Bank of Cyprus Australia 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 C£1 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:

	2004 C£000	2003 C£000
Turnover	**5 255**	4 635
Profit before tax	**2 384**	2 002
Net assets	**7 393**	6 562
Total assets	**8 683**	7 690

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 C£540 000. 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 C£80 million to C£100 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.

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

Ernst & Young

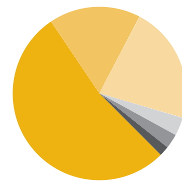
Nicosia
24 February 2005

Other Information

Shareholder Information

Shareholder Analysis, 31 December 2004

Shareholder Category	Number	Shares Held	%
Private individuals	64 023	246 154 264	52,96
Public or private companies	1 401	101 183 112	21,77
Insurance companies, provident funds and trusts	378	81 035 303	17,43
Staff	3 752	15 552 966	3,35
Church	53	12 671 227	2,73
Schools, clubs, public institutions, etc.	72	8 173 723	1,76
	69 679	464 770 595	100,00



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 85 046 459 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 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 Cyprus 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 tickers

CSE	BOC	ISIN CY0000100111
ATHEX	BOC	
Reuters	BOCr.AT	
Bloomberg	BOC GA	ISIN GRS 1

Participation in indices (01/01/2005)

Index

CSE General Index
FTSE/CySE 20
FTSE Med 100
FTSE New EU
DJ STOXX EU Enlarged TMI

Milestones in the Group's History

1899 • Establishment and operation of «Nicosia 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.
• Adoption of the ancient Cypriot coin bearing the inscription «Κοινόν Κυπρίων» (Common to all Cypriots) as its emblem.

1944-1964 • Establishment of Mortgage Bank of Cyprus (1944), General Insurance of Cyprus (1951), Bank of Cyprus (London) (1955) and Bank of Cyprus Finance Corporation (1964).

1980-1990 • Acquisition of the operations of the Chartered Bank in Cyprus and establishment of the Cyprus Investment and Securities Corporation (CISCO) (1982).
• Acquisition of Kermia (1983), establishment of the Bank of Cyprus Cultural Foundation (1984) and EuroLife (1989).

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.
• Acquisition of Karmazi Properties & Investments, which was renamed Kermia Properties & Investments.

1995 • Establishment of a Representative Office in South Africa.
• Operation of the BOC Global Equity Fund, the first international mutual fund established by a Cypriot bank.
• Founding of the Museum of the History of Cypriot Coinage.

1996 • Establishment of Bank of Cyprus (Channel Islands) and operation of a Representative Office in Canada.

1997 • Establishment of Kyprou Leasing in Greece.

1998 • Establishment of Representative Offices in Moscow and New York, and of the Mutual Fund Management Company, Kyprou AEDAK, in Greece.
• Operation of the Bank of Cyprus Oncology Centre.

1999 • Establishment of a Representative Office in Romania.

2000 • Listing of the Bank's shares on the Athens Exchange (ATHEX) and issue of 39 million shares to the Greek investing public.
• Establishment of Bank of Cyprus Australia and operation of its first branches.
• Establishment of Bank of Cyprus Mutual Funds and BOC Ventures.
• Introduction of electronic banking for the servicing of customers through alternative delivery channels (internet, telephone and WAP).

2001 • Establishment of *Kyprou Asfalistiki*, a branch of General Insurance of Cyprus in Greece and *Kyprou Zois*, a branch of EuroLife in Greece.
• Acquisition of Victory Securities, which was renamed Kyprou Securities.
• Sale of 50% shareholding in ABC Factors to Alpha Bank.

2002 • Provision of factoring services in Greece through a unit of the Bank.

2003 • Establishment of a Euro Medium Term Note (EMTN) Programme.

2004 • Merger of the operations of Bank of Cyprus (London) with the branch of Bank of Cyprus in the United Kingdom.

Bank of Cyprus Public Company Ltd | Group Holding Company

Banking Services
- Bank of Cyprus Public Company Ltd (Cyprus-Greece-United Kingdom)
- Mortgage Bank of Cyprus Ltd (Cyprus)
- Bank of Cyprus Australia Pty Ltd (Australia)
- Bank of Cyprus (Channel Islands) Ltd (Guernsey)

Hire Purchase and Leasing Services
- Bank of Cyprus Finance Corporation Ltd (Cyprus)
- Kyprou Leasing SA (Greece)
- Kyprou Commercial SA (Greece)

Factoring Services
- Bank of Cyprus Factors Ltd (Cyprus)

Investment Services
- The Cyprus Investment and Securities Corporation Ltd (CISCO) (Cyprus)
- Kyprou Securities SA (Greece)
- BOC Ventures Ltd (Cyprus)

Asset Management
- Bank of Cyprus Mutual Funds Ltd (Cyprus)
- Kyprou Mutual Fund Management Company (AEDAK) (Greece)
- BOC International Fund Management Ltd (Ireland)

Insurance Services
- General Insurance of Cyprus Ltd (Cyprus-Greece)
- EuroLife Ltd (Cyprus-Greece)

Property and Hotel Services
- Kermia Ltd (Cyprus)
  - Kermia Hotels Ltd (Cyprus)
- Kermia Properties & Investments Ltd (Cyprus)
- Kyprou Properties SA (Greece)

Credit Card Processing
- JCC Payment Systems Ltd *(45% participation)* (Cyprus)

MORTGAGE BANK OF CYPRUS
Board of Directors
S. A. Triantafyllides, *Chairman*
V. G. Rologis, *Vice Chairman*
Chr. S. Pantzaris
A. Agathocleous
D. P. Ioannou
C. Z. Severis
Th. Aristodemou
D. Z. Pierides
E. Xenophontos
Chr. G. Christofides
P. G. Polyviou
A. Artemis

BANK OF CYPRUS AUSTRALIA
Board of Directors
S. A. Triantafyllides, *Chairman*
Chr. S. Pantzaris
E. Xenophontos
C. G. Stavrakis
N. Politis
S. Angelodemou
W. S. van der Mye
Chr. Ioannides
• *General Manager:* Chr. Ioannides

BANK OF CYPRUS (CHANNEL ISLANDS)
Board of Directors
E. Xenophontos, *Chairman*
C. G. Stavrakis
A. Eliades
S. J. Neophytou
J. Robinson
Iv. Bisson
• *General Manager:* A. J. H. Dempster

BANK OF CYPRUS FINANCE CORPORATION
Board of Directors
Chr. S. Pantzaris, *Chairman*
C. Z. Severis, *Vice Chairman*
A. Agathocleous
E. Xenophontos
Chr. Mouskis
• *Manager:* N. Sparsis

KYPROU LEASING
Board of Directors
S. A. Triantafyllides, *Chairman*
E. Xenophontos
G. Charalambous
A. Eliades
• *General Manager:* M. Der-Krikorian

BANK OF CYPRUS FACTORS
Board of Directors
Chr. S. Pantzaris, *Chairman*
A. Artemis, *Vice Chairman*
E. Xenophontos
J. Shacallis
G. Charalambous
P. G. Polyviou
V. Shiarly
Ch. C. Charalambides
• *Manager:* N. Neokleous

THE CYPRUS INVESTMENT AND SECURITIES CORPORATION (CISCO)
Board of Directors
S. A. Triantafyllides, *Chairman*
Chr. S. Pantzaris
E. Xenophontos
P. G. Polyviou
V. G. Rologis
A. Diogenous
C. Z. Severis
G. Charalambous
P. Antoniades
Y. Kypri
• *General Manager:* L. Pochanis

KYPROU SECURITIES
Board of Directors
K. Vasilakopoulos, *Chairman*
J. Seiradakis
C. Alikakos
H. Nicolaides
N. Nicolaides
Gr. Karayiannopoulos
• *General Manager:*
Gr. Karayiannopoulos

BOC VENTURES
Board of Directors
S. A. Triantafyllides, *Chairman*
Chr. S. Pantzaris
E. Xenophontos
G. Charalambous
A. Jacouris
Y. Kypri
V. Shiarly
Ch. C. Charalambides
C. G. Stavrakis
St. Christodoulou

BANK OF CYPRUS MUTUAL FUNDS
Board of Directors
E. Xenophontos, *Chairman*
A. Jacouris
Y. Kypri
V. Shiarly
C. G. Stavrakis
St. Christodoulou
• *General Manager:* L. Pochanis

KYPROU MUTUAL FUND MANAGEMENT COMPANY (AEDAK)
Board of Directors
E. Xenophontos, *Chairman*
A. Eliades
H. Nicolaides
C. G. Stavrakis
M. Leventis-Clerides
• *General Manager:* G. Talaros

GENERAL INSURANCE OF CYPRUS
Board of Directors
V. G. Rologis, *Chairman*
E. Xenophontos
Chr. G. Christofides
P. Charalambous
D. P. Ioannou
P. G. Polyviou
M. Pissarides
• *General Manager:* St. Christodoulou

EUROLIFE
Board of Directors
E. Xenophontos, *Chairman*
G. Charalambous
A. Jacouris
Y. Kypri
• *General Manager:* A. Kritiotis

KERMIA
Board of Directors
Chr. S. Pantzaris, *Chairman*
E. Xenophontos
A. Agathocleous
A. Artemis
A. Theocharides
Ch. Hadjipanayiotou
P. Antoniades
• *General Manager:* St. Stavrinides

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 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, Tefkros Investments Ltd and Tefkros 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.

EuroLife
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.

Main Group Offices and Branches in Cyprus

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

BANK OF CYPRUS AND MORTAGE BANK OF CYPRUS
Nicosia *Main Branch*
86-88-90 Faneromenis Street
P.O. Box 21472, CY-1599 Nicosia
Telephone: +357 22848100
Fax: +357 22663633

Limassol *Main Branch*
1 Saripolos Street
P.O. Box 50215, CY-3699 Limassol
Telephone: +357 25845000
Fax: +357 25378249

Larnaca *Main Branch*
25 King Paul I Square
P.O. Box 40093, CY-6300 Larnaca
Telephone: +357 24844100
Fax: +357 24659181

Paphos *Main Branch*
E. Pallikarides Avenue
& A. Tselepos Street
P.O. Box 60034, CY-8123 Paphos
Telephone: +357 26846200
Fax: +357 26943603

Paralimni *Main Branch*
160 1st April Street
P.O. Box 33091, CY-5310 Paralimni
Telephone: +357 23843100
Fax: +357 23825103

BANK OF CYPRUS FINANCE CORPORATION
Nicosia *Head Office*
2 Evrou Street, Strovolos
P.O. Box 22010, CY-1516 Nicosia
Telephone: +357 22474500
Fax: +357 22340458
info@finance.bankofcyprus.com

BANK OF CYPRUS FACTORS
Nicosia *Head Office*
47 Strovolos Avenue
P.O. Box 26555, CY-1640 Nicosia
Telephone: +357 22847000
Fax: +357 22511712
info@factors.bankofcyprus.com

THE CYPRUS INVESTMENT AND SECURITIES CORPORATION (CISCO)
Nicosia *Head Office*
4 Evrou Street, Strovolos
P.O. Box 20597, CY-1660 Nicosia
Telephone: +357 22881700
Fax: +357 22338488
www.cisco-online.com.cy
info@cisco.bankofcyprus.com

BOC VENTURES
Nicosia
127 Ayiou Procopiou
& Posidonos Street
P.O. Box 21472, CY-1599 Nicosia
Telephone: +357 22791300
Fax: +357 22777440
bocv@bocv.bankofcyprus.com

BANK OF CYPRUS MUTUAL FUNDS
Nicosia *Head Office*
EuroLife House, 4 Evrou Street
Strovolos, CY-2003 Nicosia
Telephone: +357 22881884
Fax: +357 22340015
info@bocmutualfunds.bankofcyprus.com

GENERAL INSURANCE OF CYPRUS
Nicosia *Head Office*
2-4 Themistoclis Dervis Street
P.O. Box 21668, CY-1511 Nicosia
Telephone: +357 22848700
Fax: +357 22676682
www.gic.com.cy
general@gic.bankofcyprus.com

EUROLIFE
Nicosia *Head Office*
4 Evrou Street, Strovolos
P.O. Box 21655, CY-1511 Nicosia
Telephone: +357 22474000
Fax: +357 22341090
www.eurolife.com.cy
info@eurolife.bankofcyprus.com

KERMIA
Nicosia *Head Office*
4 Diagoras Street
P.O. Box 24510, CY-1300 Nicosia
Telephone: +357 22663692
Fax: +357 22660938
info@kermia.bankofcyprus.com

KERMIA PROPERTIES & INVESTMENTS
Limassol
67 Spyros Araouzos Street
P.O. Box 50212, CY-3602 Limassol
Telephone: +357 25343658
Fax: +357 25343716
info@properties.bankofcyprus.com

Main Group Offices and Branches Abroad

BANK OF CYPRUS GREECE
Athens *Head Office*
170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 64 18 000
Fax: +30 210 64 77 809
genmgmt@bankofcyprus.gr

Attica Region
170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 64 18 000
Fax: +30 210 64 18 049

North Greece Region
9 Nikis Avenue
546 24 Thessaloniki
Telephone: +30 2310 363 000
Fax: +30 2310 363 010

Central Greece Region
146 Elefth. Venizelou Street & Alkazar
Bridge Square, 412 22 Larisa
Telephone: +30 2410 562 000
Fax: +30 2410 562 009

Crete Region
40 Eleftherias Square & Averof Street
712 01 Heraklion
Telephone: +30 2810 308 300
Fax: +30 2810 308 310

Peloponnisos & Western Greece Region
224 Korinthou Street, 262 21 Patra
Telephone: +30 2610 271 020
Fax: +30 2610 271 889

KYPROU LEASING
Athens
170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 64 77 030
Fax: +30 210 64 77 029
leasing@bankofcyprus.gr

KYPROU MUTUAL FUND MANAGEMENT COMPANY (AEDAK)
Athens
170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 64 77 301
Fax: +30 210 64 77 309
jtalaros@bankofcyprus.gr

KYPROU SECURITIES
Athens
170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 87 01 000
Fax: +30 210 87 01 049
infosec@kyprousecurities.gr

KYPROU ASFALISTIKI
Athens *General Insurance of Cyprus Branch*
73 Mesogeion Avenue & Ilidos
115 26 Athens
Telephone: +30 210 64 77 384-6
Fax: +30 210 64 77 389
insurance@bankofcyprus.gr

KYPROU ZOIS
Athens *EuroLife Branch*
73 Mesogeion Avenue & Ilidos
115 26 Athens
Telephone: +30 210 64 77 180-6
Fax: +30 210 64 77 189
kyprouzois@bankofcyprus.gr

BANK OF CYPRUS UNITED KINGDOM
London *Head Office*
27-31 Charlotte Street
London W1T 1RP
Telephone: +20 7304 5830
Fax: +20 7436 4188
www.bankofcyprus.co.uk

BANK OF CYPRUS AUSTRALIA
Melbourne *Head Office*
Level 21, 459 Collins Street
Melbourne, Vic 3000
Telephone: +3 8627 2727
Fax: +3 8627 2777
www.bankofcyprus.com.au

BANK OF CYPRUS (CHANNEL ISLANDS)
Guernsey
Somers House, Rue du Pre
P.O. Box 558, St. Peter Port
Guernsey, Channel Islands GY1 6JF
Telephone: +1481 716 026
Fax: +1481 716 120

REPRESENTATIVE OFFICES

SOUTH AFRICA
Johannesburg
13th floor, Sandton City Office Towers
c/o Rivonia and 5th Streets
Sandton, South Africa
Telephone: +27 11784 3941
Fax: +27 11784 3942
pdaniel@bankofcyprus.co.za

Postal Address:
P.O. Box 652176, Benmore Gardens
2010 Johannesburg, South Africa

CANADA
Toronto
658 Danforth Avenue, Suite 302
Toronto, Ontario, Canada M4J 5B9
Telepheon: +1 416 461 5570
Fax: +1 416 461 6062
info@bankofcyprus.ca

U.S.A.
New York
80 Broad Street, 27th floor, New York
NY 10004, U.S.A.
Telephone: +1 212 759 7280
Fax: +1 212 759 7327

RUSSIA
Moscow
Olympic Plaza, Prospect Mira 33
Building 1, 6th floor
129110 Moscow, Russia
Telephone: +7 095 797 5808
Fax: +7 095 797 5810
b@bankofcyprus.stelcom.ru

ROMANIA
Bucharest
7 Pache Protopopescu Blvd, Sector 2
Bucharest, Romania
Telephone: +4021 313 4743
Fax: +4021 313 4741
bucharest@bankofcyprus.ro

Bank of Cyprus Charitable Foundations

Bank of Cyprus Cultural Foundation

The Bank of Cyprus Cultural Foundation was founded in 1984, as a result of the growing interest of the Bank to contribute towards the conservation of the cultural heritage of Cyprus, which had been looted and stolen by the turkish occupation forces and the Bank's determination to promote internationally the hellenic civilization of Cyprus. According to its founding act in 1984, all works of art, coins, maps and rare publications belonging to the Bank at the time, were transferred to the Foundation for protection and conservation. The existing core collections have since been developed to collections of exceptional cultural significance.

The Foundation has developed a rich publishing programme and it organises exhibitions and lectures relating to the content of its collections and other areas of its activity. It also sponsors annual events that contribute to the literary and theatrical education of young people.

In 1995, the Foundation inaugurated its first museum, the Museum of the History of Cypriot Coinage, which houses a large part of the Foundation's coin collection. The Museum organises educational programmes for school children. In 1996 it inaugurated its permanent restored areas in the historic Bank of Cyprus building, located in Phaneromeni Street in the old part of the city of Nicosia.

In 2000, a branch of the Cultural Foundation was established in Greece, aiming to strengthen the Foundation's co-operation with institutions operating in mainland Greece, as well as expanding the Foundation's horizons to cover the wider Hellenic world.

In 2002, the Museum of the George and Nefeli Giabra Pierides Collection (donated by Clio and Solon Triantafyllides) was inaugurated. The Museum is located at the Foundation's building in Nicosia. The Collection includes more than 600 objects and has been described as one of the richest in the world in mycenaean pottery.

Members of the Board

Y. Kypri *(Chairman)*, M. Iacovou, S. Ioannou, V. Karageorghis, C. Colotas, N. Orphanos, Th. Papadopoulos, D. Z. Pierides, St. Soulioti, A. Philippou, Chr. Phylactou, G. Charalambous

• *Director:* L. Michaelidou

Honorary Members

Sp. Vryonis, D. Ioannou, Th. Stavrou

Address: 86-88-90 Phaneromeni Street
P.O. Box 21995, CY-1515 Nicosia
Telephone: +357 22677134
Fax: +357 22662898
info@cultural.bankofcyprus.com
www.boccf.com

Address of Greek branch: 170 Alexandras Avenue
115 21 Athens
Telephone: +30 210 64 77 920
Fax: +30 210 64 77 498

Bank of Cyprus Medical Foundation

The Bank of Cyprus Medical Foundation was founded in 1991 with the principal objective of managing the Bank's significant donation to the health sector. In collaboration with the Ministry of Health and other interested bodies, a decision was taken to establish an independent and autonomous Oncology Centre, offering diagnostic services and treatment.

The total cost of the Oncology Centre's construction and equipment amounted to C£7 million and was entirely donated by Bank of Cyprus. The Centre began its operation in September 1998. The Government of Cyprus covers the operating costs of the Centre, whereas the Medical Foundation covers the Centre's capital expenditure. Its aim is to become a regional medical centre of excellence both in terms of equipment and human resources.

Members of the Board

S. A. Triantafyllides *(Chairman)*, Chr. S. Pantzaris, V. G. Rologis, D. P. Ioannou, A. Agathocleous, C. Z. Severis, E. Xenophontos, G. Charalambous, Y. Kypri, A. Artemis, P. G. Polyviou

Trustees of the Bank of Cyprus Oncology Centre

A. Vassiliou *(Chairperson)*, P. Sarris, Chr. Patsalides, Chr. S. Pantzaris, C. Z. Severis, Y. Kypri, M. Triantafyllides *(ex-officio)*

Address of the Bank of Cyprus Oncology Centre: 32 Acropolis Avenue, CY-2006 Strovolos, Nicosia
Telephone: +357 22841300
Fax: +357 22511870

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Bank of Cyprus Public Company Ltd will be held at the Group Headquarters, 51 Stassinos Street, Ayia Paraskevi, Strovolos, Nicosia, on Wednesday 18 May 2005 at 4.30 p.m., to transact the following business:

1. To receive and consider the Directors' Report and the Financial Statements of the Company for the year 2004 and to declare a dividend for the year 2004.

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. Kypri
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 as 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 22842100, 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
metoxologio@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 Exchange» 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).

Bank of Cyprus Group

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 22848000 (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: Ouóo Creative Concepts
Portraits: D. Vattis
Page composition and graphs: Ouóo Creative Concepts
Printing and binding: Chr. Nicolaou & Sons Ltd
Paper supplier: Cartiere Burgo SPA