

Cooperative Central Bank Ltd

Financial Statements

31 December 2008

Cooperative Central Bank Ltd
FINANCIAL STATEMENTS

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Committee

Demetrios Stavrou	Non-Executive Chairman	
Georgios Iosif	Non-Executive Member	
Panayiotis Philippou	"	
Yiannakis Yiannaki	"	(from 20/3/2009)
Georgios Marinou	"	
Demetris Christou	"	
Pavlos Theodotou	"	
Nearchos Ioannou	"	(from 20/3/2009)
Mikis Neofytou	"	
Nicos Nicolaou	Independent Non-Executive Member	(from 15/4/2009)
Andreas Charitou	Independent Non-Executive Member	(from 15/4/2009)
Erotokritos Chlorakiotis	Executive Member	(from 15/4/2009)
Soteris Theodorou	Executive Member	(from 15/4/2009)

General Manager

Erotokritos Chlorakiotis

Senior Management

Soteris Theodorou	- Senior Manager Finance
Efthymios Pantazis	- Manager Banking Operations
Ioannis Ioannides	- Manager Administrative Services
Andreas Ioannides	- Manager Financial Services

Head office

8 Gregoris Afxentiou Street
1096 Nicosia
P.O. Box 24537
1389 Nicosia
Cyprus
Tel. 22743000
Telefax 22670261

Legal advisors

Tassos Papadopoulos & Co
2 Sofouli Street
Chanteclair Building
2nd Floor
1096 Nicosia

Christos M. Triantafillides in association with John Clerides & Sons
27 Evagorou Street
Irene Court
1066 Nicosia

Independent auditors

Deloitte Limited
Corner Th. Dervis and Florinis
1065 Nicosia

Cooperative Central Bank Ltd

REPORT OF THE COMMITTEE

The Committee of the Cooperative Central Bank Ltd, the “Bank”, submits to the members for approval their report together with the audited financial statements for the year ended 31 December 2008.

Principal activities

The Bank is the banker of all registered cooperative societies and the central banker of cooperative credit societies. The principal activities of the Bank continued to be the provision of banking, financing, insurance services and the carrying out of agricultural trading activities. The Bank operates in Cyprus through four branches in the non-occupied towns of the Republic.

Review of results

The Bank’s profit before provisions for impairment of loans and advances decreased by 2,6% and amounted to €33.437 thousand compared to €34.334 thousand for 2007. The decrease of the profit is mainly due to the decrease in foreign exchange income. After the provisions for impairment of loans and advances of €1.170 thousand and the taxation of €1.680 thousand, the profit for the year amounted to €30.587 thousand compared to €31.082 thousand for the previous year.

On 31 December 2008 the deposits and other customer accounts amounted to €2.400 million recording an annual decrease of €776 million or 24,4 %. On 31 December 2008 the loans and advances to customers after the provisions for impairment amounted to €1.164 million recording an annual increase of €117 million or 11 %. As a result of the increase in the issued share capital of the Bank, the increase in reserves due to the revaluation of property, as well as the profit for the year, equity increased to €178 million at 31 December 2008 from €119 million at 31 December 2007.

Dividends

During the Annual General Meeting of the Bank on 20 March 2009, the payment of dividend to the members for 2008, 3% or 26 cents per share totalling €2.020 thousand, was approved.

In addition, for 2008, the Committee proposes the payment of a final dividend of 2% or 17 cents per share, totalling €1.324 thousand, to all registered members in the Bank’s Register of Members as at 31 December 2008. The total dividends for the year 2008 amount to 5% or 43 cents (2007: 5% or 43 cents) per share.

Share capital

During the year 2008, the issued share capital of the Bank increased by €16,2 million to €66,5 million with the issue of 1.898.001 new shares of €8,54 each. The increase is in the context of the continuing efforts of the Bank to strengthen its capital base.

On 13 December 2007, following a resolution of the Annual General Meeting of the members of the Bank, the authorised share capital of the Bank increased by €85,4 million to €170,8 million, divided into 20 million shares of €8,54 each.

Harmonisation of the co-operative credit sector

According to the final position paper submitted by the Cypriot Negotiating Team to the European Union (E.U.) in relation to the harmonisation process of the Cooperative Credit Sector Societies (known as 'Common Position'), and relevant legislation enacted in 2003, the Bank from 1 January 2008 undertook the role of the Central Body for those Cooperative Credit Societies (CCSs) which did not comply with the key provisions of the Banking Directives of the E.U. as well as for those CCS's which although being in compliance opted to be affiliated with the Central Body.

The Bank, by assuming its new role of being the Central Body and in compliance with the European Directive 2000/12/EC (recast Directive 2006/48/EC) relating to the taking up and pursuit of the business of credit institutions and the Cooperative Societies Rules of 2004, guaranteed the commitments of affiliated CCSs so that the latter will be exempted from the regulatory provisions of the Directive on an individual basis. The above Directive and the Rules provide that the exempted provisions must be satisfied by the Central Body and the affiliated CCSs on a consolidated basis. On 31 December 2008, the Bank assessed the above guarantee taking into consideration the financial position of the CCSs, and no obligations for the Central Body are expected in relation to this guarantee.

The Cooperative Societies Laws, as amended in 2004, included transitional provisions which provided CCSs with a time limit until 31 December 2007 to obtain licence as authorised Cooperative Credit Societies either as standalones or following affiliation with the Central Body.

The joint declaration of the Bank-Central Body and the Commissioner of the CSSDA for the affiliation of the CCSs with the Central Body stipulated the 31 January 2007 to be the last day for submitting their written statement of intention. From submissions received all of the CCSs except one, were interested to become affiliated with the Bank-Central Body.

The Bank, in cooperation with the Cooperative Societies' Supervision and Development Authority, commenced the Central Body's operations on 1 January 2008 and for this purpose the Bank has taken all the necessary measures to be able to fulfill its new role adequately and effectively.

Risk Management

The most important risks that the Bank is exposed are credit risk, market risk and liquidity risk. The Bank has placed a risk management framework placing emphasis on reliable financial risk measurement. Detailed information relating to monitoring and management of risks is set out in note 40.

Committee

The members of the Committee, are listed on page 3.

Demetrios Stavrou, Georgios Iosif, Panayiotis Philippou, Georgios Marinou, Demetris Christou, Pavlos Theodotou, Mikis Neofytou, were re-elected by the Annual General Meeting on 20 March 2009, and Yiannakis Yiannaki and Nearchos Ioannou were elected as new Members.

On 15 April 2009, the Committee appointed Nicos Nicolaou and Andreas Charitou as Independent Non-Executive Members, and Erotokritos Chlorakiotis and Soteris Theodorou as Executive Members.

By order of the Committee

Erotokritos Chlorakiotis
General Manager

Nicosia, 29 April 2009

Independent Auditors' Report

To the Members of Cooperative Central Bank Limited

Report on the Financial statements

We have audited the financial statements of **Cooperative Central Bank Limited** (the "Bank") on pages 9 to 65, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Committee's Responsibility for the Financial Statements

The Committee of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cooperative Societies Laws. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **Cooperative Central Bank Limited** as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cooperative Societies Laws.

As mentioned on page 13, the financial statements have been prepared in accordance with the provisions of the Cooperative Societies Laws and in cases where these laws do not refer to special provisions regarding disclosure of information, the relevant provisions of the Cyprus Companies Law Cap. 113 have been applied.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with the Cooperative Societies Laws and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Deloitte Limited
Chartered Accountants

Nicosia, 29 April 2009

Cooperative Central Bank Ltd

INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 €000	2007 €000
Interest receivable	4	131.603	144.616
Interest payable	5	<u>(93.117)</u>	<u>(108.147)</u>
Net interest income		38.486	36.469
Fee and commission income	6	13.832	13.195
Fee and commission expense	7	(4.559)	(3.921)
Foreign exchange income		873	3.602
(Loss)/gain from changes in fair value of investments	17	(267)	17
Other income	8	<u>5.674</u>	<u>4.107</u>
Total net income		<u>54.039</u>	<u>53.469</u>
Staff costs	9	13.859	12.457
Depreciation	8	1.639	1.555
Other operating expenses		<u>5.104</u>	<u>5.123</u>
Total expenses		<u>20.602</u>	<u>19.135</u>
Profit before provisions for impairment of loans and advances		33.437	34.334
Increase in provisions for impairment of loans and advances	16	<u>(1.170)</u>	<u>(1.319)</u>
Profit before taxation	8	32.267	33.015
Taxation	10	<u>(1.680)</u>	<u>(1.933)</u>
Profit for the year		<u>30.587</u>	<u>31.082</u>

The summary of significant accounting policies and the notes on pages 13-65 are an integral part of the financial statements.

Cooperative Central Bank Ltd

BALANCE SHEET as at 31 December 2008

	Notes	2008 €000	2007 €000
ASSETS			
Cash and deposits with Central Banks	11	425.939	429.683
Cheques under collection		54.444	59.817
Treasury bills	12	-	82.068
Placements with other banks	13	53.972	436.451
Loans and advances to customers	15	1.164.216	1.047.498
Debt securities	14	1.121.857	1.326.412
Inventories		8.200	5.399
Investments in shares	17	793	991
Property held for sale	18	800	800
Investment property	19	4.203	4.034
Property and equipment	20	40.054	21.783
Computer software	21	1.318	1.027
Other assets	22	3.377	3.822
Accrued income	23	34.038	40.222
Total assets		2.913.211	3.460.007
LIABILITIES			
Amounts due to other banks	24	2.774	3.061
Repurchase agreements		200.000	-
Deposits and other customer accounts	25	2.400.412	3.176.521
Government of Cyprus	28	36.534	36.534
Loan Commissioners – Finance for Agricultural Development	29	22.718	23.099
Other liabilities	26	35.475	44.360
Accruals and deferred income	27	36.950	57.810
Total liabilities		2.734.863	3.341.385
EQUITY			
Share capital	30	66.536	50.344
Revaluation reserve on immovable property	31	27.757	10.949
Reserve due to business combination		-	5.907
Accumulated profits	31	84.037	51.422
Difference from the conversion of share capital into euro	31	18	-
Total equity		178.348	118.622
Total liabilities and equity		2.913.211	3.460.007
CONTINGENT LIABILITIES AND COMMITMENTS			
	33	149.209	133.181

GENERAL MANAGER
Erotokritos Chlorakiotis

ON BEHALF OF THE COMMITTEE
Demetrios Stavrou - Chairman

SENIOR MANAGER
Soteris Theodorou

Georgios Marinou - Member

The summary of significant accounting policies and the notes on pages 13-65 are an integral part of the financial statements.

Cooperative Central Bank Ltd

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008

	Share capital €000	Difference from the conversion of share capital into euro €000	Revaluation reserve on immovable property €000	Reserve due to business combination €000	Accumulated profits €000	Total €000
1 January 2007	37.880	-	10.002	-	23.493	71.375
Transfer of revaluation surplus realised through use	-	-	(79)	-	79	-
Revaluation of immovable property (note 20)	-	-	537	-	-	537
Deferred tax	-	-	489	-	-	489
Profit recognised directly in equity	-	-	947	-	79	1.026
Profit for the year	-	-	-	-	31.082	31.082
Total profit for the year	-	-	947	-	31.161	32.108
Business combination with P.C.C.I.S (note 2)	-	-	-	5.907	-	5.907
Dividends paid	-	-	-	-	(2.266)	(2.266)
Special defence contribution on deemed dividend distribution	-	-	-	-	(966)	(966)
Issue of shares	12.464	-	-	-	-	12.464
31 December 2007	50.344	-	10.949	5.907	51.422	118.622
Transfer of revaluation surplus realised through use	-	-	(79)	-	79	-
Transfer of reserve due to business combination	-	-	-	(2.776)	2.776	-
Revaluation of immovable property (note 20)	-	-	18.686	-	-	18.686
Deferred tax	-	-	(1.799)	-	-	(1.799)
Profit recognised directly in equity	-	-	16.808	(2.776)	2.855	16.887
Profit for the year	-	-	-	-	30.587	30.587
Total profit for the year	-	-	16.808	(2.776)	33.442	47.474
Special defence contribution on deemed dividend distribution	-	-	-	-	(827)	(827)
Conversion of share capital into euro	(18)	18	-	-	-	-
Cash paid	-	-	-	(1)	-	(1)
Issue of shares	16.210	-	-	(3.130)	-	13.080
31 December 2008	66.536	18	27.757	-	84.037	178.348

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax, as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Bank on account of the shareholders.

Transfer of revaluation surplus realised through use €79 thousand (2007: €79 thousand) shown net off the deferred taxation €8 thousand (2007: €8 thousand) arises from the difference between depreciation based on the revalued carrying amount and depreciation based on the historic cost of immovable property.

The summary of significant accounting policies and the notes on pages 13-65 are an integral part of the financial statements.

Cooperative Central Bank Ltd

CASH FLOW STATEMENT

for the year ended 31 December 2008

	2008	2007
	€000	€000
Cash flows from operating activities	Notes	
Profit before tax	32.267	33.015
Adjustments for:		
Provision for impairment of loans and other advances	1.170	1.319
Loss / (gain) from changes in fair value of investments	267	(17)
Amortisation of premium on purchase of debt securities	2.990	3.383
Decrease of liability to Loan Commissioners	-	(5)
Depreciation of property and equipment	1.269	1.155
Depreciation of computer software	370	400
Loss / (profit) on sale of property and equipment	5	(5)
Increase in accrued income	(18.600)	(8.756)
(Decrease)/ increase in accruals	(20.860)	7.714
Dividend income from investments in shares	(319)	(92)
Income from investments in treasury bills	(804)	(5.170)
Income from investments in debt securities	(52.801)	(57.848)
Operating loss before working capital changes	(55.046)	(24.907)
Increase/decrease in:		
Placements with other banks	40	(7)
Loans and advances to customers	(118.818)	(324.720)
Inventories	(2.801)	555
Other assets	(11)	(1.064)
Deposits and other customer accounts	(776.109)	233.550
Repurchase agreements	200.000	-
Finance from Loan Commissioners	(381)	(449)
Other liabilities	(10.546)	(8.695)
	(763.672)	(125.737)
Taxation paid	(1.383)	(1.558)
Special defence contribution paid on deemed dividend distribution	(966)	(1.143)
Net cash used in operating activities	(766.021)	(128.438)
Cash flows from investing activities		
Net proceeds from redemption of treasury bills	82.068	130.949
Net proceeds from redemption / (payments) for purchase of debt securities	201.565	(285.842)
Income received from investments in treasury bills	3.363	7.385
Income received from investments in debt securities	58.353	53.544
Dividends received from investments in shares	319	92
Purchase of shares	(69)	(364)
Proceeds from sale of shares	-	120
Purchase of property and equipment	(894)	(2.828)
Purchase of computer software	(661)	(468)
Proceeds from sale of property and equipment	209	12
Net cash from / (used in) investing activities	344.253	(97.400)
Cash flows from financing activities		
Issue of share capital	13.080	12.464
Dividends paid	-	(2.266)
Net cash from financing activities	13.080	10.198
Net decrease in cash and cash equivalents for the year	(408.688)	(215.640)
Cash and cash equivalents at 1 st January	922.796	1.138.436
Cash and cash equivalents at 31st December	39	922.796

The summary of significant accounting policies and the notes on pages 13-65 are an integral part of the financial statements.

The accounting policies followed in respect of items that are considered material for the results of the year and the financial position of the Bank are stated below and have been applied consistently for the reported years:

(1) Basis of preparation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and the provisions of the Cooperative Societies Laws. In cases where these laws do not refer to special provisions regarding disclosure of information, the relevant provisions of the Cyprus Companies Law of Cap. 113 have been applied.

All IFRSs issued by the International Accounting Standards Board (IASB) and are effective as at 1 January 2008, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 'Financial Instruments: Recognition and Measurement' relating to portfolio hedge accounting and IFRIC 12 'Service Concession Arrangements'.

In accordance with International Financial Reporting Standards, the preparation of the financial statements, requires management to make judgments and estimates, assumptions and valuations that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses for the reporting period. The most significant judgments and estimates made by the management are presented in paragraph 4 below.

The financial statements have been prepared on a historical cost basis, as modified to include the revaluation of immovable property, investments in shares and derivatives.

The financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated. On 1 January 2008, date of the introduction of the Euro as the new official currency of the Republic of Cyprus, the functional currency of the Bank as well as the presentation currency of the financial statements (including comparative amounts) changed from Cyprus Pounds to Euro. As a result of this change, as from 1 January 2008, all assets and liabilities of the Bank have been converted to Euro using the fixed conversion rate of €1=C£0,585274. The functional currency is the currency of the primary economic environment in which the Bank operates and the currency in which the items of the financial statements are measured. The comparative amounts presented in these financial statements have been converted into Euro using the above rate.

(2) Adoption of new and revised IFRSs

The Bank has adopted all revised / new IFRS and interpretations relevant to its operations which have come into effect for accounting periods beginning from 1 January 2008. The adoption of the revised / new IFRS and interpretations did not have a material effect on the financial statements of the Bank.

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

Amendments to IAS 39 and IFRS 7 ‘Reclassification of Financial Instruments’

The amendment to IAS 39, issued in 2008, allows, under certain conditions, the reclassification of certain financial instruments to categories of measurement other than those classified upon initial recognition. The amendment of IFRS 7 requires additional disclosures in the financial statements of entities which adopt the above amendment of IAS 39. The Bank has not adopted the above amendments.

IFRIC 14: ‘IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’

IFRIC 14 is effective for annual accounting periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 ‘Employee Benefits’. It also explains how this limit may be influenced by a statutory or contractual minimum funding requirement and standardises current practice. The adoption of the interpretation did not have any effect on the financial statements of the Bank.

IFRIC 13: ‘Customer Loyalty Programmes’

IFRIC 13 is effective for annual accounting periods beginning on or after 1 July 2008. The Bank has adopted this interpretation earlier than the effective date. The interpretation defines the accounting treatment of customer loyalty award credits during a sale transaction. The adoption of this interpretation had no material effect on the financial statements of the Bank.

The following new/revised IFRS’s and interpretations that are effective for accounting periods beginning 1 January 2008 are not applicable to the Bank’s operations:

IFRIC 11: ‘IFRS 2 Group and Treasury Share Transactions’

IFRIC 12: ‘Service Concession Arrangements’

(3) IFRSs and interpretations that are issued but not yet effective

Up to the date of approval of the financial statements, the following new standards, interpretations and amendments to existing standards have been issued that are not yet effective for the current accounting period, the Bank has not opted for early adoption:

(3) IFRSs and interpretations that are issued but not yet effective (continued)

Standards and interpretations issued by the IASB and adopted by the European Union

IFRS 8: ‘Operating Segments’

IFRS 8 is effective for annual accounting periods beginning on or after 1 January 2009.

IFRS 8 replaces IAS 14 ‘Reporting Financial Information by Segment’. According to the standard, the identification of operating segments and the way segment information is measured and disclosed will be based on internal reports used by the Bank in the decision making process for the allocation of resources to the segments and in the assessment of their performance. The Bank will adopt the standard from 1 January 2009. The adoption of the standard is not expected to have a material effect on the financial statements of the Bank.

IFRS 1: ‘First-time Adoption of International Financial Reporting Standards’ and IAS 27: ‘Consolidated and Separate Financial Statements’ - Amendment

The amendments are effective for annual accounting periods beginning on or after 1 January 2009. The amendments are not relevant to the operations of the Bank.

IFRS 2: ‘Share Based Payment – Vesting Conditions and Cancellations’ - Amendment

IFRS 2 is effective for annual accounting periods beginning on or after 1 January 2009. This standard is not relevant to the operations of the Bank.

IAS 1: ‘Presentation of Financial Statements’ - Amendment

IAS 1 is effective for annual accounting periods beginning on or after 1 January 2009. The purpose of the amendment to IAS 1 is to improve the presentation of financial statements. In particular, the Statement of Changes in Equity will present only the changes in equity relating to owners. All non-owner changes in equity will be presented in a new statement of ‘Comprehensive Income’. The Bank will adopt this standard from 1 January 2009. The Bank will make the necessary changes to the presentation of its financial statements in 2009.

IAS 23 : ‘Borrowing Costs’

IAS 23 is effective for annual accounting periods beginning on or after 1 January 2009.

According to the amendments to IAS 23, the borrowing costs directly attributable to assets for which a significant amount of time is required until they are made available for use or disposed are not allowed to be directly recognised to Income Statement. The borrowing costs will be capitalised as part of the cost of the asset. The Bank will adopt the standard from 1 January 2009. The adoption of the standard is not expected to have a material effect on the financial statements of the Bank.

(3) IFRSs and interpretations that are issued but not yet effective (continued)

Standards and interpretations issued by the IASB and adopted by the European Union (continued)

IAS 32: ‘Financial Instruments: Presentation’ and IAS 1 ‘Presentation of Financial Statements’ (Puttable Financial Instruments and Obligations Arising on Liquidation) – Amendment

The amendment is effective for annual accounting periods beginning on or after 1 January 2009. With the implementation of the above amendment, financial instruments that give the holder the right to require the issuer to repurchase or repay the financial instruments may be classified as equity if certain conditions are met. A similar classification, under certain conditions, is made for financial instruments where the holder is entitled to a pro-rata share of the net assets of the entity in liquidation. The amendment is not relevant to the operations of the Bank.

Improvements to International Financial Reporting Standards

As part of the annual improvements project of the IFRSs, the International Accounting Standards Board (IASB) issued in May 2008 non urgent but necessary amendments to various standards, primarily with a view to remove inconsistencies and clarify wording. IASB has separated the 34 improvements in two parts: part I deals with amendments resulting in accounting changes, and part II deals with editorial or terminology amendments. The majority of these improvements is effective for annual periods beginning on or after 1 January 2009 and for the remaining, the effective date is at a future date. The Bank is currently assessing the impact of the improvements on its financial statements.

Standards and interpretations issued by the IASB but not yet adopted by the European Union

IFRS 3: ‘Business Combinations’ - Revised and IAS 27: ‘Consolidated and Separate Financial Statements’ - Amendment

IFRS 3 is effective for annual accounting periods beginning on or after 1 July 2009. IFRS 3 and IAS 27 apply for the preparation of consolidated financial statements and business combinations. The above standards are not relevant to the operations of the Bank since no consolidated financial statements are prepared.

IFRS 7: ‘Financial Instruments: Disclosures’ - Amendment

The amendment is effective from 1 January 2009. The amendment requires additional disclosures for fair value measurements and liquidity risk. The Bank will adopt this amendment from 1 January 2009.

(3) IFRSs and interpretations that are issued but not yet effective (continued)

Standards and interpretations issued by the IASB but not yet adopted by the European Union (continued)

IAS 39: ‘Financial Instruments: Recognition and Measurement’ and IFRIC 9 ‘Reassessment of Embedded Derivatives’ – Amendment

The amendments are effective for annual accounting periods ending on or after 30 June 2009. The amendments clarify that in cases of transfers of financial assets from the “fair value through profit or loss” category, all embedded derivatives should be assessed and if necessary should be accounted as separate financial instruments in the financial statements. The Bank will adopt the amendments from 1 January 2009 and is currently assessing the impact of these amendments on its financial statements.

IFRIC 15 : ‘Agreements for the Construction of Real Estate’

The interpretation is effective for annual accounting periods beginning on or after 1 January 2009. The interpretation is not relevant to the operations of the Bank.

IFRIC 16 : ‘Hedges of a Net Investment in a Foreign Operation’

The interpretation is effective for annual accounting periods beginning on or after 1 October 2008. The interpretation is not relevant to the operations of the Bank.

IFRIC 17 : ‘Distributions of Non-cash Assets to Owners’

The interpretation is effective for annual accounting periods beginning on or after 1 July 2009. The interpretation clarifies the accounting treatment and disclosures in the case of dividend distribution in the form of non-cash assets to owners. The Bank will adopt this interpretation from 1 January 2010.

IFRIC 18 : ‘Transfers of Assets from Customers’

The interpretation is effective for annual accounting periods beginning on or after 1 July 2009. The interpretation is not relevant to the operations of the Bank.

(4) Significant judgments and estimates

The judgements, estimates, assumptions and valuations made by the management of the Bank in the preparation of the financial statements are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Consequently, the actual results may be different from initial judgments and estimates. Adjustments resulting from changes in management’s judgments and estimates are recognised in the Income Statement of the period in which they arise.

The areas that entail a significant degree of judgment or complexity or where the judgments and estimates significantly affect the amounts recognised in the financial statements, are presented below:

(4) Significant judgments and estimates (continued)

Provision for impairment of loans and advances to customers

During the financial year the Bank regularly reviews its portfolio of loans and advances to customers and recognises provisions for impairment in cases where it is assessed that there is objective evidence that the Bank will not fully recover the outstanding balance.

The review for impairment is focused on the unsecured loans and advances to customers that are overdue for more than three months. Primary evidence for impairment includes significant deterioration of the financial position of the borrower, legal action, probability of bankruptcy and other evidence that leads to the conclusion that the agreed repayment schedule of the loan will not be adhered. The amount of provision for impairment depends on the estimated amount and timing of future cash flows taking into account any amounts that are estimated to be recovered from underlying guarantees and collaterals.

In addition to provisions for impairment on specific loans and advances to customers, the Bank also makes collective provisions for impairment on homogeneous loans portfolios. The level of provisions for each portfolio is determined having regard to the level of existing or potential problematic debts, the time period for which amounts are overdue, the prevailing economic climate and prior years' loss rates.

Cost of retirement benefits

The cost of the retirement benefits for the defined benefit pension plan is determined using actuarial valuations, which are based on assumptions about discount rate, future salary increases, insurable earnings increases and expected rate of return on plan assets. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

Held-to-maturity financial assets

In line with IAS 39 the Bank classifies the financial assets with fixed or determinable payments and fixed maturities as held-to-maturity financial assets. The classification is based on the Bank's evaluation of its intention and ability to hold such investments to maturity.

(5) Foreign currency

Foreign currency transactions are translated in the functional currency using the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into Euro at the rate of exchange ruling at the balance sheet date. All differences arising on translation are recognised in the Income Statement.

Non-monetary items denominated in foreign currency and measured at historic cost are translated using the exchange rates ruling as at the dates of the initial transactions.

(6) Segmental reporting

The Bank 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 from those of other business segments. Analysis by geographical segment is not provided as the Bank operates only in Cyprus.

(7) Income recognition

Interest receivable is recognised on a time proportion basis that takes into account the effective yield on the underlying assets.

Interest on loans and advances to customers that are considered impaired and for which a specific provision has been made, is not recognised as income in the Income Statement but is credited to a suspense account, until it is collected. In addition the Bank adopts the policy of suspending recognition of interest and similar income on non-performing loans. Non-performing loans are defined as those loans that are overdue for more than three months and are not fully secured or/and guaranteed by the government, as well as overdraft accounts that are in excess of their credit limit by over 5% and are not fully secured 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 three months. With effect from 1 January 2006, the relevant Directive of the Central Bank of Cyprus provides that where the sum of all debit balances of a customer's accounts, which are overdue for more than three months, is greater than 20% of the total of the funded credit facilities extended to him by the Bank, then all credit facilities granted to the customer concerned should be treated as non-performing. In these cases, the recognition of interest and other income to the Income Statement is suspended until they are collected or until the relevant loans and advances cease to be classified as non-performing.

Fee and commission income is recognised in the period when the related services have been provided.

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

Rental income is recognised on a straight line basis over the period of the lease.

(8) Property, equipment and computer software

Property held by the Bank for use in the supply of services or for administrative purposes is classified as owner-occupied property. Property held by the Bank to earn rentals and/or for capital appreciation is classified as investment property. If a property of the Bank includes a portion that is owner-occupied and another portion that is held to earn rentals, the whole property is classified as owner-occupied unless the portion which is rented out is significant and can be sold separately in which case it is classified as investment property.

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation.

(8) Property, equipment and computer software (continued)

Valuations are carried out periodically by independent qualified valuers on the basis of open market value for current use. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Increases in the carrying amount arising on revaluation of property are credited to revaluation reserve. Decreases in the carrying amount of property are debited to revaluation reserve to the extent that they offset previous increases of the same property. Further decreases are debited as expenses in the Income Statement. The difference between depreciation based on the revalued carrying amount and depreciation based on the property's historic cost is transferred from revaluation reserve to accumulated profits.

Equipment and computer software are measured at cost less accumulated depreciation.

Subsequent expenditure on property, equipment and computer software which can be measured reliably is capitalised only when it is probable that future economic benefits related to the expenditure will flow to the Bank. Expenditure for repairs and maintenance of property, equipment and computer software is charged to the Income Statement.

Property, equipment and computer software are depreciated on a straight line basis over their useful economic lives. The depreciation rates used are as follows:

Buildings	5% to 10%
Equipment	10% to 20%
Computer software	20%

Land is not depreciated.

On disposal of property, equipment and computer software, the difference between the sale proceeds and the net book value is debited or credited to the Income Statement. The related revaluation surplus is transferred to the accumulated profits.

The carrying value of property, equipment and computer software is reviewed for indications of impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. In cases where an indication exists and the carrying value of an asset is greater than its estimated recoverable amount, the carrying amount of the asset is written down to its recoverable amount. The recoverable amount of property, equipment and computer software is the higher of net selling price and its value in use.

(9) Investment property

Investment property is measured at fair value as determined annually by independent qualified valuers, on the basis of open market value. Gains and losses arising from changes in the fair value of investment property are recognised in the Income Statement.

(10) Leases

Leases where substantially all risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. All other lease agreements are classified as operating leases.

The Bank has only entered into operating lease agreements for immovable property either as a lessor or as a lessee.

For operating leases where the Bank is the lessor, the leased immovable property is recognised as an asset of the Bank and is depreciated over its useful life. Rental income from operating leases is recognised in the Income Statement on a straight line basis over the period of the lease.

For operating leases where the Bank is the lessee, the leased immovable property is not recognised as an asset of the Bank. Rental expenses made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

(11) Property held for sale

Property designated by the Bank as available for sale is measured at the lower of cost and net realisable value.

(12) Investments in treasury bills, debt securities and shares

The Bank classifies its investments in treasury bills, debt securities and shares in the following categories: «held-to-maturity financial assets», «financial assets at fair value through profit or loss» and «financial assets valued at cost». The financial assets are classified in the above categories upon acquisition based on management's intention at that time and the classification is re-evaluated at each balance sheet date. The Bank has not classified any financial assets in the category «available for sale financial assets».

All investments are initially measured at fair value which includes, except for investments classified at fair value through profit or loss, the acquisition costs associated with the financial assets.

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Bank commits to purchase or sell the financial assets.

Financial assets are derecognised when the contractual right to receive cash flows from the financial assets has expired or when the Bank has transferred substantially all risks and rewards of ownership of the financial assets.

(12) Investments in treasury bills, debt securities and shares (continued)

Financial assets held to maturity

Financial assets with fixed maturity, for which the Bank has both the intent and the ability to hold to maturity, are classified in this category. Treasury bills and debt securities are classified in this category.

After initial recognition, financial assets held to maturity are presented on the balance sheet at nominal value plus any unamortized premium or less any unamortized discount arising on purchase, less any provision for impairment.

Any premium or discount arising on the purchase of such financial assets is amortised on a straight line basis over the period from acquisition to maturity. Amortisation resulting from the use of the straight line method is not materially different from amortisation resulting from the use of the effective interest rate method.

At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets are impaired when their carrying amount is greater than their recoverable amount. The recoverable amount is estimated based on present value of the projected cash flows. Impairment loss on such financial assets is recognised in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Income Statement. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised at the date of reversal.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and other financial assets the Bank designated to be measured at fair value where gains and losses from changes in their fair value are recognised in the Income Statement.

Financial assets held for trading are financial assets acquired for the purpose of generating a profit from short term fluctuations in their prices or are included in a portfolio of financial assets in which a pattern of short term profit making exists.

(12) Investments in treasury bills, debt securities and shares (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets designated by the Bank at fair value through profit or loss upon initial recognition are those that are collectively managed and whose performance is assessed on a fair value basis in accordance with verified risk or investment management strategy and information regarding this group of financial assets is provided internally to the key management personnel of the Bank on this basis. Investments in shares that the Bank can measure their fair value reliably are classified in this category.

After initial recognition, the financial assets at fair value through profit or loss are measured at fair value. The fair value for listed investments is based on quoted bid prices at the close of the stock exchange. The fair value for unlisted investments is estimated using appropriate valuation models and ratios which reflect the particular circumstances of the issuer.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the Income Statement in the year in which they arise. On disposal, the difference between the net sale proceeds and the carrying amount of financial assets on the balance sheet is transferred to the Income Statement.

Financial assets at cost

Investments in unlisted shares whose fair value can not be reliably measured are classified as financial assets at cost. This category includes investments in cooperative societies. The Cooperative Societies Laws prohibit the transfer of shares held in a cooperative society to third parties that are not themselves members of the same cooperative society. The laws also provide that for a transfer of shares between members of a cooperative society to be effective it must be approved by the Committee of the cooperative society. Additionally, every member-shareholder of a cooperative society has the right to one vote only regardless of the actual number of shares owned. Because of these restrictions, the fair value of investments in cooperative societies can not be reliably measured and hence they are carried at cost.

For unlisted shares that are not carried at fair value because their fair value can not be reliably measured, and for which there is objective evidence that an impairment loss has been incurred, the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. The impairment loss on such financial assets is recognised in the Income Statement and is not reversed.

(13) Loans and advances to customers

Loans and advances to customers originate by providing cash directly to the borrowers and are initially measured at the fair value of the consideration given to originate those loans including the arrangement costs. Loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method.

Loans and advances to customers are stated net of provisions for impairment which may arise in the ordinary course of business.

After regular assessments of the collectability of loans and other advances to customers specific provisions are recognised when loans and advances are considered impaired. In particular the assessment covers, amongst others, the customer's overall financial condition, the repayment record and the realisable value of any collateral.

When the assessment establishes that there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan, the carrying amount of the loan is reduced to its estimated recoverable amount, being the present value of expected future cash flows, including expected amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loan.

For homogeneous loan portfolios provisions are calculated by the Bank for the portfolio after a collective assessment of the whole portfolio. The level of provisions for each portfolio is determined having regard to the level of existing or potential problematic debts, the time period for which amounts are overdue, the prevailing economic climate and prior years' loss rates.

Increases and decreases in the provisions for impairment arising from changes in the estimated recoverable amounts and the timing of the expected future cash flows are recognised in the Income Statement.

Loans and advances to customers are written off to the extent that there is no realistic prospect of recovery. Recoveries of amounts that were previously written off are credited in the Income Statement.

(14) Taxation

Taxation on income is provided in accordance with the tax laws and tax rates which apply and is recognised as an expense in the Income Statement in the period in which the income arises. The Bank is not subject to corporation tax on income from transactions with its members.

Deferred tax assets and liabilities are measured using the tax rates and laws that have been enacted or substantially been enacted at the balance sheet date, and are expected to apply to the period when the deferred tax assets will be realised and the deferred tax liabilities will be settled.

(14) Taxation (continued)

Deferred tax is fully provided using the liability method. Deferred 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, which will result in taxable amounts in future periods.

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

Deferred tax is recognised in the Income Statement except where it relates to transactions or events recognised directly to reserves.

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

(15) Inventories

Inventories, which comprise mainly of agricultural products, are measured at the lower of cost and net realisable value.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

All inventories are finished products and their cost is assigned using the weighted average cost formula.

(16) Retirement benefits

The Bank operates a defined benefit plan, («the Scheme»). The present value of obligations and the cost of providing retirement benefits to employees under the Scheme are estimated by independent actuaries, using the projected unit credit actuarial valuation method.

Actuarial gains or losses are recognised in the Income Statement when the net cumulative unrecognised actuarial 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 Scheme or 10% of the fair value of any Scheme assets at that date and are divided by the expected average remaining working lives of the employees participating in the Scheme.

In addition, the Bank operates defined contribution plans for the cleaners and for the workers of the Agricultural Trading Department. The Bank's contributions to the defined contribution plans are recognised in the Income Statement in the year to which they relate. The Bank's obligation is limited to the payment of the required contribution for each plan.

(17) Repurchase agreements

Securities sold subject to repurchase agreements ('repos') continue to be recognised in the balance sheet. The proceeds from the sale of the securities are recognised on the balance sheet as 'Repurchase Agreements'. Securities purchased, on condition that they will be resold in the future ('reverse repos'), are not recognised in the balance sheet. The amounts paid for purchase thereof are recognised as 'Reverse Repos Agreements'. The difference between the sale and repurchase consideration is recognised as interest income or expense over the life of the repurchase agreement using the effective interest rate method.

(18) Deposits and other customer accounts

Deposits and other customer accounts are measured initially at the fair value of the consideration received. Subsequently, they are measured at amortized cost using the effective interest rate method.

(19) Provisions

Provisions are recognised when the Bank has a present obligation, legal or constructive, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(20) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and balances with Central Banks, balances which are included in placements with other banks and amounts due to other banks and government and other eligible securities that are readily convertible into known amounts of cash or are repayable within three months from the date of their acquisition.

(21) Share capital

Shares issued and fully paid are recognised at nominal value and are classified as share capital which is included in equity.

(22) Dividends payable

Dividends payable are recognised as a liability in the year in which they are approved for payment.

(23) Derivatives

Derivative financial instruments include forward foreign exchange contracts and currency swaps. Derivatives are recognised in the balance sheet at estimated fair value. Fair values are estimated using market prices. Adjustments to the estimated fair values of derivatives are recognised in the Income Statement.

All derivatives are presented as assets at fair value through profit or loss when their fair value is positive and as liabilities at fair value through profit or loss when their fair value is negative.

(24) Events after the balance sheet date

Assets and liabilities are adjusted for events incurred during the period between the balance sheet date and the date that the financial statements are approved by the Committee, in cases where these events offer additional information on the valuation of amounts relative to conditions existing at the balance sheet date.

(25) Comparatives

Where necessary, comparative figures were restated to conform with changes in the presentation in the current year. Such reclassifications relate mainly to the presentation of income and expense that refers to IFRIC 13 'Customer Loyalty Programmes'. These reclassifications had no effect on the profit or on the equity of the Bank.

Cooperative Central Bank Ltd

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

1. Company incorporation and principal activities

The Cooperative Central Bank Ltd was incorporated in Cyprus in 1937 (registration number 88) as a limited liability company within the meaning of the provisions of Section 11 of the Cooperative Societies Laws of 1923 and 1937. The head office of the Bank is at 8 Gregoris Afxentiou Street, 1096 Nicosia, P.O. Box 24537, 1389 Nicosia.

The Bank is the banker of all registered cooperative societies and the central banker of cooperative credit societies. The principal activities of the Bank during the year continued to be the provision of banking, financing, insurance services and the carrying out of agricultural trading activities. All activities are carried out in Cyprus.

2. Business combination

In 2007, after approval obtained by the Commissioner of Cooperative Societies' Supervision and Development Authority (C.C.S.S.D.A) on 1 November 2007, the Bank undertook all rights and obligations of Pancyprian Cooperative Company of Insurance Services Limited (P.C.C.I.S). All of its transactions, contracts and other documents will continue under the ownership of the Bank.

Fair value of identifiable financial assets and liabilities acquired:

	€000
Deposits with Cooperative Societies	2.488
Investments in shares	263
Investment property	1.938
Property and equipment	1.943
Accrued income	293
	<hr/>
	6.925
Other liabilities	(976)
	<hr/>
Fair value of net assets	5.949
Participation of the Bank in P.C.C.I.S.'s share capital	(42)
	<hr/>
Reserve due to business combination	5.907
	<hr/>

From the above business combination no goodwill has arisen since this business combination is outside the scope of IAS 3 'Business Combinations', as the Bank and P.C.C.I.S are under common control.

According to the business combination agreement, the Bank has the obligation to issue share capital to the members of P.C.C.I.S. equal to the net assets presented in P.C.C.I.S's balance sheet, as at the completion date of the combination procedures.

Cooperative Central Bank Ltd
NOTES TO THE FINANCIAL STATEMENTS
31 December 2008

3. Segmental analysis

Business segments

	Banking, financial and insurance services €000	Agricultural trading activities €000	Total €000
2008			
Turnover	<u>148.266</u>	<u>16.906</u>	<u>165.172</u>
Profit before taxation	<u>31.458</u>	<u>809</u>	<u>32.267</u>
Assets	<u>2.895.502</u>	<u>17.709</u>	<u>2.913.211</u>
Liabilities	<u>2.733.049</u>	<u>1.814</u>	<u>2.734.863</u>
Capital expenditure	<u>1.252</u>	<u>303</u>	<u>1.555</u>
Depreciation	<u>1.428</u>	<u>211</u>	<u>1.639</u>
2007			
Turnover	<u>162.499</u>	<u>13.522</u>	<u>176.021</u>
Profit before taxation	<u>32.719</u>	<u>296</u>	<u>33.015</u>
Assets	<u>3.449.431</u>	<u>10.576</u>	<u>3.460.007</u>
Liabilities	<u>3.339.572</u>	<u>1.813</u>	<u>3.341.385</u>
Capital expenditure	<u>3.217</u>	<u>79</u>	<u>3.296</u>
Depreciation	<u>1.372</u>	<u>183</u>	<u>1.555</u>

The Bank's turnover comprises of interest receivable, fee and commission income, foreign exchange income, and other income, as well as sales and other income of the Agricultural Trading Department.

The profit of the Agricultural Trading Department referred above is stated after deducting those expenses that are paid directly by the Agricultural Trading Department and the provisions for impairment of advances of the Department and does not include the cost to the Bank in respect of working capital and other general administrative/operating costs.

Cooperative Central Bank Ltd

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

4. Interest receivable

	2008	2007
	€000	€000
Loans and advances to customers	57.363	44.591
Deposits with Central Banks	9.760	20.929
Treasury bills	804	5.170
Placements with other banks	13.865	19.461
Debt securities	49.811	54.465
	<u>131.603</u>	<u>144.616</u>

5. Interest payable

	2008	2007
	€000	€000
Deposits and other customer accounts	91.980	107.331
Amounts due to Central banks	1.067	-
Amounts due to other banks	23	753
Loan Commissioners – Finance for Agricultural Development	47	63
	<u>93.117</u>	<u>108.147</u>

6. Fee and commission income

	2008	2007
	€000	€000
Fee and commission income from banking operations	8.054	8.517
Fund management fees	226	422
Other fee and commission income	5.552	4.256
	<u>13.832</u>	<u>13.195</u>

7. Fee and commission expense

	2008	2007
	€000	€000
Fee and commission expense for banking operations	2.903	2.414
Other fee and commission expense	1.656	1.507
	<u>4.559</u>	<u>3.921</u>

Cooperative Central Bank Ltd
NOTES TO THE FINANCIAL STATEMENTS
31 December 2008

8. Income statement

Other income

Other income includes the following:

	2008	2007
	€000	€000
Gross profit and other income from agricultural trading activities	3.717	3.038
Gain on revaluation of investment property	169	-
Rent receivable	338	243
Dividends from investments in shares	319	92
(Loss)/ profit on sale of property and equipment	(5)	5
Decrease in liability to Loan Commissioners	-	5

The total operating expenses of the Agricultural Trading Department amount to €2.910 thousand (2007: €2.744 thousand) and comprise of staff costs €2.225 thousand (2007: €2.011 thousand), depreciation expense €211 thousand (2007: €183 thousand), commissions payable €170 thousand (2007: €195 thousand) and other operating expenses €304 thousand (2007: €355 thousand).

The above mentioned expenses, are those expenses that are paid directly by the Agricultural Trading Department and do not include the cost to the Bank in respect of working capital and other general administrative/operating costs.

During the year, the provisions for impairment of advances of the Agricultural Trading Department decreased by €2 thousand (2007: €2 thousand).

The decrease in the liability to Loan Commissioners resulted from the write off of pre-war refugees' debts, in pursuance of the Council of Ministers decision dated 15.10.1996. The presentation of the relevant refugee identity card is a prerequisite for the write off of debts. The respective write off of loans and advances is shown in note 16.

Profit before taxation

The profit before taxation is stated after charging the following:

	2008	2007
	€000	€000
Committee members' fees	6	9
Audit fees	68	68
Taxation fees	3	4
Non-audit fees	128	245
Depreciation of property and equipment	1.269	1.155
Depreciation of computer software	370	400
Rent payable	161	171

The audit fees are paid to the Cooperative Societies Audit Service (CSAS) which, in accordance with the provisions of the Cooperative Societies Laws, section 19(11)(a), has the authority to audit the financial statements and the general financial management of all registered cooperative societies. CSAS exercised its rights as provided by the law and delegated the audit of the financial statements of the Bank for the years 2007 and 2008 to other independent auditors for an agreed fee.

Cooperative Central Bank Ltd
NOTES TO THE FINANCIAL STATEMENTS
31 December 2008

9. Staff costs

	2008	2007
	€000	€000
Staff emoluments	9.893	8.673
Employer's contributions	1.098	986
Retirement benefit costs:		
- Defined benefit plan	2.484	2.462
- Defined contribution plans	61	56
Other staff costs	323	280
	<u>13.859</u>	<u>12.457</u>

The average number of staff employed by the Bank during the year 2008 was 289 (2007: 275).

Retirement benefits

The retirement benefit Scheme is a defined benefit plan for the Bank's employees («the Scheme»), it is wholly financed by the Bank and covers 86% of the total staff of the Bank.

The Scheme provides for lump sum payments on retirement, withdrawal, or earlier death, calculated on the basis of the length of service and the average monthly salary for a period of 30-36 months before retirement for any reason stated above.

The present value of the obligations under the Scheme and the relevant cost of providing retirement benefits are estimated annually using the projected unit credit actuarial valuation method, taking into consideration the current level of salaries and length of service and assumptions with regard to salary increases and the annual return of the Scheme's investments. A full actuarial valuation of the obligations of the Bank under the Scheme is carried out at least every three years by independent qualified actuaries.

The principal actuarial assumptions used in the last full actuarial valuation carried out by independent qualified actuaries provide for:

	2008	2007
Discount rate	5,75 %	5,25 %
Annual return on the Scheme's investments	5,60 %	5,17 %
Annual increase in insurable earnings	4,00 %	4,00 %
Annual increase in salaries	7,00 %	7,00 %

Cooperative Central Bank Ltd
NOTES TO THE FINANCIAL STATEMENTS
31 December 2008

9. Staff costs (continued)

The results of the actuarial valuations for the Bank's defined benefit plan are shown below:

	2008	2007
	€000	€000
Present value of obligations	20.402	19.921
Fair value of plan assets	(849)	(1.015)
	19.553	18.906
Cumulative unrecognised actuarial losses	(3.746)	(4.256)
Provision for staff retirement benefits (note 26)	15.807	14.650

The plan assets comprise of the provident funds to which contributions were made up to 31.12.1993 in accordance with the agreement between the Banks and the Cyprus Union of Bank Employees at that time and which are deposited with the Bank.

The movement for the year in the provision for staff retirement benefits is as follows:

	2008	2007
	€000	€000
1 January	14.650	14.214
Provision for the year	2.484	2.462
Payments to departing members	(1.327)	(2.026)
31 December	15.807	14.650

The amounts recognised in the Income Statement for the Bank's defined benefit plan are as follows:

	2008	2007
	€000	€000
Current service cost	1.371	1.341
Actuarial losses recognised in the year	97	135
Notional interest on plan liabilities	1.046	1.032
Expected return on plan assets	(30)	(46)
	2.484	2.462
Actual return on plan assets – increase	30	46

Unrecognised actuarial losses are mainly the result of changes or differences in the actuarial assumptions used in the actuarial valuations. These resulted mainly from increases in the salaries of employees. Following the recommendation of the actuaries, the Bank will cover the cumulative actuarial losses with increased annual contributions. This additional cost will apply to the future average useful life of the Scheme.

Cooperative Central Bank Ltd

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

9. Staff costs (continued)

In addition, the Bank operates a defined contribution plan for the workers of the Agricultural Trading Department who account for 13% of the total staff employed by the Bank. The Bank contributes 9% on the monthly salaries of the assistant salesmen and 7% on the weekly salaries of the workers of agricultural chemicals and fertilizers.

The Bank also operates a defined contribution plan for nine cleaners to which it contributes 11% on their monthly salaries.

10. Taxation

	2008	2007
	€000	€000
Corporation tax		
Taxation on the profit for the year	1.110	1.930
Special contribution for defence		
Contribution on rental income for the year at 3%	10	17
Deferred tax		
Debit /(credit) for the year	560	(14)
Charge for the year	1.680	1.933

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

	2008	2007
	€000	€000
Profit before taxation	32.267	33.015
Taxation on the profit for the year at the normal tax rates 10%	3.227	3.303
Income from members which is not taxable	(1.562)	(1.563)
Expenses and taxes not deductible for tax purposes	7	21
Investment allowance for equipment, difference between wear and tear allowances and depreciation and other deductions	23	34
Deferred tax calculation adjustment	(25)	121
	1.670	1.916
Special contribution for defence on rental income	10	17
	1.680	1.933

The Bank is subject to corporation tax at the rate of 10%. The Bank is not subject to corporation tax on income arising from transactions with its members.

Cooperative Central Bank Ltd

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

11. Cash and deposits with Central Banks

	2008 €000	2007 €000
Cash	27.576	20.426
Deposits with Central Bank of Cyprus	398.158	409.213
Deposits with other Central Banks	205	44
	<u>425.939</u>	<u>429.683</u>

Deposits with Central Bank of Cyprus include the obligatory deposits for liquidity purposes which amount to €398.158 thousand (2007: €149.516 thousand).

The analysis by rating agency designation of deposits with central banks is set out in note 40.

12. Treasury bills

	2008 €000	2007 €000
Treasury bills	-	82.068
Repayable:		
Within three months	-	82.068

The treasury bills are held to maturity and are eligible for refinancing with the Central Bank of Cyprus.

13. Placements with other banks

	2008 €000	2007 €000
Repayable:		
On demand	6.894	16.368
Within three months	32.788	419.986
Between three months and one year	14.290	97
	<u>53.972</u>	<u>436.451</u>

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14. Debt securities

	2008	2007
	€000	€000
Government securities, listed on the Cyprus Stock Exchange	971.090	1.308.438
Listed Cyprus banks' bonds	19.086	17.086
Listed foreign banks' bonds	130.793	-
Unlisted Cyprus banks' bonds	888	888
	<u>1.121.857</u>	<u>1.326.412</u>
	2008	2007
	€000	€000
Repayable:		
Within three months	62.945	231.293
Between three months and one year	153.441	102.928
Between one and five years	820.883	907.334
Over five years	84.588	84.857
	<u>1.121.857</u>	<u>1.326.412</u>

All debt securities are held to maturity. The government securities are eligible for refinancing with the Central Bank of Cyprus.

On 31 December 2008, the debt securities were charged with a floating charge of €200.042 thousand in respect with the repurchase agreements.

The movement for the year in debt securities held-to-maturity is shown below:

	2008	2007
	€000	€000
Carrying amount		
1 January	1.326.412	1.043.954
Purchases	132.644	417.155
Redemptions	(334.209)	(131.314)
Amortisation of premiums	(2.990)	(3.383)
31 December	<u>1.121.857</u>	<u>1.326.412</u>

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15. Loans and advances to customers

	2008	2007
	€000	€000
Advances	1.121.448	997.007
Advances on arrangement	-	8.338
Advances to companies under liquidation	83.769	83.771
Advances for the repayment of refugees' deposits	36.842	36.842
Long-term advances for agricultural development	24.975	25.045
Total advances	1.267.034	1.151.003
Provision for impairment of loans and advances (note 16)	(102.818)	(103.505)
	1.164.216	1.047.498

Advances on arrangement relate to claims of €10.978 thousand for which the Bank obtained security by acquiring during 2003 immovable property of higher value. According to the provisions of this arrangement, the Bank agreed to rent the immovable property to the debtor. During December 2006, as per the terms of the arrangement, the Bank disposed some of the immovable property at cost price amounting to €2.640 thousand. In 2008 the debtor has repurchased the remaining immovable property at their initial cost price for €8.338 thousand. According to the provisions of this arrangement the debtor has the “repurchase option” on the property at its initial cost price. Rental income received during the year amounted to €107 thousand (2007: €501 thousand) is included in interest receivable (note 4).

No interest is charged on advances to companies under liquidation. The relevant provision for impairment for these advances (included in note 16) amounts to €82.603 thousand (2007: €82.603 thousand) and is analysed as follows: specific provision €53.869 thousand (2007: €53.869 thousand) and suspended interest €28.734 thousand (2007: €28.734 thousand).

The advances for the repayment of refugees' deposits were made in pursuance of the deposits with displaced Cooperative Societies Laws of 1978 to 1988 and have been frozen under Law 223/88. These advances were financed through credit facilities provided by the Government which are also frozen and interest free (note 28). Advances not financed through credit facilities provided by the Government of €308 thousand (2007: €308 thousand) were fully provided.

The long-term advances for agricultural development have been financed by the Loan Commissioners (note 29). These include advances to refugees €19.075 thousand (2007: €19.075 thousand) which were granted during the period 1974-1984. As from 1.1.2001 no interest is charged on these advances and the Bank's responsibility is to repay these amounts to the Loan Commissioners over the same time period as they are received from the Bank's debtors.

The above advances and the related liabilities are not analysed into repayment periods and by category.

Total advances include loans and advances to Cooperative Societies amounting to €110.636 thousand (2007: €117.432 thousand) and to Cooperative Credit Societies €60.102 thousand (2007: €46.505 thousand).

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15. Loans and advances to customers (continued)

	2008	2007
	€000	€000
Repayable:		
On demand	86.853	74.633
Within three months	23.763	34.580
Between three months and one year	28.199	26.531
Between one and five years	82.131	96.734
Over five years	900.502	764.529
	<u>1.121.448</u>	<u>997.007</u>
	2008	2007
	€000	€000
Analysis by category:		
Current accounts	35.472	22.599
Term loans	1.055.273	943.657
Other debtors	30.703	30.751
	<u>1.121.448</u>	<u>997.007</u>

16. Provision for impairment of loans and advances to customers

	Provisions	Interest in	Total
	€000	suspense	€000
		€000	
1 January 2008	66.583	36.922	103.505
Suspended interest for the year	-	975	975
Collections of previous years' suspended interest	-	(1.287)	(1.287)
Provisions for the year	7.011	-	7.011
Decrease in provisions made in previous years	(5.841)	-	(5.841)
Write offs	(1.500)	(45)	(1.545)
31 December 2008	<u>66.253</u>	<u>36.565</u>	<u>102.818</u>
1 January 2007	65.677	37.811	103.488
Suspended interest for the year	-	1.582	1.582
Collections of previous years' suspended interest	-	(2.471)	(2.471)
Provisions for the year	1.531	-	1.531
Decrease in provisions made in previous years	(212)	-	(212)
Write offs	(413)	-	(413)
31 December 2007	<u>66.583</u>	<u>36.922</u>	<u>103.505</u>

16. Provision for impairment of loans and advances to customers (continued)

In 2007, write offs amounting to €5 thousand were made in pursuance of Law 65(1)95 which amends Debtors' Relief Law 24/79 and which provides that "the balance of the debt of a debtor who has been proclaimed refugee or in case of dispute will be proclaimed refugee or wounded debtor, is written off and the balance of the debt ceases from being, in any way, receivable".

Non-performing loans amount to €136.734 thousand (2007: €118.768 thousand). After deducting provisions and suspended interest, the total amount of non-performing loans amounts to €36.628 thousand (2007: €24.254 thousand).

On 31 December 2008 non-performing loans include advances of €4.409 thousand (2007: €4.169 thousand) which are guaranteed by the government.

17. Investments in shares

	2008	2007
	€000	€000
Unlisted		
Investments in Cooperative Societies, at cost	636	567
Investments in other companies, at fair value	157	424
	793	991

The movement for the year in investments at fair value through profit or loss is shown below:

	2008	2007
	€000	€000
Carrying amount		
1 January	424	31
Additions due to business combination	-	99
Purchases	-	396
Sales	-	(119)
(Loss)/ gain from changes in fair value of investments	(267)	17
31 December	157	424

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18. Property held for sale

	2008 €000	2007 €000
Acquired in satisfaction of debts	<u>800</u>	<u>800</u>

According to the Banking Law, the Bank is obliged to sell the immovable property the earliest possible and not later than three years, except if an extension is granted by the Central Bank of Cyprus.

19. Investment property

The movement for the year in investment property is shown below:

	2008 €000	2007 €000
1 January	4.034	-
Additions due to business combination	-	1.938
Transfer from “property and equipment” category	-	2.096
Revaluation	<u>169</u>	<u>-</u>
31 December	<u>4.203</u>	<u>4.034</u>

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20. Property and equipment

2008	Freehold immovable property €000	Equipment €000	Total €000
Cost or valuation			
1 January 2008	20.109	7.711	27.820
Additions	22	872	894
Revaluation	17.373	-	17.373
Disposals and write-offs	-	(127)	(127)
31 December 2008	37.504	8.456	45.960
Depreciation			
1 January 2008	908	5.129	6.037
Charge for the year	405	864	1.269
Revaluation	(1.313)	-	(1.313)
Disposals and write-offs	-	(87)	(87)
31 December 2008	-	5.906	5.906
Net book value			
31 December 2008	37.504	2.550	40.054
2007			
	€000	€000	€000
Cost or valuation			
1 January 2007	18.160	7.045	25.205
Additions due to business combination	1.938	5	1.943
Additions	1.712	1.116	2.828
Transfer to “investment property”	(2.096)	-	(2.096)
Revaluation	395	-	395
Disposals and write-offs	-	(455)	(455)
31 December 2007	20.109	7.711	27.820
Depreciation			
1 January 2007	695	4.777	5.472
Charge for the year	355	800	1.155
Revaluation	(142)	-	(142)
Disposals and write-offs	-	(448)	(448)
31 December 2007	908	5.129	6.037
Net book value			
31 December 2007	19.201	2.582	21.783

In 2007, immovable property with fair value of €2.096 thousand was transferred from the “property and equipment” category to the “investment property” category. The immovable property transferred relates to Bank’s property that is rented to third parties. According to the provisions of IAS 40 ‘Investment Property’, this property has been revalued to its fair value at the date of transfer. The increase in the carrying value of the immovable property of €537 thousand resulting from the revaluation was credited to the revaluation reserve on immovable property.

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20. Property and equipment (continued)

During 2007, under the business combination agreement with P.C.C.I.S., the Bank acquired all its assets and liabilities (note 2). As a result of this business combination the Bank acquired property and equipment amounting to €1.943 thousand as at the combination date.

The most recent revaluation on the immovable property of the Bank to its open market value was made on 31 December 2008 by independent qualified valuers on the basis of its use at the date of valuation. The revaluation surplus has been transferred to the revaluation reserve. The revaluation carried on the privately owned immovable property during 2007, relates to the property transferred to investment property category.

The net book value of immovable property that is used in the Bank's operations amounts to €21.901 thousand (2007: €11.651 thousand). Land valued at €13.190 thousand (2007: €6.279 thousand) is held for future use in the Bank's operations, and the remaining immovable property is rented out under short term leases. The net book value of the immovable property would amount to €10.661 thousand (2007: €10.875 thousand) had it been stated in the financial statements at cost less accumulated depreciation.

There are no charges in favour of third parties on the Bank's property and equipment.

21. Computer software

	2008	2007
	€000	€000
Cost		
1 January	3.457	2.989
Additions	661	468
31 December	4.118	3.457
Depreciation		
1 January	2.430	2.030
Charge for the year	370	400
31 December	2.800	2.430
Net book value		
31 December	1.318	1.027

The above do not include the banking software which is property of the computer bureau of the Cooperative Movement and for which the Bank pays rights.

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22. Other assets

	2008	2007
	€000	€000
Deferred tax	421	981
Corporation tax refundable	105	-
Fair value of derivatives	33	21
Other receivables	<u>2.818</u>	<u>2.820</u>
	<u>3.377</u>	<u>3.822</u>

The balance of deferred tax relates to temporary differences resulting from the following:

	2008	2007
	€000	€000
Differences between depreciation and tax allowances	150	137
Other temporary differences	<u>271</u>	<u>844</u>
	<u>421</u>	<u>981</u>

Deferred tax movement for the year is shown below:

	2008	2007
	€000	€000
1 January	981	967
(Debit) / credit tax in the Income Statement (note 10)	<u>(560)</u>	<u>14</u>
31 December	<u>421</u>	<u>981</u>

23. Accrued income

	2008	2007
	€000	€000
Accrued interest	32.947	39.986
Accrued fee and commission income	<u>1.091</u>	<u>236</u>
	<u>34.038</u>	<u>40.222</u>

24. Amounts due to other banks

	2008	2007
	€000	€000
Repayable:		
On demand	2.723	2.976
Within three months	<u>51</u>	<u>85</u>
	<u>2.774</u>	<u>3.061</u>

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25. Deposits and other customer accounts

	2008	2007
	€000	€000
Deposits and other customer accounts	<u>2.400.412</u>	<u>3.176.521</u>
Repayable:		
On demand	255.664	425.946
Within three months	891.545	1.230.574
Between three months and one year	833.089	1.432.678
Between one and five years	222.210	87.323
Over five years	197.904	-
	<u>2.400.412</u>	<u>3.176.521</u>
Analysis by category:		
Demand and saving deposits	255.597	333.750
Time deposits	2.144.815	2.842.771
	<u>2.400.412</u>	<u>3.176.521</u>
Origin of deposits:		
Cooperative Credit Societies	2.283.112	3.057.383
Other Cooperative Societies	21.708	19.567
Others	95.592	99.571
	<u>2.400.412</u>	<u>3.176.521</u>

26. Other liabilities

	2008	2007
	€000	€000
Income tax payable	-	263
Special defence contribution on deemed dividend distribution	843	982
Deferred tax	2.664	865
Provision for staff retirement benefits (note 9)	15.807	14.650
Fair value of derivatives	31	743
Other payables	16.130	26.857
	<u>35.475</u>	<u>44.360</u>

The balance of deferred tax relates to revaluation of immovable property. The movement for the year is presented below:

	2008	2007
	€000	€000
1 January	865	1.353
Debit/(credit) revaluation reserve on immovable property	1.799	(488)
31 December	<u>2.664</u>	<u>865</u>

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27. Accruals and deferred income

	2008	2007
	€000	€000
Accrued interest	30.499	52.512
Deferred income	5.401	4.049
Other accrued expenses	1.050	1.249
	<u>36.950</u>	<u>57.810</u>

28. Government of Cyprus

	2008	2007
	€000	€000
Loan for the repayment of refugees' deposits	<u>36.534</u>	<u>36.534</u>

The loan granted to the Bank for the repayment of refugees' deposits and the loans that the Bank has granted to the refugees as disclosed in note 15, are frozen and interest free.

29. Loan Commissioners – Finance for Agricultural Development

	2008	2007
	€000	€000
Loans for the reactivation of refugees	19.075	19.075
Other advances	3.643	4.024
	<u>22.718</u>	<u>23.099</u>

The loans to the Bank for the reactivation of refugees as well as the Bank's advances to refugees (note 15) were granted during the period 1974-1984. As from 1.1.2001 no interest is charged on these advances and they are repaid to the Loan Commissioners at the same time period and amount as they are received from the Bank's debtors.

30. Share capital

	2008	2007
	€000	€000
Authorised		
20.000.000 shares of €8,54 each	<u>170.800</u>	<u>170.800</u>
Issued and fully paid		
1 January	50.344	37.880
Issue of shares	16.192	12.464
31 December	<u>66.536</u>	<u>50.344</u>

Following a resolution of the Annual General Meeting of the members of the Bank that took place on 13 December 2007 the authorised share capital of the Bank increased from €85,4 million to €170,8 million.

30. Share capital (continued)

The total of issued and fully paid share capital at 31 December 2008 amounted to 7.791.060 shares with nominal value of €8,54 each (2007: 5.893.059 shares).

During 2008, the issued share capital of the Bank increased by €16.210 thousand by the issue of 1.898.001 shares with nominal value of €8,54 each. The conversion of the share capital to euro resulted in a decrease of €18 thousand.

In accordance with the Internal Regulations of the Bank, only Cooperative Societies are eligible to become members. The liability of each member is limited to the nominal value of the shares held.

As at 31 December 2008, the Bank had 285 members (2007: 337). In accordance with the provisions of the Cooperative Societies Laws, each member has the right to one vote only.

31. Reserves

Accumulated profits

The accumulated profits reserve represents accumulated profits up to the balance sheet date. According to Section 41 of the Cooperative Societies Laws of 1985 to 2007 regarding profit distribution, the Bank is obliged to transfer each year to the accumulated profits reserve 50% of the net profit for the year. The remaining profit and any other profits accumulated from previous years are available for distribution.

Revaluation reserve on immovable property

The revaluation reserve on immovable property is used to record increases in the carrying amount of immovable property arising on revaluation and decreases in the carrying amount of immovable property to the extent that they offset previous increases of the same immovable property. Every year the difference between depreciation based on the revalued carrying amount and depreciation based on the immovable property's historic cost is transferred from revaluation reserve on immovable property to accumulated profits.

32. Dividends

Approved dividends

During the Annual General Meeting of the Bank on 20 March 2009, the payment of dividend to members for 2008, 3% or 26 cents per share totalling €2.020 thousand, was approved.

Proposed dividend

In addition, the Committee of the Bank proposes the payment of a final dividend for the year 2008 of 2% or 17 cents per share, totalling €1.324 thousand, to all registered members in the Bank's Register of Members as at 31 December 2008. The proposal will be submitted for approval at the next Annual General Meeting. The proposed final dividend is not recognised as a liability in the financial statements until its approval and its subsequent payment to the members.

The total dividends for the year 2008 amount to 5% or 43 cents (2007: 5% or 43 cents) per share.

33. Contingent liabilities and commitments

For better service to its customers, the Bank conducts business involving documentary credits and guarantees. These facilities are not recognised in the balance sheet and their nominal principal amounts as at 31 December are shown below:

	2008	2007
	€000	€000
Contingent liabilities		
Guarantees	<u>12.792</u>	<u>13.886</u>
Commitments		
Undrawn or partly utilised advances and loans	131.847	113.091
Documentary credits	<u>4.570</u>	<u>6.204</u>
	<u>136.417</u>	<u>119.295</u>
Total contingent liabilities and commitments	<u>149.209</u>	<u>133.181</u>

Guarantees are irrecoverable undertakings by the Bank to pay a specific amount to a third party in the event of a customer's default on his contractual obligations.

Undrawn or partly utilized advances and loans are commitments to provide credit facilities to customers. The credit facilities are provided for a fixed period of time, are reviewed at regular intervals and can be cancelled by the Bank at any time.

Documentary credits commit the Bank to make payments to third parties provided that the terms of the documentary credit are satisfied, which include the presentation of the bill of lading and other documents.

34. Derivatives

The Bank neither uses nor trades in derivatives, except for forward foreign exchange contracts which are used for managing exposure to fluctuations in exchange rates and currency swaps.

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

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

At the end of the year no currency swaps existed (2007: nominal value €76.762 thousand). The nominal value of the forward foreign exchange contracts amounted to €1.197 thousand (2007: €1.278 thousand) of which €448 thousand (2007: €337 thousand) related to imports of agricultural inventories of the Bank and are included in documentary credits (note 33).

The fair value of assets and liabilities relating to these derivatives is shown in notes 22 and 26 respectively.

35. Capital commitments

The commitments for contracted capital expenditure amount to €492 thousand (2007: €682 thousand).

36. Commitments for orders of agricultural inventories

The commitments for orders of agricultural inventories which are sold by the Bank amount to €751 thousand (2007: €5.112 thousand).

37. Litigation

At 31 December 2008 there were pending litigations against the Bank that continue to date. Based on prevailing legal claim scales, the total claims filed are for amounts up to €7,3 million. The Bank's legal advisors are of the opinion that the final outcome of the above proceedings will not have a material effect on the Bank's financial position.

38. Fiduciary activities

The Bank provides fund management services that result in the holding or placing of assets on behalf of its customers. The Bank is not liable to its customers for any default by third parties. The assets under management are not recognised as assets in the balance sheet of the Bank unless they are placed with the Bank. On the balance sheet date the total assets under management amounted to €30 million (2007: €117 million).

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39. Cash and cash equivalents

	2008	2007
	€000	€000
Cash and deposits with Central Banks (note 11)	425.939	429.683
Cheques under collection	54.444	59.817
Placements with other banks (note 13)	36.499	436.357
Amounts due to other banks (note 24)	(2.774)	(3.061)
	<u>514.108</u>	<u>922.796</u>

40. Risk management

The most important risks that the Bank is exposed are credit risk, market risk and liquidity risk. The Bank has placed a risk management framework placing emphasis on reliable financial risks measurement. These risks are monitored and managed as follows:

Credit risk

Credit risk is the risk of financial loss that results from the customers' inability to repay their loans and advances and fulfill their contractual obligations. The quality of the loans' portfolio is monitored by the Credit Control Department on a systematic basis and provisions for impairment are recognised for specific and other losses that might exist in the Bank's portfolio. Also the Bank obtains sufficient guarantees and collaterals so as to minimize the possibility of loss.

As shown in the table below, 76,1% (2007: 80,5%) of the loans and advances to customers are secured by government guarantee or are financed from government funds (note 15) and thus the credit risk is minimal.

Analysis of loans by type of security:

	2008	2007
	€000	€000
Loans to Government of Cyprus	462.970	462.423
Loans secured by government guarantee	443.460	399.804
Loans financed from government funds	57.582	57.286
Loans secured with cash commitments	1.847	9
Loans secured with mortgages and other tangible collaterals	95.675	53.086
Other loans	205.500	178.395
	<u>1.267.034</u>	<u>1.151.003</u>

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40. Risk management (continued)

Credit risk (continued)

The Bank also ensures for adequate diversification of credit risk across the various sectors of the economy. The allocation of the total amount of advances to the various sectors of the economy is analysed as follows :

	2008	2007
	€000	€000
Public interest institutions and corporations	853.104	785.625
Trade and manufacturing	126.955	135.398
Property and construction	63.351	46.362
Agriculture	33.063	33.618
Other sectors	190.561	150.000
	<u>1.267.034</u>	<u>1.151.003</u>

Credit risk concentration

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

Maximum exposure to credit risk ignoring collaterals

The table below reflects the worst case scenario of credit risk exposure without taking into account any collateral held. For on-balance sheet assets, the assessment of the exposure to credit risk is based on the net carrying amounts as reported in the balance sheet.

Maximum exposure to credit risk:

	2008	2007
	€000	€000
Deposits with central banks (note 11)	398.363	409.257
Placements with other banks	53.972	436.451
Loans and advances to customers	1.164.216	1.047.498
Debt securities	1.121.857	1.326.412
Fair value of derivative financial instruments (note 22)	33	21
Other debit balances (note 22)	2.818	2.820
Accrued income	34.038	40.222
Income tax refundable (note 22)	105	-
Total on-balance sheet	<u>2.775.402</u>	<u>3.262.681</u>
Contingent liabilities	12.792	13.886
Commitments	136.417	119.295
Total off-balance sheet	<u>149.209</u>	<u>133.181</u>
Total credit risk exposure	<u>2.924.611</u>	<u>3.395.862</u>

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40. Risk management (continued)

Credit risk (continued)

Loans and advances to customers

The table below presents the quality of loans and advances to customers :

	2008	2007
	€000	€000
Neither past due nor impaired	1.034.114	1.005.485
Past due but not impaired	96.186	26.750
Impaired	136.734	118.768
Total before provision	1.267.034	1.151.003
Provision for impairment	(102.818)	(103.505)
Total after provision	1.164.216	1.047.498

Analysis by rating agency designation

The table below presents an analysis by rating agency designation of deposits with central banks, placements with other banks and debt securities as at 31 December 2008 and 2007, based on Moody's rating:

2008	Deposits with central banks €000	Placements with other banks €000	Debt securities €000	Total €000
Aaa	398.363	235	971.090	1.369.688
Aa1 to Aa3	-	34.026	125.347	159.373
A1 to A3	-	19.066	7.446	26.512
Lower than A3	-	53	17.086	17.139
Unrated	-	592	888	1.480
	398.363	53.972	1.121.857	1.574.192

2007	Deposits with central banks €000	Placements with other banks €000	Debt securities €000	Total €000
Aaa	409.257	7.532	1.308.438	1.725.227
Aa1 to Aa3	-	122.391	-	122.391
A1 to A3	-	214.358	-	214.358
Lower than A3	-	82.093	17.086	99.179
Unrated	-	10.077	888	10.965
	409.257	436.451	1.326.412	2.172.120

40. Risk management (continued)

Market risk

The market risk is the risk of financial loss arising from sudden changes to the foreign currency prices, interest rates and the prices of equity securities and other stocks. The risk is managed by the Assets and Liabilities Committee (ALCO) so as to be maintained within acceptable limits.

For the efficient management of the risk from interest rate and exchange rate movements, the Assets and Liabilities Committee has defined specific strategies and set limits on open positions for every risk.

Analysis relating to the position of the Bank regarding foreign currency risk, interest rate risk and price risk is presented below:

Currency risk

Currency risk is the risk of financial loss arising from sudden changes to the foreign currency prices when there is a net position (asset or liability) in one or more foreign currencies. The Assets and Liabilities Committee sets open foreign currency position limits, overnight and intra-day, on a total basis and for each currency separately which are monitored on a continuous basis.

The tables below set out the Bank's exposure to currency risk resulting from its existing open foreign currency positions. Changes in exchange rates against the Euro used in the sensitivity analysis are based on historical fluctuations in foreign exchange prices.

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40. Risk management (continued)

Currency risk (continued)

2008	Euro €000	US Dollars €000	Sterling Pounds €000	Other currencies €000	Total €000
Assets					
Cash and deposits with central banks	422.582	1.872	1.264	221	425.939
Cheques under collection	54.435	8	-	1	54.444
Treasury bills	-	-	-	-	-
Placements with other banks	12.041	20.427	20.679	825	53.972
Loans and other advances to customers	1.164.216	-	-	-	1.164.216
Debt securities	1.113.198	3.525	5.134	-	1.121.857
Investment in shares	793	-	-	-	793
Property, equipment and computer software	46.375	-	-	-	46.375
Other assets	11.577	-	-	-	11.577
Accrued income	33.722	98	212	6	34.038
Total assets	2.858.939	25.930	27.289	1.053	2.913.211
Liabilities					
Amounts due to other banks	2.453	7	314	-	2.774
Repurchase agreements	200.000	-	-	-	200.000
Deposits and other customer accounts	2.350.745	23.689	25.242	736	2.400.412
Government of Cyprus	36.534	-	-	-	36.534
Loan Commissioners	22.718	-	-	-	22.718
Other liabilities	35.389	86	-	-	35.475
Accruals and deferred income	36.541	106	297	6	36.950
Total liabilities	2.684.380	23.888	25.853	742	2.734.863
Equity	178.348	-	-	-	178.348
Total liabilities and equity	2.862.728	23.888	25.853	742	2.913.211
Net balance sheet position	(3.789)	2.042	1.436	311	
Forward foreign exchange derivatives position	-	-	-	-	
Net currency position	(3.789)	2.042	1.436	311	
Change in exchange rate %		+6%	+6%		
Impact on net profit €000		123	86		
Change in exchange rate %		-6%	-6%		
Impact on net profit €000		(123)	(86)		

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40. Risk management (continued)

Currency risk (continued)

2007	Euro	US	Sterling	Other	Total
	€000	Dollars	Pounds	currencies	€000
		€000	€000	€000	
Assets					
Cash and deposits with central banks	381.692	22.352	25.415	224	429.683
Cheques under collection	59.808	9	-	-	59.817
Treasury bills	82.068	-	-	-	82.068
Placements with other banks	414.191	7.530	14.250	480	436.451
Loans and other advances to customers	1.047.498	-	-	-	1.047.498
Debt securities	1.326.412	-	-	-	1.326.412
Investment in shares	991	-	-	-	991
Property, equipment and computer software	27.644	-	-	-	27.644
Other assets	9.221	-	-	-	9.221
Accrued income	39.928	70	219	5	40.222
Total assets	3.389.453	29.961	39.884	709	3.460.007
Liabilities					
Amounts due to other banks	2.991	7	60	3	3.061
Deposits and other customer accounts	3.125.805	19.813	30.700	203	3.176.521
Government of Cyprus	36.534	-	-	-	36.534
Loan Commissioners	23.099	-	-	-	23.099
Other liabilities	43.894	466	-	-	44.360
Accruals and deferred income	57.265	138	400	7	57.810
Total liabilities	3.289.588	20.424	31.160	213	3.341.385
Equity	118.622	-	-	-	118.622
Total liabilities and equity	3.408.210	20.424	31.160	213	3.460.007
Net balance sheet position	(18.757)	9.537	8.724	496	
Forward foreign exchange derivatives position	-	-	-	-	
Net currency position	(18.757)	9.537	8.724	496	
Change in exchange rate %		+4%	+6%		
Impact on net profit €000		68	10		
Change in exchange rate %		-4%	-6%		
Impact on net profit €000		(68)	(10)		

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40. Risk management (continued)

Interest rate risk

Interest rate risk is the risk of decrease in the value of financial instruments or in net interest income as a result of adverse movements in the market interest rates due to the timing differences on the repricing of assets and liabilities. The Bank closely monitors the interest rate movements and the repricing maturity structure of its assets and liabilities and is taking all necessary measures for managing interest rate risk.

The tables below set out the Bank's exposure to interest rate risk. The Bank's assets and liabilities are presented in the tables at carrying amounts based on the contractual repricing date for floating rate items or the maturity date for fixed rate items.

2008	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Non-interest bearing €000	Total €000
Assets							
Cash and deposits with central banks	205	398.158	-	-	-	27.576	425.939
Cheques under collection	-	-	-	-	-	54.444	54.444
Treasury bills	-	-	-	-	-	-	-
Placements with other banks	12.993	26.689	14.290	-	-	-	53.972
Loans and advances to customers	228.573	658.727	216.403	-	6	60.507	1.164.216
Debt securities	-	62.945	153.441	820.883	84.588	-	1.121.857
Investment in shares	-	-	-	-	-	793	793
Property, equipment and computer software	-	-	-	-	-	46.375	46.375
Other assets	222	-	-	-	-	11.355	11.577
Accrued income	-	-	-	-	-	34.038	34.038
Total assets	241.993	1.146.519	384.134	820.883	84.594	235.088	2.913.211
Liabilities							
Amounts due to other banks	2.053	-	-	-	-	721	2.774
Repurchase agreements	-	200.000	-	-	-	-	200.000
Deposits and other customer accounts	366.464	1.011.032	850.706	172.210	-	-	2.400.412
Government of Cyprus	-	-	-	-	-	36.534	36.534
Loan Commissioners	3.623	-	-	-	-	19.095	22.718
Other liabilities	-	-	-	-	-	35.475	35.475
Accruals and deferred income	-	-	-	-	-	36.950	36.950
Total liabilities	372.140	1.211.032	850.706	172.210	-	128.775	2.734.863
Net position	(130.147)	(64.513)	(466.572)	648.673	84.594	106.313	178.348
Net cumulative position	(130.147)	(194.660)	(661.232)	(12.559)	72.035	178.348	

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40. Risk management (continued)

Interest rate risk (continued)

2007	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Non- interest bearing €000	Total €000
Assets							
Cash and deposits with central banks	160.810	218.839	29.608	-	-	20.426	429.683
Cheques under collection	-	-	-	-	-	59.817	59.817
Treasury bills	-	82.068	-	-	-	-	82.068
Placements with other banks	16.368	419.986	97	-	-	-	436.451
Loans and advances to customers	200.547	626.182	162.013	-	15	58.741	1.047.498
Debt securities	-	231.292	102.926	907.336	84.858	-	1.326.412
Investment in shares	-	-	-	-	-	991	991
Property, equipment and computer software	-	-	-	-	-	27.644	27.644
Other assets	193	-	-	-	-	9.028	9.221
Accrued income	-	-	-	-	-	40.222	40.222
Total assets	377.918	1.578.367	294.644	907.336	84.873	216.869	3.460.007
Liabilities							
Amounts due to other banks	2.776	-	-	-	-	285	3.061
Deposits and other customer accounts	518.506	1.169.372	1.401.320	87.323	-	-	3.176.521
Government of Cyprus	-	-	-	-	-	36.534	36.534
Loan Commissioners	4.003	-	-	-	-	19.096	23.099
Other liabilities	-	-	-	-	-	44.360	44.360
Accruals and deferred income	-	-	-	-	-	57.810	57.810
Total liabilities	525.285	1.169.372	1.401.320	87.323	-	158.085	3.341.385
Net position	(147.367)	408.995	(1.106.676)	820.013	84.873	58.784	118.622
Net cumulative position	(147.367)	261.628	(845.048)	(25.035)	59.838	118.622	

Cooperative Central Bank Ltd
NOTES TO THE FINANCIAL STATEMENTS
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40. Risk management (continued)

Interest rate risk (continued)

Sensitivity analysis

The table below sets out the effect on the Bank's net interest income arising from reasonably possible changes in the interest rates of main currencies over a period of one year:

Change in interest rates	Euro €000	US Dollars €000	Sterling Pounds €000	Other currencies €000	Total €000
2008					
+ 0,5% for all currencies	166	(20)	(11)	-	135
- 0,25% for US Dollars and - 0,5% for all other currencies	(166)	10	11	-	(145)
2007					
+ 0,5% for all currencies	122	31	62	-	215
- 1,5% for US Dollars and - 0,5% for all other currencies	(122)	(94)	(62)	-	(278)

Price risk

Price risk is the risk of financial loss arising from unfavorable changes in the current prices of investments in equity securities held by the Bank.

The Bank is mainly investing in equity securities listed on the Cyprus Stock Exchange (C.S.E) and changes in the price of these securities are recognised in the Income Statement.

In a possible case where the C.S.E index change by $\pm 25\%$, the impact on net profit of 2008 is estimated to be €38 thousand in absolute values.

Liquidity risk

Liquidity risk is the risk of financial loss arising from potential inability of the Bank to meet its current payment obligations as and when they fall due. In accordance with the Cooperative Societies Laws all surplus funds of Cooperative Societies must be deposited with the Bank. As a result, the Bank's liquidity is directly influenced by the liquidity of the Cooperative Credit Societies.

The Bank monitors liquidity on a daily basis and is taking all necessary measures to manage this risk.

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40. Risk management (continued)

Liquidity risk (continued)

The tables below set out the analysis of assets and liabilities according to their maturity:

2008	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Total €000
Assets						
Cash and deposits with central banks	27.781	-	-	-	398.158	425.939
Cheques under collection	-	54.444	-	-	-	54.444
Treasury bills	-	-	-	-	-	-
Placements with other banks	6.894	32.788	14.290	-	-	53.972
Loans and advances to customers	72.468	23.790	28.600	82.833	956.525	1.164.216
Debt securities	-	62.945	153.441	820.883	84.588	1.121.857
Investment in shares	-	-	-	-	793	793
Property, equipment and computer software	-	-	800	-	45.575	46.375
Other assets	-	317	10.512	105	643	11.577
Accrued income	-	23.191	10.847	-	-	34.038
Total assets	107.143	197.475	218.490	903.821	1.486.282	2.913.211
Liabilities						
Amounts due to other banks	2.722	52	-	-	-	2.774
Repurchase agreements	-	200.000	-	-	-	200.000
Deposits and other customer accounts	255.664	891.545	833.089	222.210	197.904	2.400.412
Government of Cyprus	-	-	-	-	36.534	36.534
Loan Commissioners	2.101	-	62	470	20.085	22.718
Other liabilities	-	15.236	1.512	3.331	15.396	35.475
Accruals and deferred income	-	22.324	10.619	3.240	767	36.950
Total liabilities	260.487	1.129.157	845.282	229.251	270.686	2.734.863
Net position	(153.344)	(931.682)	(626.792)	674.570	1.215.596	178.348
Net cumulative position	(153.344)	(1.085.026)	(1.711.818)	(1.037.248)	178.348	

Cooperative Central Bank Ltd
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40. Risk management (continued)

Liquidity risk (continued)

2007	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Total €000
Assets						
Cash and deposits with central banks	20.471	230.089	29.608	-	149.515	429.683
Cheques under collection	-	59.817	-	-	-	59.817
Treasury bills	-	82.068	-	-	-	82.068
Placements with other banks	16.368	419.986	97	-	-	436.451
Loans and advances to customers	66.442	35.252	34.854	96.300	814.650	1.047.498
Debt securities	-	231.293	102.928	907.336	84.855	1.326.412
Investment in shares	-	-	-	-	991	991
Property, equipment and computer software	-	-	800	-	26.844	27.644
Other assets	87	402	7.559	-	1.173	9.221
Accrued income	-	30.967	9.255	-	-	40.222
Total assets	103.368	1.089.874	185.101	1.003.636	1.078.028	3.460.007
Liabilities						
Amounts due to other banks	2.976	85	-	-	-	3.061
Deposits and other customer accounts	425.946	1.230.574	1.432.678	87.323	-	3.176.521
Government of Cyprus	-	-	-	-	36.534	36.534
Loan Commissioners	2.124	15	337	644	19.979	23.099
Other liabilities	4.687	22.128	3.419	4.254	9.872	44.360
Accruals and deferred income	-	14.550	40.089	2.430	741	57.810
Total liabilities	435.733	1.267.352	1.476.523	94.651	67.126	3.341.385
Net position	(332.365)	(177.478)	(1.291.422)	908.985	1.010.902	118.622
Net cumulative position	(332.365)	(509.843)	(1.801.265)	(892.280)	118.622	

The liquidity risk tables have been prepared in accordance with International Financial Reporting Standards which provide that the classification in the time bands is based on the remaining period to maturity from the balance sheet date. The regulatory authority sets liquidity ratios for the open liquidity position up-to one month in accordance with its own criteria.

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40. Risk management (continued)

Liquidity risk (continued)

The liquidity tables below set out the contractual undiscounted cash outflows based on the remaining contractual period from the balance sheet date to their contractual maturity date:

2008	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Total €000
Liabilities						
Amounts due to other banks	2.722	52	-	-	-	2.774
Repurchase agreements	-	200.096	-	-	-	200.096
Deposits and other customer accounts	255.663	908.863	861.598	238.357	217.695	2.482.176
Government of Cyprus	-	-	-	-	36.534	36.534
Loan Commissioners	2.102	-	64	509	20.211	22.886
Total on-balance sheet position	260.487	1.109.011	861.662	238.866	274.440	2.744.466
Net off-balance sheet items						
Foreign exchange derivatives	-	(448)	-	-	-	(448)
Foreign exchange SWAP derivatives	-	-	-	-	-	-
	260.487	1.108.563	861.662	238.866	274.440	2.744.018
2007						
	On demand €000	Within three months €000	Between three months to one year €000	Between one year to five years €000	Over five years €000	Total €000
Liabilities						
Amounts due to other banks	2.976	85	-	-	-	3.061
Deposits and other customer accounts	428.647	1.261.809	1.482.154	100.129	-	3.272.739
Government of Cyprus	-	-	-	-	36.534	36.534
Loan Commissioners	2.124	15	343	649	19.994	23.125
Total on-balance sheet position	433.747	1.261.909	1.482.497	100.778	56.528	3.335.459
Net off-balance sheet items						
Foreign exchange derivatives	-	(106)	(231)	-	-	(337)
Foreign exchange SWAP derivatives	-	736	-	-	-	736
	433.747	1.262.539	1.482.266	100.778	56.528	3.335.858

40. Risk management (continued)

Counterparty Risk

The Counterparty Risk arises from the risk of loss of funds due to the probability that a counterparty with which the Bank enters into a specific transaction, defaults before the final settlement of the transaction.

The Assets and Liabilities Committee of the Bank (ALCO) approved a specific model for the determination of limits regarding the exposures in countries and banking institutions of Cyprus and abroad. The limits are mainly determined based on the credit rating of the counterparty, as it is set by recognised international rating agencies and based on the maturity period of the placement-investment. The model is revised at least annually or whenever the economic conditions require.

The credit ability of the counterparties that are not assessed by recognised international rating agencies, are assessed by the credit risk department of the Bank based on internally developed methodology, which takes into account quantitative and qualitative criteria.

The credit risk department of the Bank, monitors on a regular basis, any changes of the counterparties' credit ratings and of the countries with which the Bank has set limits and distributes timely the relevant information to the relevant departments for taking the necessary measures and corrective actions. In addition a daily monitoring system has been set regarding the use and the conformity with the limits determined, so as to identify actual and avoid possible violations of the limits.

Operational risk

Operational risk is defined as the risk of direct or indirect losses arising from inefficiency or failure or unsuitability of internal control regulations, people, systems or other external events.

Based on the methodologies and programmes developed by the Risk Management Unit, the various types of operational risk for each department of the Bank are identified and assessed.

41. Capital management

The management of the Bank monitors the capital adequacy quarterly, based on the rules established by the Basel Committee on Banking Supervision and European Union, as adopted by the Central Bank of Cyprus. The required information is submitted to the Central Bank of Cyprus every six months. As from 2009 according to the new directive of the Central Bank of Cyprus the return will be submitted quarterly.

During 2006, the Central Bank of Cyprus issued the Directive for the calculation of the capital requirements and large exposures, ('Basel II'), adopting the provisions of the European Union's New Directive ('New Directive').

41. Capital management (continued)

The Bank exercised the discretion provided by the Article 152, paragraph 8 of the New Directive and is applying the relevant provisions of the directive since 1 January 2008.

Basel II directive consists of the following pillars:

Pillar I – Minimum Capital Requirements

Pillar I refers to the minimum capital requirements of the credit institution, so as the exposure of the Bank to the credit risk, the market risk and the operational risk to be covered. The Bank has adopted the standardised approach for the market risk and credit risk and the basic indicator approach for the operational risk.

Pillar II – The supervisory review process

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

Pillar III – Market discipline

Pillar III requires the disclosure of information regarding the risk management policies of the Bank, as well as the results of the calculations of minimum capital requirements, together with concise information as to the composition of original own funds and supplementary own funds together with any associated deductions. In addition, the results of ICAAP are disclosed together with various analyses of credit risk exposures.

During the years 2008 and 2007, the Bank complied with all capital requirements, as presented below:

	Basel II 2008 €000	Basel I 2007 €000
Regulatory capital		
Original own funds	114.369	104.707
Supplementary own funds	<u>42.285</u>	<u>13.836</u>
Total capital	<u>156.654</u>	<u>118.543</u>
Total risk weighted assets	<u>797.596</u>	<u>263.632</u>
Capital adequacy ratio	<u>19,64%</u>	<u>44,97%</u>
Minimum capital adequacy ratio	<u>8%</u>	<u>10%</u>

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42. Related party transactions

The Bank is the banker of all registered cooperative societies and the central banker of cooperative credit societies. In accordance with the Cooperative Societies Laws all surplus funds of cooperative societies must be deposited with the Bank. All transactions with cooperative societies are made on normal business terms. Advances to cooperative societies and deposits from cooperative societies are presented in notes 15 and 25 respectively.

Only cooperative societies are eligible to become members of the Bank and each member has the right to one vote only.

Staff costs relating to the key management personnel, comprising the General Manager and the four senior managers, are as follows:

	2008	2007
	€000	€000
Emoluments of key management personnel	630	574
Employer's contributions	41	39
Retirement benefit costs	188	185
	<u>859</u>	<u>798</u>

Loans and advances to key management personnel and their connected persons are as follows:

	2008	2007
	€000	€000
Loans and advances to:		
Key management personnel	<u>503</u>	<u>403</u>

The Committee members' fees are fees paid to recover expenses incurred by them in the execution of their duties and are presented in note 8. There were no advances to Committee members.

All transactions with Committee members, key management personnel and their connected persons are made on normal business terms. In addition, a number of advances to key management personnel are provided on the same terms as to the rest of the personnel of the Bank, in accordance with the provisions of the agreement between the Banks and the Cyprus Union of Bank Employees.

43. Fair value of financial instruments

Fair value represents the amount which an asset can be exchanged for or a liability settled at an arm's length transaction.

The majority of assets and liabilities are carried at fair value.

The fair value of loans and advances is approximately equal to their book value, net of the provisions for impairment.

The fair value of the other financial instruments is not materially different from their carrying value.

44. Guarantee of the Central Body

The Bank, by assuming its new role of being the Central Body and in compliance with the European Directive 2000/12/EC (recast Directive 2006/48/EC) relating to the taking up and pursuit of the business of credit institutions and the Cooperative Societies Rules of 2004, guaranteed the commitments of affiliated CCSs so that the latter will be exempted from the regulatory provisions of the Directive on an individual basis. The above Directive and the Rules provide that the exempted provisions must be satisfied by the Central Body and the affiliated CCSs on a consolidated basis.

According to paragraph 6.8 of the Regulatory Administrative Act 393/2006 dated 18 October 2006 of the Cooperative Societies' Supervision and Development Authority the guarantee of the Central Body to the affiliated CCSs is enforced when:

(a) the Commissioner of the Cooperative Societies' Supervision and Development Authority finds out and decides that the affiliated CCS is not able to discharge, repay or settle its liabilities which are or become immediately repayable on demand by the beneficiaries, for any reason related with CCS's financial position, or

(b) the Commissioner of the Cooperative Societies' Supervision and Development Authority has issued order for liquidation of the affiliated CCS according to article 44 of the Cooperative Societies Laws.

The obligation of the Central Body as guarantor regarding the two above cases is enforced regardless of the enforcement of the Solidarity Support and Development Fund and the Deposits Protection Fund, and regardless the liquidation procedures in the case of CCS liquidation.

The liabilities and the contingent liabilities of the affiliated CCSs at 31st December 2008 amounted to €10.793 million. The Bank at this date assessed the guarantee in relation to the financial position of the CCSs and no liability for the Central Body is expected in relation to the guarantee. At 31st December 2008 the total equity of the affiliated CCSs was €784 million.

45. Approval of financial statements

The financial statements of the Cooperative Central Bank Ltd for the year ended 31 December 2008 were authorised for issue by the Committee of the Bank on 29 April 2009.