

Registered number 04728421

BANK OF CYPRUS ADVANCES LIMITED

**Report and financial statements
31 December 2011**

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Directors and registered office

Directors

I Koum

S Byrne

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered office

27-31 Charlotte Street, London W1T 1RP

Directors' report

Registered number 04728421

The directors submit their report and financial statements for the year ended 31 December 2011.

Principal activities and business review

The principal activity of the Company continues to be the provision of business and personal banking services.

Future developments

The Company has applied to the FSA for authorisation as a UK bank. Provided that application is successful, the Company will apply to the High Court in England & Wales for the UK banking business of Bank of Cyprus Public Company Limited to be transferred to the Company. The transfer is expected to take place in the third quarter of 2012.

Risk management

Risks inherent in the company's business are managed by Bank of Cyprus UK, the UK division of the company's parent company which is a bank regulated by the Central Bank of Cyprus. The company receives funding from Bank of Cyprus UK for an amount equivalent to and in the same currency, tenor and terms as its loans. As a result the company does not have any market risk.

The main risk is credit risk which is the risk that customers will be unable to repay their loans and advances and will fail to perform under their contractual commitments. Credit risk is managed by credit policies which include credit sanctioning procedures and controls and analysis in relation to quality, sector and geographical area. Credit exposures from related accounts are aggregated and monitored on a consolidated basis. If Bank of Cyprus Advances cannot recover any loans and they are written off, Bank of Cyprus UK is bound to simultaneously write off an equivalent amount of Bank of Cyprus Advances debt.

The Directors have considered the ability of the ultimate parent company to support the Company and are of the opinion that the ultimate parent will provide funds to the Company, if and when necessary to meet its obligations. The Directors have received assurance from the ultimate parent company in this respect.

Going concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts. A statement of responsibilities of the directors in relation to the accounts is shown on page 6.

The Directors have considered the ability of the ultimate parent company to support the company and are of the opinion that the ultimate parent will provide funds to the company, if and when necessary to meet its obligations until such time as the UK banking business of the parent is transferred to the company, which will thereafter operate as an authorised UK bank with its own capital and liquid assets meeting the requirements of the Financial Services Authority. A letter of support has been provided from Bank of Cyprus UK in order to ensure that the company is able to meet all its obligations if necessary up to the point that the aforesaid business transfer takes place. The Directors have also considered cash flow forecasts and budgets to 31 May 2013 together with an analysis of the key assumptions and factors underpinning the forecasts and the conclusions contained therein and are of the opinion that the company will continue to have adequate resources to continue in operational existence for the foreseeable future.

Results and dividends

The results of the Company for the year ended 31 December 2011 are set out in the profit and loss account on page 9. No dividend was paid during the year (2010: £nil).

Directors and their interests

The present directors are shown on page 3. None of the directors had any beneficial interest in the share capital of the Company or any other group company within the UK at any time during the year.

Disclosure of information to the auditors

So far as each person who was a director at the date of this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Ernst & Young LLP continue as auditors of the Company. The Company is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually.

By order of the board

S G Byrne

Secretary



31 May 2012

Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the member of Bank Of Cyprus Advances Limited

We have audited the financial statements of Bank of Cyprus Advances Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its results for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the member of Bank Of Cyprus Advances Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit



Janet Leslie, Senior Statutory Auditor
For and on behalf of
Ernst & Young LLP, Statutory Auditor
London

31 May 2012

Profit and loss account
For the year ended 31 December 2011

	2011 £	2010 £
Interest income	445,307	696,143
Interest payable	(445,307)	(696,143)
Profit for the financial year	<u>-</u>	<u>-</u>
Retained profits brought forward	-	-
Retained profits carried forward	<u>-</u>	<u>-</u>

There are no recognised gains or losses in either year other than as disclosed within the profit and loss account

The attached notes form part of these financial statements.

Balance sheet
At 31 December 2011

	Notes	2011 £	2010 £
Assets			
Loans and advances to customers:			
Amounts falling due within one year		619,965	2,796,542
Amounts falling due after one year		6,865,150	9,012,600
Accrued interest		20,530	35,045
Amount due from parent and fellow subsidiary undertakings		1	1
		<u>7,505,646</u>	<u>11,844,188</u>
Liabilities			
Creditors amounts falling due within one year to parent undertaking		627,387	2,805,394
Creditors amounts falling due after one year to parent undertaking		6,878,258	9,038,793
		<u>7,505,645</u>	<u>11,844,187</u>
Shareholders' funds			
Called up share capital	5	1	1
Total shareholders' funds		<u>1</u>	<u>1</u>
Total liabilities and shareholders' funds		<u>7,505,646</u>	<u>11,844,188</u>

The financial statements were approved by the board on 31 May 2012.

S Byrne – Director



The attached notes form part of these financial statements

Notes to the financial statements

1 Ultimate parent Company

The ultimate parent Company is Bank of Cyprus Public Company Limited, incorporated in Cyprus, the consolidated financial statements of which may be obtained from 27-31 Charlotte Street, London W1T 1RP. On this basis the Company is entitled to exemption from certain related party disclosures under Financial Reporting Standard 8: Related Party Disclosures and this exemption has been applied. In addition, the Company is entitled to exemption from preparing a statement of cash flows under Financial Reporting Standard 1 (revised) Cash flow statements and this exemption has been applied.

2 Going concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. In assessing the appropriateness of the going concern basis, all relevant information covering a period of at least twelve months from the date of approval of the financial statements has been taken into account. For this reason, they continue to adopt the going concern basis in preparing the accounts. A statement of responsibilities of the directors in relation to the accounts is shown on page 6.

A letter of support has been provided from Bank of Cyprus UK in order to ensure that the company is able to meet all its obligations if necessary up until the point that the UK banking business of Bank of Cyprus Public Company Limited is transferred to the Company, which will thereafter operate as an authorised UK bank with its own capital and liquid assets meeting the requirements of the Financial Services Authority. A letter of support has been provided from Bank of Cyprus UK in order to ensure that the company is able to meet all its obligations if necessary up to the point that the aforesaid business transfer takes place.

3 Accounting policies

Basis of preparation

The financial statements of the Bank of Cyprus Advances Limited were approved for issue by the Board of Directors on 31 May 2012. The financial statements are drawn up in accordance with the Companies Act 2006, the historic cost convention and applicable accounting standards. The financial statements have been prepared on the going concern basis as described above.

Revenue recognition

Interest receivable is recognised on an accruals basis.

Interest payable

Bank of Cyprus UK provides funding to Bank of Cyprus Advances Limited to an amount equivalent to Bank of Cyprus Advances Limited loan portfolio. The funding carries interest equivalent to the loans and on the same terms as the loans. Interest payable is recognised on an accruals basis.

Loans and advances

Loans and advances are valued at cost less specific and general provisions and any amounts written off. Loans and advances are written off to the extent that there is no realistic prospect of recovery. Specific provisions are made to reduce all impaired loans and advances to their expected realisable value.

4 Administration expenses

Staff and other support services are provided by Bank of Cyprus UK, the UK division of the ultimate parent Company

None of the directors received any emoluments in either year in respect of their services to the Company. The auditors' remuneration (amounting to £5,000) and any tax are borne by Bank of Cyprus UK.

5 Share capital

	2011 £	2010 £
Authorised:		
Ordinary shares of £1 each	<u>25,000,000</u>	<u>25,000,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

On 24 April 2012 the Company adopted new articles of association. Among the changes was removal of any reference to authorised share capital.