

## Financial Results for 1<sup>st</sup> Quarter 2008

28 May 2008

**Financial Results 1Q08 - Highlights**

**Income Statement Review**

**Balance Sheet Review**

***Appendix 1: Detailed Financial Information***

***Appendix 2: Financial Targets 2008 - 2010***

# Disclaimer

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# Financial Results 1Q08 - Highlights

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*Appendix 1: Detailed Financial Information*

*Appendix 2: Financial Targets 2008 - 2010*

# First Quarter 2008 Financial highlights

## High profitability, spectacular growth and improving quality

- Profit after tax reached €116 mn (+9%)
- Spectacular loan growth +29%
- Significant deposit gathering +12%
- NPLs ratio improved to 3,6% from 5,0% a year ago

## Outstanding key performance indicators

- Cost to income ratio 43,7%
- Return on equity 23,2%

## Dynamic expansion of operations in new countries

- First positive contribution to profit from Russia and Romania
- Acquisition of the Ukrainian bank AvtoZAZBank just completed

# Balance Sheet footings

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## Strong Loans to Deposits ratio

- Loans to Deposits 85,6%
- 12% wholesale funding
- Solid base for execution of Strategic Plan 2008 -2010

## Strong Capital Base

- Capital adequacy ratio 12,4%
- Tier 1 ratio 9,7%, Core Tier 1 8,8%

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# Income Statement Review

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***Appendix 1: Detailed Financial Information***

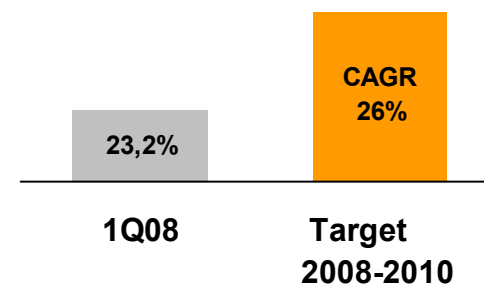
***Appendix 2: Financial Targets 2008 - 2010***

# Increase in profitability in a challenging environment

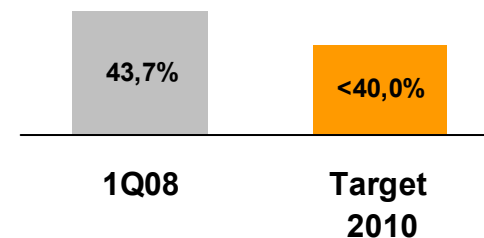
## Income & Expense Analysis (€mn)

	1Q08	1Q07	Change
Net interest income	185	171	+8%
Fee & commission income	48	49	-2%
Net operating income from insurance operations	16	13	+19%
Other operating income	23	17	+43%
<b>Total income</b>	<b>272</b>	<b>250</b>	<b>+9%</b>
<b>Total expenses</b>	<b>119</b>	<b>112</b>	<b>+7%</b>
Provisions	15	19	-24%
Share of (loss)/profit of associate	(5)	4	
<b>Profit before tax</b>	<b>133</b>	<b>123</b>	<b>+9%</b>
Tax	17	17	+5%
<b>Profit after tax</b>	<b>116</b>	<b>106</b>	<b>+9%</b>

## Return on equity

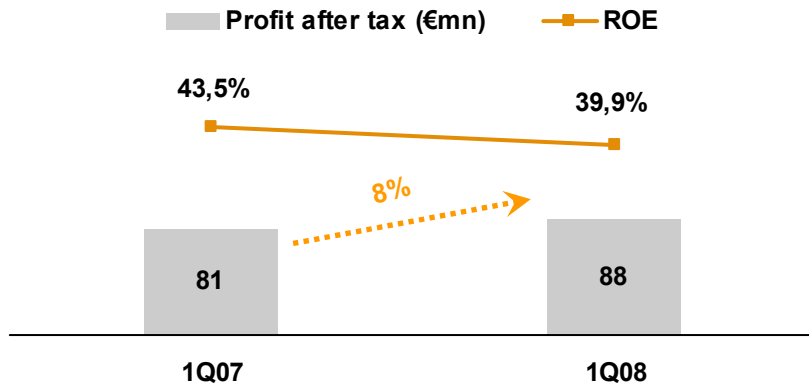


## Cost/income



# High profitability across BOC's main geographies

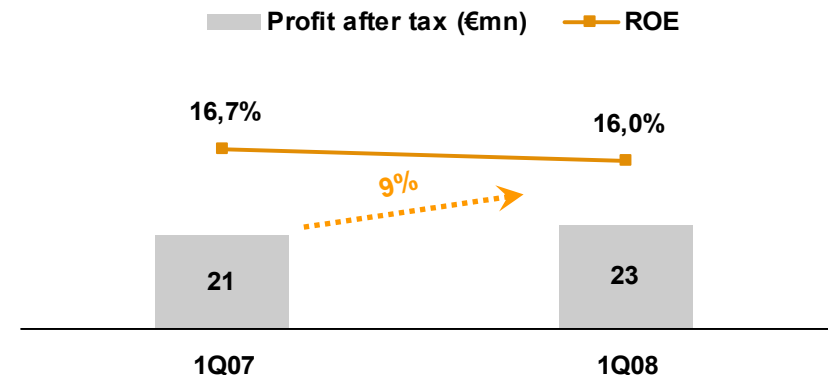
## Cyprus



- **Cyprus**

- High volumes
- Leading market share in domestic and in international banking
- Highly efficient
- Improving quality of loan portfolio

## Greece



- **Greece**

- High volumes
- Maturing branch network and client relationships
- Continuing branch openings

# ... with parallel expansion in the underpenetrated Russian market

## First positive contribution to profit

- Profit after tax 1Q08 €0,2mn
- Loan portfolio at €131mn
- 4 branches underway to open in 2008

## Bank of Cyprus competitive advantage

- Large customer base through international business in Cyprus
- Brand recognition
- 10-year presence through rep office

## Expansion of network and operations

### Plan for 2010

<b>Branch network</b>	<b>16</b>
Moscow	13
St Petersburg	3

*5 new branches in each of the following 3 years*

<b>Loan Portfolio (€mn)</b>	<b>2.500</b>
Corporate	75%
SMEs	20%
Retail	5%

- Selective penetration of SME and retail sector in 2008
- Lending mainly in US\$ at healthy spreads ranging from 3-5%

# ...and successful expansion in Romania

## First positive contribution to profit

- Profit after tax 1Q08 €1,3mn
- Loan portfolio at €349mn
- 7 branches underway to open in 2008
- Bank of Cyprus competitive advantage
  - Existing customer base through Greece and Cyprus clientele
  - Operational synergies with Greece and Cyprus
  - Successful Greece greenfield experience

## Expansion of operations

### Plan for 2010

<b>Branch network</b>	<b>40</b>
Bucharest	22
Other cities	18

*New branches: 7 in 2008, 15 in 2009, 15 in 2010*

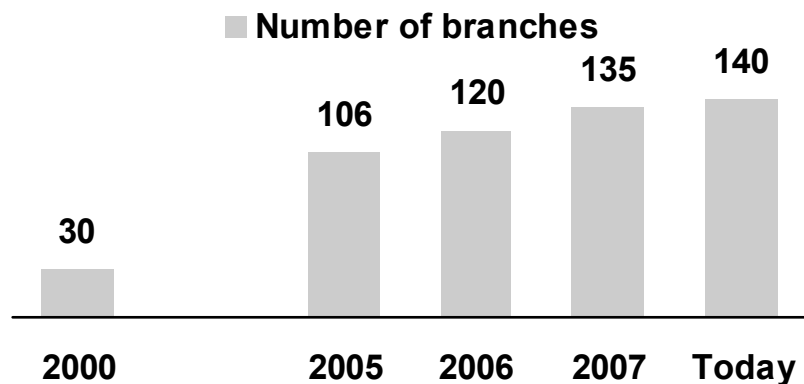
<b>Loan Portfolio (€mn)</b>	<b>1.500</b>
Corporate	46%
SMEs	28%
Retail	26%

## BOC's focus areas in Romania

- Corporate banking
  - Project financing
  - Large syndicated deals
  - Referrals from accounting and legal firms
  - Referrals from companies consulting on EU programs
- Full retail infrastructure in mid-2008
  - Target professionals
  - Enter credit card market in 2008
  - Internet banking in 2008
  - Competitive pricing for first year of lending products

# Dynamic expansion in Greece

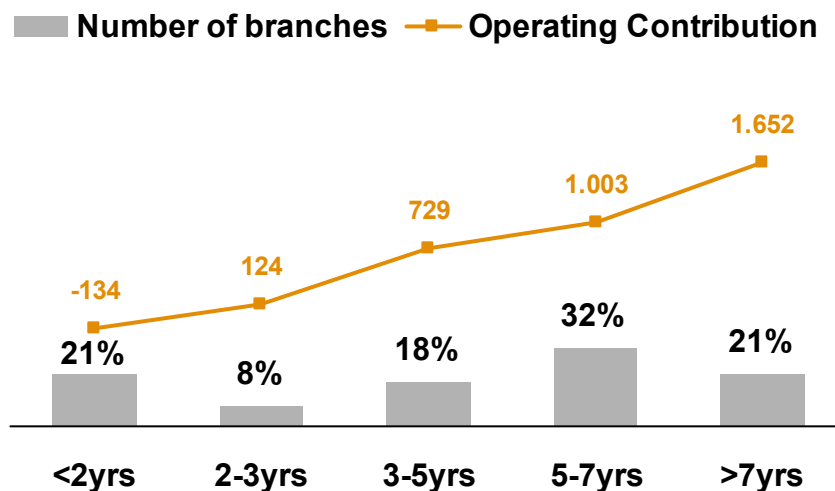
## Network evolution



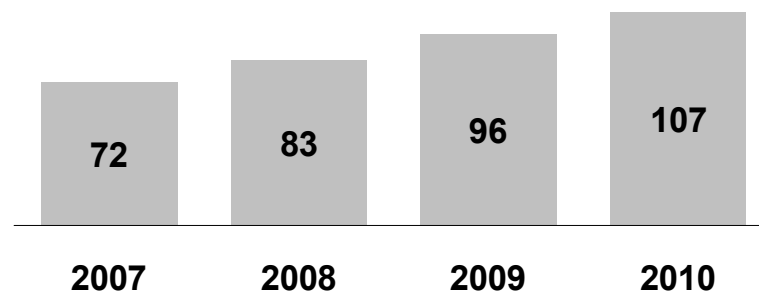
## Plans ahead

- Opening of 20 new branches since 31 March 2007
- Another 20 branches to be opened by year-end
- 220 branches by end-2010 (140 today)
  - Greater population coverage
  - Economies of scale

## Branch network contribution



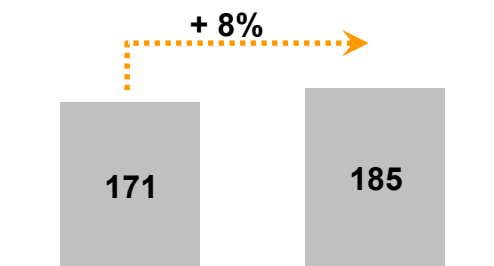
## Maturity roll-out



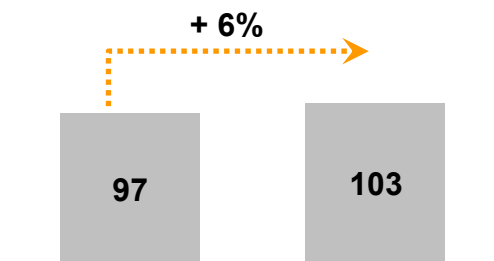
# Net interest income

## Net interest income (€mm)

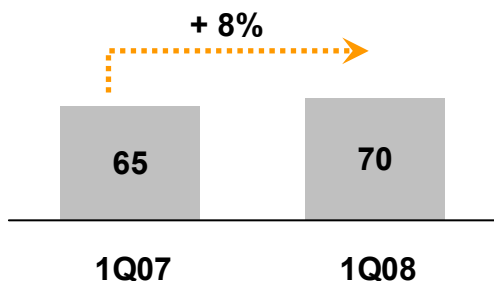
### Group



### Cyprus



### Greece



## Net interest margin

	FY07	4Q07	1Q08
Group	2,81%	2,68%	2,49%
Cyprus	2,53%	2,46%	2,19%
Greece	2,87%	2,69%	2,58%

## Evolution of spreads

### Re-pricing to filter in mid 2008

	FY07	4Q07	1Q08
<b>Cyprus (2007:ref to ECB 2008: ref to 1M Euribor)</b>			
Loan spreads	2,66%	2,54%	2,45%
Deposit spreads	1,58%	1,43%	1,11%
<b>Greece (with ref to 1M Euribor)</b>			
Loan spreads	2,60%	2,45%	2,58%
Deposit spreads	0,69%	0,68%	0,40%

# Non interest income

- **Fees and commissions**

- As of 1 Jan 2008 fees and commissions do not include fees from the exchange between the Cyprus pound and the Euro

- **Foreign exchange income**

- As of 1 Jan 2008 foreign exchange income does not include income from the exchange between the Cyprus pound and the Euro

- **Growth in income from insurance business mainly driven by:**

- Good production volumes in Cyprus
- Increased bancassurance penetration in Greece
- Good mortality experience

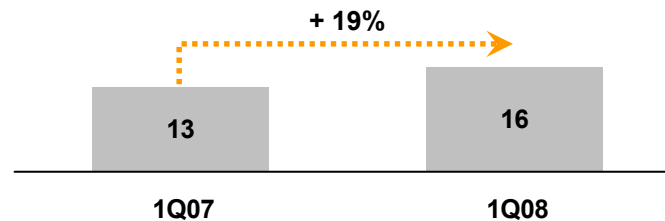
## Fees and commissions (€mm)



## Foreign exchange income (€mm)

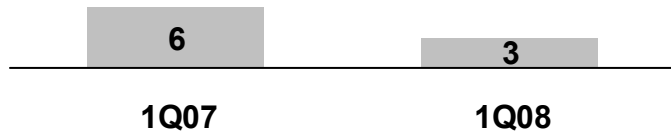


## Income from insurance business (€mm)



# Gains on sale and change in fair value of financial instruments

## Net gains on sale and change in fair value of financial instruments (€mn)



### Net gain of €3mn includes

- €3mn impairment of available-for-sale bonds
- Disposal gains from available-for-sale investments of €15mn
- €6mn negative change in the fair value of equity securities (mainly of Cytrustees Investment PCL – subsidiary company of the Group)
- €3mn loss from revaluation of Interest rate swaps

## Debt securities and treasury bills

- **Average rating of portfolio is Aa2**
  - 79% is rated Aaa-Aa3
  - 21% is rated A1-A3
- **Issued by governments and banks**
  - 37% issued by sovereigns
  - 63% issued by European banks and other organisations
- **Average life 3,6 years**
- **Asset classes allowed**
  - Sovereign
  - Supranational
  - Bank senior
  - US agencies
  - Covered bonds
  - Bank subordinated bonds (ceiling 3%, actual 0,5%)
  - Corporate bonds (ceiling of 7%, actual 0,4%)

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# Balance Sheet Review

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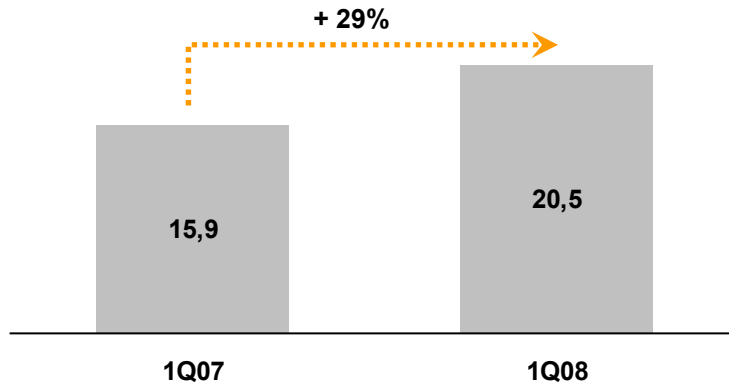
*Appendix 2: Financial Targets 2008 - 2010*

# Balance Sheet overview

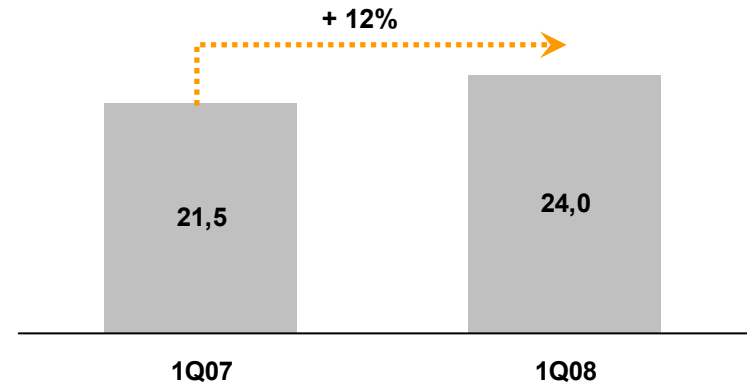
€mm	1Q08	1Q07	% growth
Cash and balances with central banks	704	731	-4%
Placements with banks	4.895	4.473	+9%
Debt securities, T-bills, equity investments	4.080	4.343	-6%
<b>Net loans to customers</b>	<b>19.941</b>	15.263	+31%
Other assets	1.234	1.206	+2%
<b>Total assets</b>	<b>30.854</b>	26.016	+19%
Amounts due to banks	1.850	470	+294%
<b>Customer deposits</b>	<b>23.983</b>	21.489	+12%
Debt securities in issue	1.359	1.001	+36%
Other liabilities	1.028	854	+20%
Subordinated loan stock	574	559	+3%
Minority interest	27	0	
<b>Shareholders' equity</b>	<b>2.033</b>	1.643	+24%

# Spectacular growth...

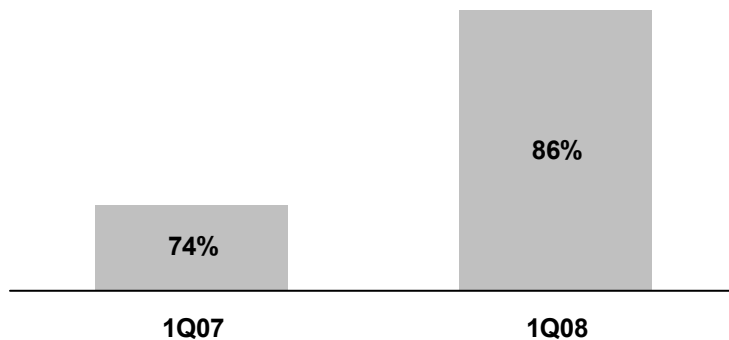
## Loans (€bn)



## Deposits (€bn)



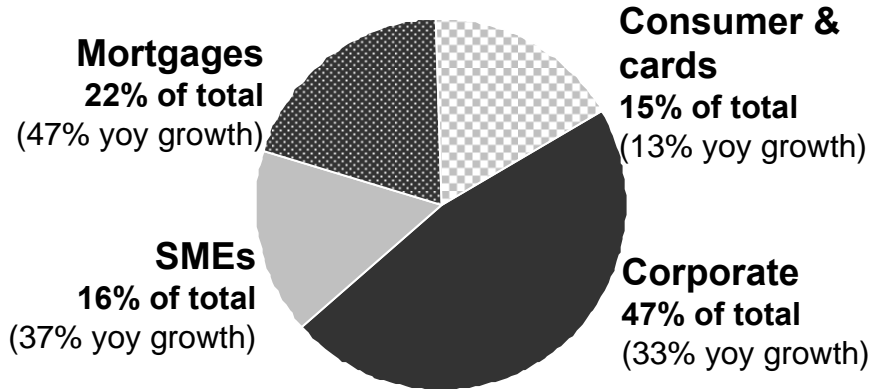
## Loans/deposits ratio



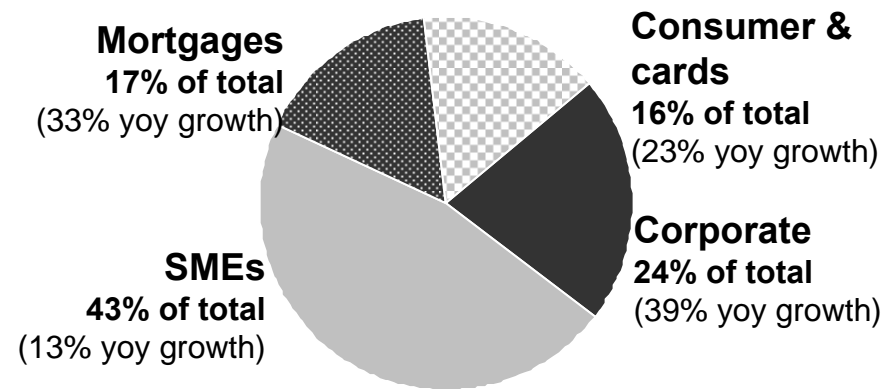
- **Lending growth in all geographic markets**
  - 26.762 new clients in Cyprus in 12 months
  - 105.581 new clients in Greece in 12 months
- **Particularly high growth in the mortgage sector in Cyprus**
- **Deposit growth remains strong**

# Well diversified loan portfolio

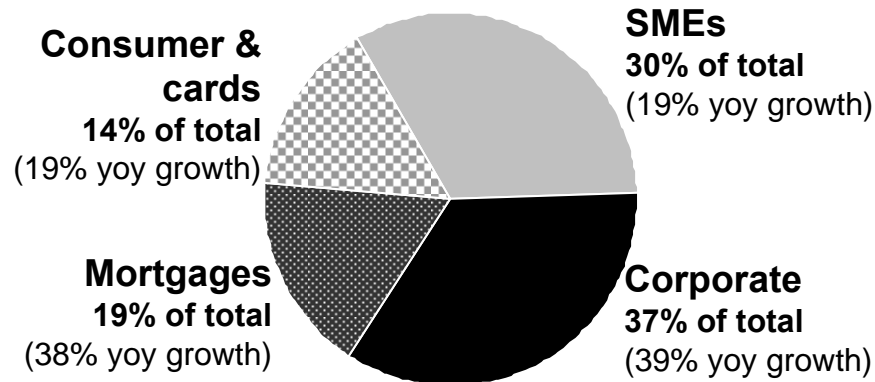
## Cyprus



## Greece



## Group

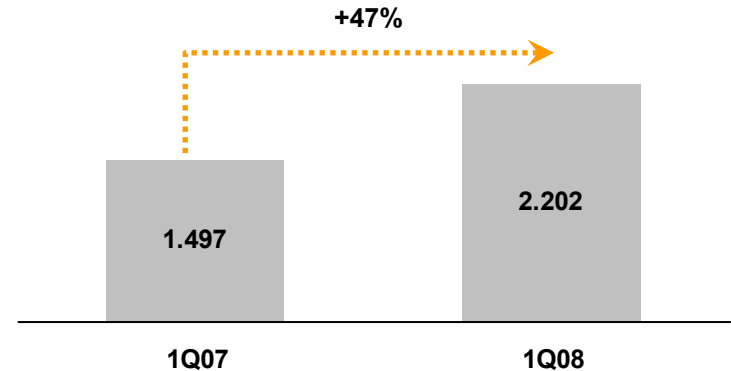


# ...across all business segments in Cyprus

## Cypriot loan book (€bn)



## Mortgage loan balance increase (€mn)



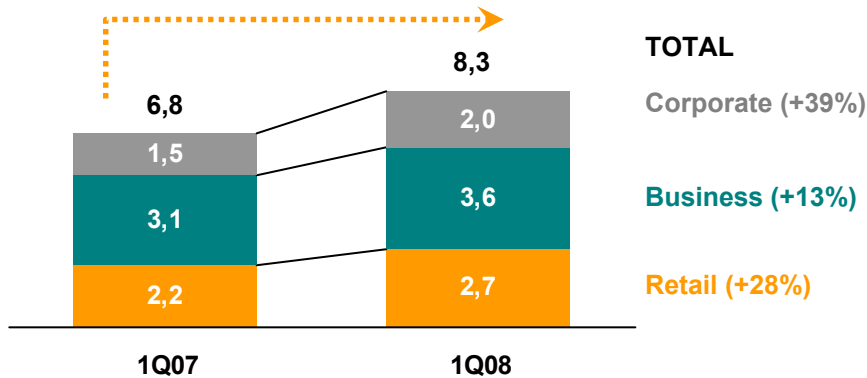
- Increase business from existing customers
- Cross-sell to relatively “new” clients
  - 19.350 new retail clients yoy
  - Mortgage loan book increased 47%
- Further penetration of higher margin sectors
  - Retail
  - Small businesses

through

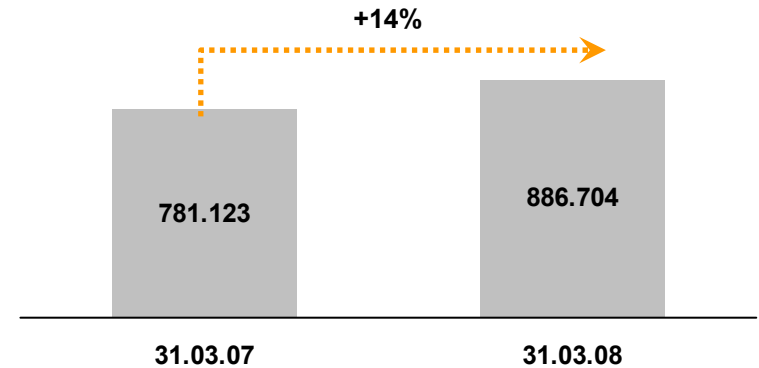
- Continuous improvement in level of service
- Enhance relationship with customers
- Flexible products
- Simplification of documents and procedures at front office
- Centralisation of branch back-office procedures

# Resilient growth in Greece

## Greek loan book (€bn)



## Number of active customers



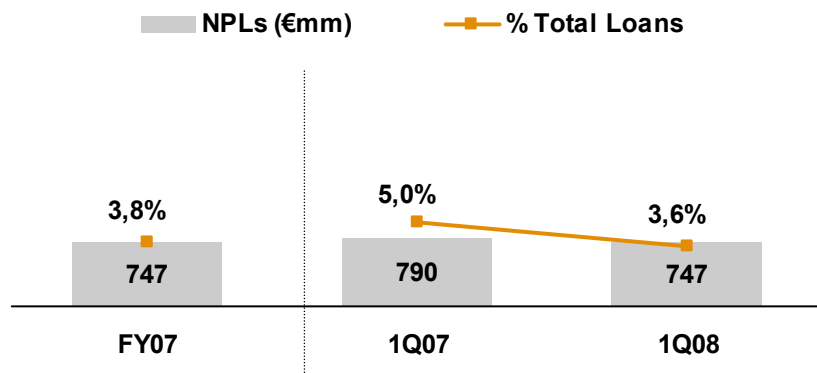
- Increase business from existing customers
- Cross-sell to relatively “new” clients
  - 105.581 new clients since 31.03.07
  - Mortgage loan book increased 33% yoy

through

- Efficient structure and flexible products
- Emphasis on front-line personnel training and technical knowledge
- Segregation of sales effort by product
- Simplification and centralisation of branch back-office procedures

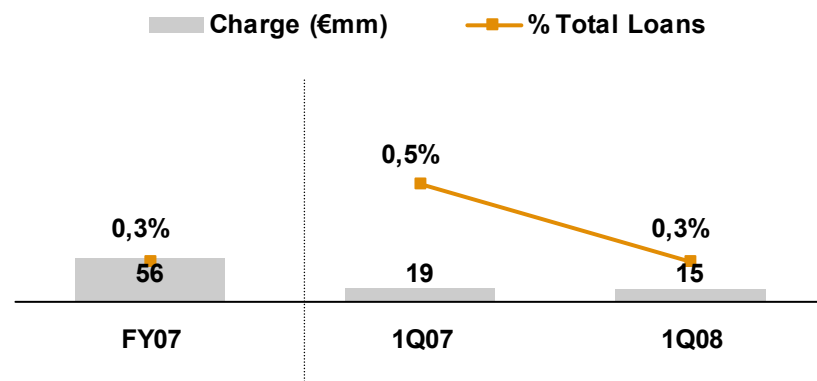
# Continuing improvement in loan quality

## NPLs development

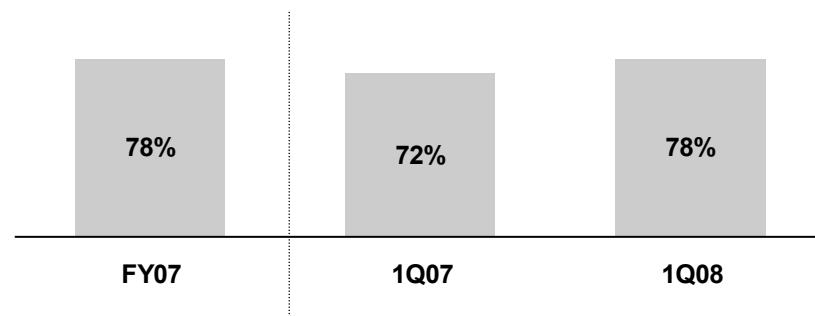


- Improvement of loan quality
- Absolute NPL reduction
- Increased provision coverage
  - Adequacy of current provisioning levels
- Normalised P&L charges

## Provision charge



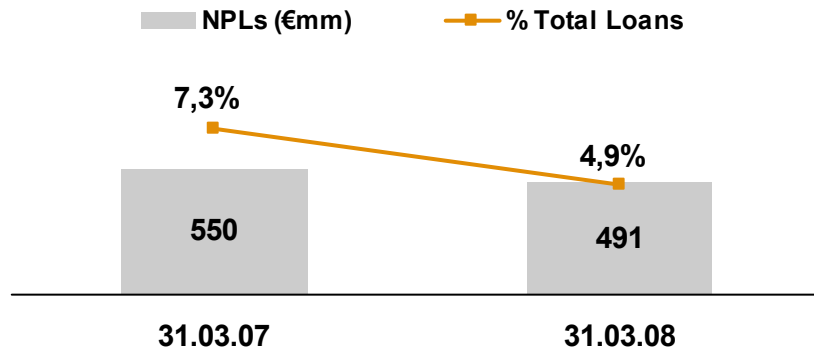
## Provision coverage <sup>(1)</sup>



(1) The remainder of the NPLs is fully covered by tangible collateral

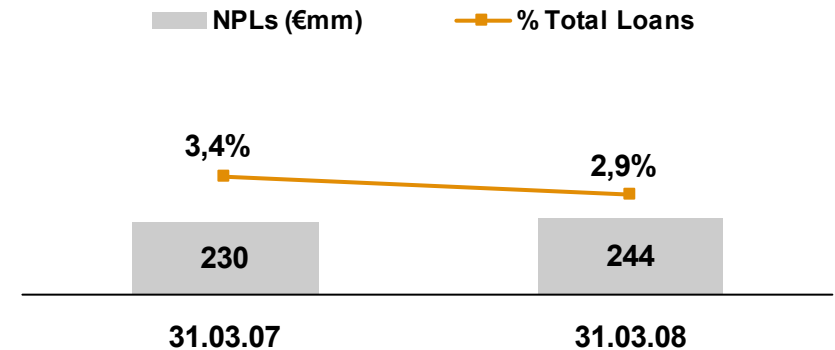
# Loan quality improved across the board

## Cyprus NPLs development



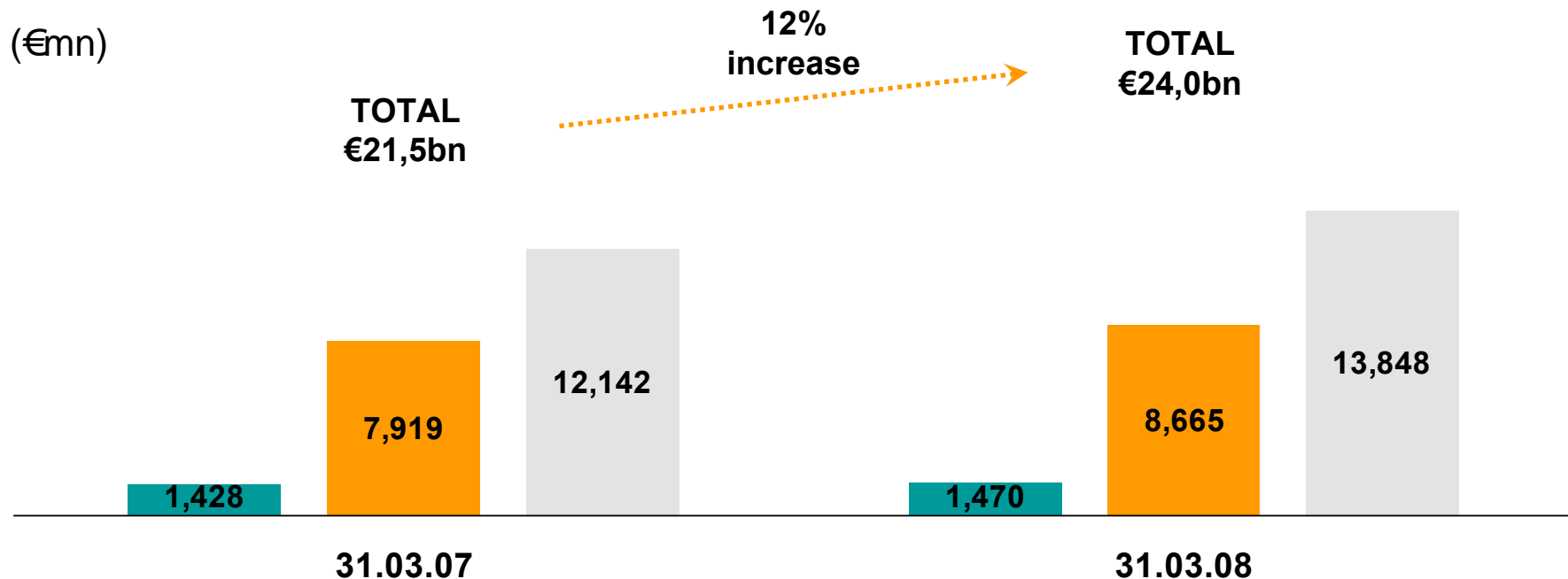
- **Best NPL ratio of all Cypriot banks**
- **High ratio by international standards**
  - Prolonged period for recovery of collateral

## Greece NPLs development



- **NPL ratio much better than average of banking system in Greece**

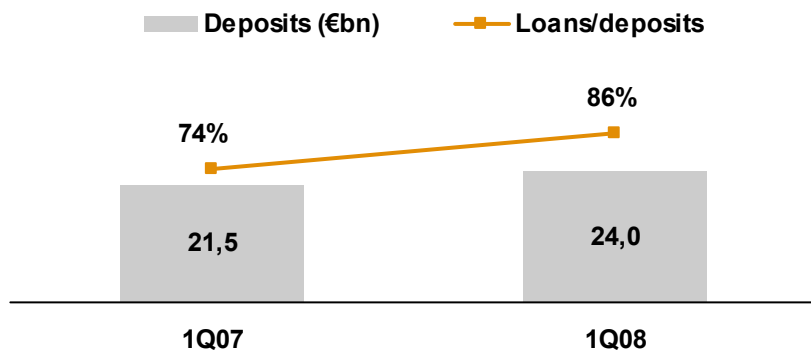
# Deposits by geographic sector



	Share in the Group total		Annual increase	Market share
	31.03.07	31.03.2008		
■ Cyprus	57%	58%	14%	30,0%
■ Greece	37%	36%	9%	3,6%
■ Other countries	6%	6%	3%	

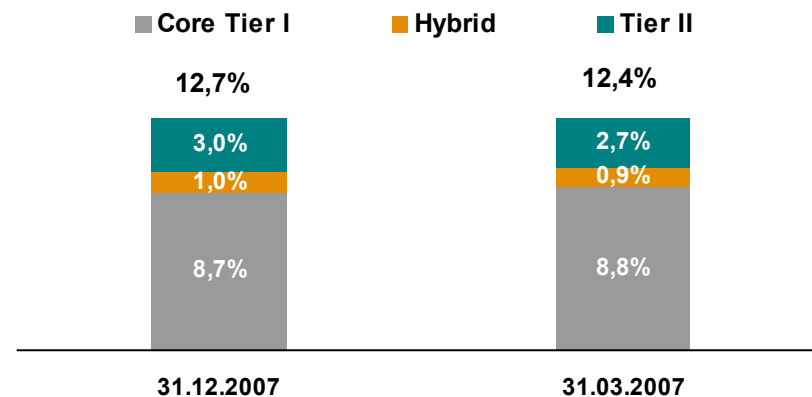
# Strong liquidity and capital base

## Liquidity



- Strong deposit base and flows
- Comfort in growing loan portfolio across geographies, especially in new markets
- Dependence on wholesale funding is minimal
  - 12% of total assets

## Capital



- Strong core Tier I position
  - upside potential from non-core asset disposals
- Basel II (standardised approach)
  - Adopted on 1 January 2007

# Convertible Bond Issue

- Issue size €566,2 mn.
- Convertible bonds will be offered to all registered shareholders in the ratio of €1 Convertible Bond for every share held as at Record Date (TBA)
- Conversion price €10,50
- First conversion period 15-30 September 2010
- Last conversion period 15-31 March 2013
- Final redemption date 30 June 2018

Interest	
First two periods (i.e until 30 June 2009)	Fixed interest rate of 6%
30 June 2009 – 30 June 2013	Floating interest rate – 6M Euribor (which will be set at the beginning of each period) plus 1%
1 July 2013 – 30 Sept 2018	Floating interest rate – 6M Euribor (which will be set at the beginning of each period) plus 2%

# Our strategy continues to create added value to our shareholders

## Continue successful course through

- Autonomous growth
- Increased profitability
- Fast expansion in the new markets
- Remaining alert in grasping acquisition and strategic alliance opportunities

### Greece

- 220 branches by 2010
- Cross-selling and improved pricing to maturing 886.000 client relationships

### New markets

- Expansion in large countries with existing client relationships and brand recognition
- Ongoing branch roll-out in Romania and Moscow leveraging on existing client relationships
- Incorporate the Ukrainian bank AvtoZAZBank in the Bank of Cyprus Group
- Expand loan book and extract value from existing client relationships

### Cyprus

- Leading brand and distribution network
- Leading offshore banking services provider to Eastern European corporates



# Contacts

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## **Website**

[www.bankofcyprus.com](http://www.bankofcyprus.com)

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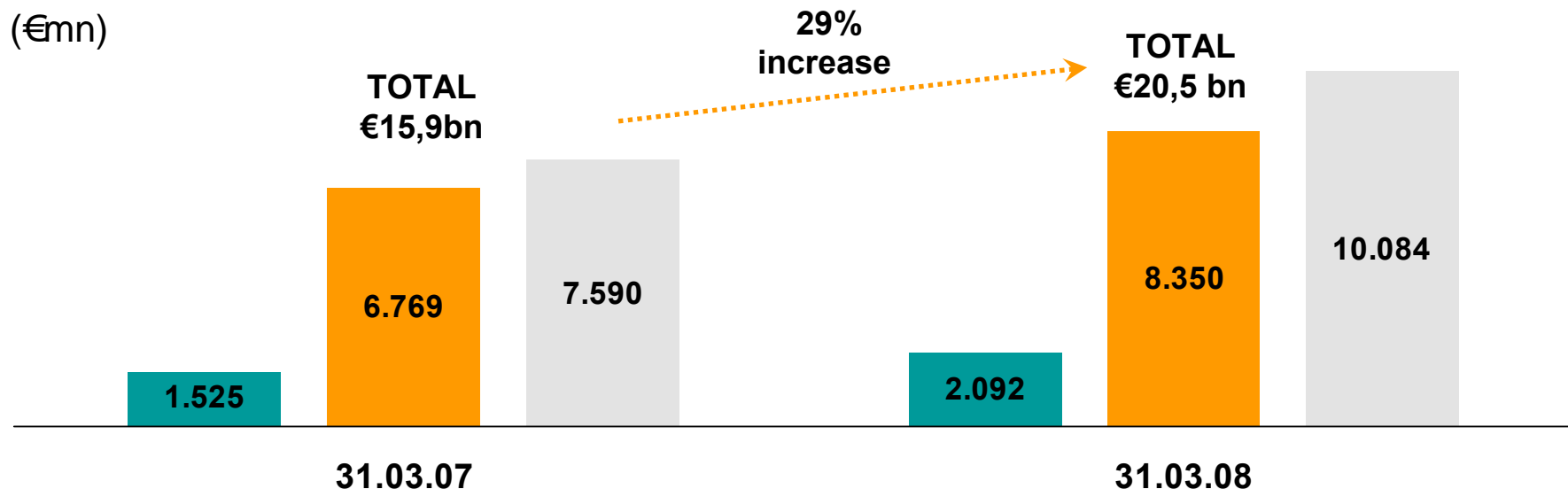
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# Loans by geographic sector



	Share in the Group total		Annual Increase	Market share
	31.03.07	31.03.08		
■ Cyprus	48%	49%	33%	28,5%
■ Greece	42%	41%	23%	3,7%
■ Other countries	10%	10%	37%	
- United Kingdom	€1.181mn	€1.217mn	3%	
- Australia	€315mn	€395mn	25%	
- Romania	€29mn	€349mn		
- Russia	nil	€131mn		

# Cyprus operations maintain an exceptional Return on Equity of 40%

(€mm)	1Q08	1Q07	% growth	FY07
Net interest income	103	97	+6%	435
Fees and commissions	31	34	-7%	135
Income from insurance operations	14	12	+15%	47
Net gains on sale and change in fair value of financial instruments attributable to shareholders	6	6	0%	24
Foreign exchange and other income	18	9	+100%	75
<b>Total income</b>	<b>172</b>	<b>158</b>	<b>+9%</b>	<b>716</b>
Staff costs	(44)	(44)	0%	(181)
Other operating expenses	(21)	(20)	+3%	(89)
<b>Total expenses</b>	<b>(65)</b>	<b>(64)</b>	<b>+1%</b>	<b>(270)</b>
Provisions for impairment of loans and advances	(6)	(7)	-17%	(25)
Share of (loss)/profit of associate	(5)	3		9
Profit before tax	96	90	+6%	429
Tax	(8)	(9)	-5%	(52)
Profit after tax	88	81	+8%	377
<b>Net Interest Margin</b>	<b>2,19%</b>	<b>2,57%</b>	<b>-38 b.p.</b>	<b>2,53%</b>
<b>Return on Equity</b>	<b>39,9%</b>	<b>43,5%</b>	<b>-3,6 p.p.</b>	<b>47,2%</b>
<b>Cost/Income</b>	<b>37,8%</b>	<b>40,8%</b>	<b>-3,0 p.p.</b>	<b>37,9%</b>

# Greek operations profitability

(€mm)	1Q08	1Q07	% growth	FY07
Net interest income	70	65	+8%	276
Fees and commissions	13	12	+9%	51
Income from insurance operations	2	1	+48%	9
Net gains on sale and change in fair value of financial instruments attributable to shareholders	(3)	0		0
Foreign exchange and other income	1	1		4
<b>Total income</b>	<b>83</b>	<b>79</b>	<b>+5%</b>	<b>340</b>
Staff costs	(24)	(22)	+10%	(92)
Other operating expenses	(19)	(17)	+8%	(81)
<b>Total expenses</b>	<b>(43)</b>	<b>(39)</b>	<b>+9%</b>	<b>(173)</b>
Provisions for impairment of loans and advances	(9)	(12)	-26%	(30)
Profit before tax	31	28	+12%	137
Tax	(8)	(7)	+25%	(37)
Profit after tax	23	21	+9%	100
<b>Net Interest Margin</b>	<b>2,58%</b>	<b>3,02%</b>	<b>-44 b.p.</b>	<b>2,87%</b>
<b>Return on Equity</b>	<b>16,0%</b>	<b>16,7%</b>	<b>-0,7 p.p.</b>	<b>19,3%</b>
<b>Cost/Income</b>	<b>51,8%</b>	<b>49,7%</b>	<b>+2,1 p.p.</b>	<b>50,9%</b>

# Other countries

(€mm)	1Q08	1Q07	% growth	FY07
Net interest income	12	10	+37%	41
Fees and commissions	4	3	+5%	12
Profit from disposal and revaluation of financial instruments	0	0		1
Foreign exchange and other income	1	0	+239%	0
<b>Total income</b>	<b>17</b>	<b>13</b>	<b>+32%</b>	<b>54</b>
Staff costs	(6)	(5)	+29%	(22)
Other operating expenses	(5)	(3)	+57%	(20)
<b>Total expenses</b>	<b>(11)</b>	<b>(8)</b>	<b>+40%</b>	<b>(42)</b>
Provisions for impairment of loans and advances	0	0		(1)
Profit before tax	6	5	+29%	11
Tax	(1)	(1)	-7%	(3)
Profit after tax	5	4	+39%	8
<b>Net Interest Margin</b>	<b>2,02%</b>	<b>1,91%</b>	<b>+11 b.p.</b>	<b>1,85%</b>
<b>Return on Equity</b>	<b>16,5%</b>	<b>14,2%</b>	<b>+2,3 p.p.</b>	<b>6,9%</b>
<b>Cost/Income</b>	<b>63,6%</b>	<b>60,0%</b>	<b>+3,6 p.p.</b>	<b>68,7%</b>

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# ***Appendix 2: Financial Targets 2008-2010***

**Financial Results 1Q08 - Highlights**

**Income Statement Review**

**Balance Sheet Review**

***Appendix 1: Detailed Financial Information***

***Appendix 2: Financial Targets 2008 - 2010***

# Strategic priorities

## Cyprus

### Domestic banking

- Market share gain
- Increase cross-selling
- Efficiency gains

### International banking

- Strong growth, benefiting from Euro adoption
- Maintain high standard of service and excellent relationships with introducers

### Insurance

- Enhance product offering
- Emphasis on bancassurance
- Group synergies

## Greece

### Banking

- Market share gain
- Expand network to 220 branches by end-2010 from 135 branches network
- Increase fee income through further development of wealth & asset management services
- Enhanced cross-selling
- Efficiency gains

### Insurance

- Enhance product offering
- Emphasis on bancassurance
- Exploit Group synergies

## New markets

### Russia

- Extract value from existing client relationships
- Build infrastructure to expand client relationships
- 16 branches by end-2010

### Romania

- 40 branches by 2010
- Focus on project financing and syndicated lending
- Enter retail sector in 2008

### Ukraine

- Incorporate AvtoZAZBank in the Bank of Cyprus Group
- Expand loan book and extract value from existing client relationships

Cost savings through “one bank” concept

# Key targets 2008-2010

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**efficient**

**Cost to income ratio**  
(2010)

**<40%**

**value-adding**

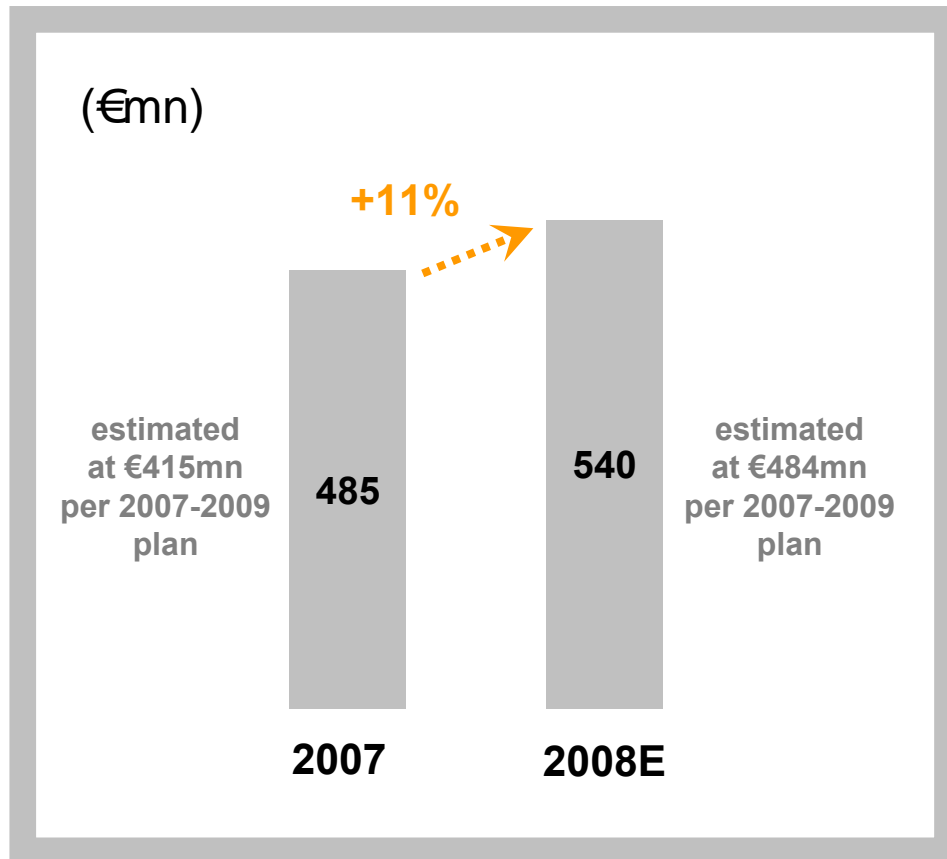
**Average return on equity**  
(2008-2010)

**26%**

**growing**

**Double loan portfolio**  
(2010)

# Profit target for 2008



- **Euro adoption in Cyprus on 1/1/2008**
  - Loss of foreign exchange and fee & commission income ~€20-25mn
- **Change of reference rate in Cyprus as of 1/1/2008**
  - ECB rate Vs CYP base rate (4,0% Vs 4,5%)
  - Inflexibility in using Euribor on existing loans
- **Significant investments in 2008 to deliver significant volume and profitability in next three years**
  - build infrastructure in the three new targeted markets
  - Expand network in Greece

# Profit target for 2009 and 2010

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**Increase in profit after tax  
for 2009 and 2010  
at rates >25% per annum**

# Targets 2008-2010

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<b>Cost to income ratio</b>	<b>&lt;40%</b>
<b>Average return on equity</b>	<b>26%</b>

## Average annual growth rates 2008-2010

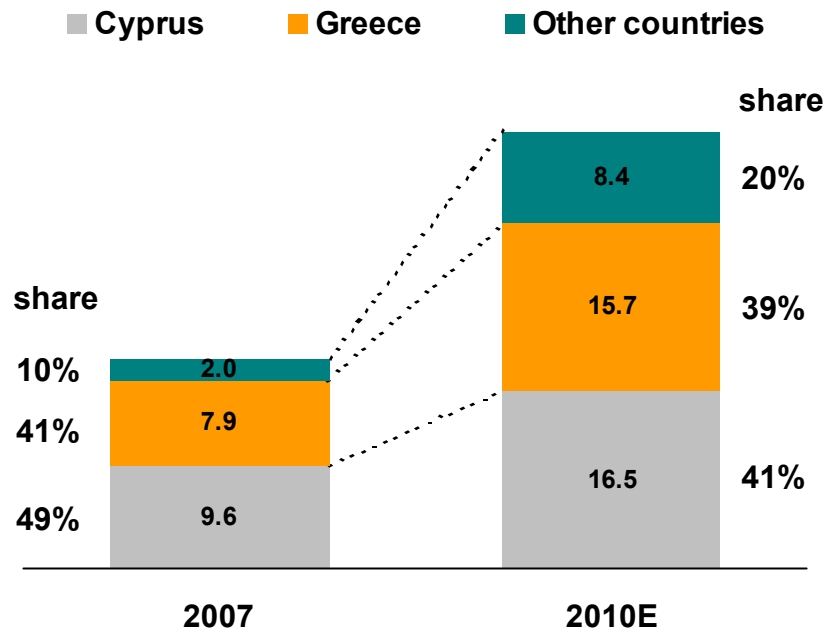
<b>Net interest income</b>	<b>21%</b>
<b>Total income</b>	<b>18%</b>
<b>Total expenses</b>	<b>12%</b>
<b>Loans</b>	<b>28%</b>
<b>Deposits</b>	<b>16%</b>

**Maintain strong capital adequacy ratio at levels >11%**

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# Loan portfolio – expected evolution

## Country analysis (€bn)



### In 2010

- Double portfolio size
- 20% of portfolio outside Cyprus and Greece

# Other assumptions of 2008-2010 plan

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## **Net interest margin**

**Drop in 2008 by 25 bp**

**Gradually recover in 2009 and 2010**

- Convergence of Cyprus Pound rate to ECB rate on 1/1/08
- Competitive pressures in Cyprus and Greece to be mitigated by entry into higher margin geographies

**Provision charge at 30 basis points of average loan balances**

**No issue of new shares**