

Bank of Cyprus Group



Announcement

Significant strategic investment by Bank of Cyprus

Commitment to our international expansion

AGREEMENT TO ACQUIRE UNIASTRUM BANK IN RUSSIA

Nicosia, 26 June 2008

Founded in 1899, the Bank of Cyprus Group is the leading Cypriot banking and financial services group. In 1991, the Group established its first branch in Greece where it has been expanding rapidly since 1999. It has an established banking presence in the United Kingdom and in 2001 it expanded to Australia through a wholly owned subsidiary bank. In addition to retail and commercial banking, the Group's activities include finance, factoring, investment banking, brokerage, fund management, life and general insurance. The Group currently operates through a total of 305 branches, of which 143 operate in Cyprus, 140 in Greece, 5 in the United Kingdom, 11 in Australia, 4 in Romania, 1 in Russia and 1 in the Channel Islands. Bank of Cyprus also has representative offices in Russia, Canada and South Africa. The Bank of Cyprus Group employs 6.996 staff worldwide.

At 31 March 2008, the Group's Total Assets reached €30,85 bn and the Shareholders' Funds were €2,03 bn. The Bank of Cyprus shares are listed on the Cyprus and Athens Stock Exchanges. Additional information can be found at the Group's website www.bankofcyprus.com.

Bank of Cyprus announces that it has entered into an agreement for the acquisition of an 80% interest in Uniastrum Bank in Russia, which has the 9th largest banking network in the country, for a total consideration of US\$576mn (€371mn). The two founding shareholders currently leading the management of the Bank will retain a 10% interest each. This residual shareholding is subject to a put/call arrangement over a three year period, payable in cash, depending on the financial performance of Uniastrum Bank during the three year period. Transaction completion is expected in the 4th quarter of 2008, following receipt of the relevant approvals from regulatory authorities in Cyprus and Russia.

The consideration represents an attractive acquisition multiple of 3.1x P/BV taking into account a capital increase of US\$50mn to be completed at closing. The transaction will be financed from Bank of Cyprus' existing capital resources and the pro forma Tier 1 capital ratio is expected to remain above 7.5% after completion. The transaction is expected to be earnings accretive from the first full year of investment (2009) and achieve a return on investment in excess of 10% within two years (2010).

Following the 80% acquisition by Bank of Cyprus, the two founding shareholders – George Piskov and Gagik Zakarian will remain in their capacities as Chairman and President of Uniastrum Bank respectively, whereas the new board of directors will be controlled by Bank of Cyprus. Uniastrum Bank has a highly experienced management team with demonstrated capability to manage a rapidly growing organization.

Uniastrum Bank is a universal commercial bank founded in 1994 with a strong presence in Moscow and in another 41 regions of Russia. Uniastrum Bank is headquartered in Moscow and has the 9th largest distribution network in Russia, consisting of 222 branches and sub-offices, the majority of which have been opened over the last few years. The Bank employs approximately 4,300 employees. Uniastrum has a retail focused portfolio and offers an extensive retail product set and has a high brand recognition. It is ranked 15th by mortgage loans and 33rd by retail loans. It has a good deposit gathering capability and is ranked 13th by retail deposits. At 31 December 2007, the bank's total assets amounted to €1,401mn, net customer loans to €932mn and customer deposits to €1,067mn and the bank's loans to deposits ratio stood at a healthy ratio of 87%.

Uniastrum bank is well positioned to capture the Russian retail banking potential. Russia has a buoyant economy with an average real GDP growth of 7.3% since 2004 and retail loans and corporate loans increasing annually by 80% and 56% respectively. The banking sector is significantly underpenetrated, especially in the retail and mortgage sectors. The loans to GDP ratio of only 36% (compared to the 115% in the Eurozone) coupled with the expected high GDP growth rate indicates the significant growth prospects of the banking sector. Uniastrum Bank is present in the most economically active regions in Russia which account for approximately 85% of the country's GDP and the bank operates in every city with an official population of over 600,000 people.

Uniastrum Bank will continue to focus on retail and SME clientele and will operate independently from and complement Bank of Cyprus' existing organic operations in Russia which focus on corporate clients. It is expected that Uniastrum Bank's retail focus and extensive distribution network in Moscow and throughout Russia coupled with Bank of Cyprus' product manufacturing capabilities, procurement support and funding synergies will add significant value to the shareholders of Bank of Cyprus.

With the addition of Uniastrum Bank to the Group, Bank of Cyprus will operate a well diversified network of 520 branches in Cyprus, Greece, Russia, Romania, Ukraine, the United Kingdom and Australia.

On the occasion of the signing of the agreement for the acquisition of Uniastrum Bank, the Chairman of the Board of Directors of the Bank of Cyprus Group, Mr Theodoros Aristodemou stated:

“This acquisition is a landmark in Bank of Cyprus Group’s history as well as an important time for Cyprus and the Greek world in general. This is the first acquisition of a big Russian banking institution by a banking institution operating in Greece. This acquisition apart from the benefits that will bring to our organization and our shareholders, it will bring closer the Greek and the Russian world. Bank of Cyprus continues its strategic development with solid steps in the new rapidly growing markets.”

The Chief Executive Officer of the Bank of Cyprus Group, Mr Andreas Eliades, referred to the growth potential of the Group in Russia and stated:

“The acquisition of Uniastrum Bank in Russia seals the implementation of the strategy we had presented in our three year plan. Uniastrum Bank will significantly strengthen our footprint in our targeted markets. It adds a highly promising international dimension and diversification to our already extensive presence in Cyprus, Greece and our expanding operations in Ukraine and Romania. The extensive distribution network, the 9th largest Russian banking network, and Uniastrum’s focus on the retail and small and medium size companies sector, complements our existing corporate focused presence in Russia. It therefore maximises the opportunity of Bank of Cyprus to expand its operations in the rapidly growing Russian market, establishing a powerful regional institution, ensuring the maximisation of shareholder value.”

Notes:

1. The detailed presentation relating to the agreement for the acquisition of Uniastrum Bank has been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Presentations).
2. Bank of Cyprus will hold a conference call on Friday 27 June 2008 at 10am Cyprus time (i.e 8am UK time) to inform investors and analysts of the Group’s recent decision to acquire Uniastrum Bank in Russia.