Bank of Cyprus Group

Announcement

Report and Explanatory Statement:

Preliminary Group Financial Results for the year ended 31 December 2011

- **Increase in organic profitability**
  - Profit before provisions and impairment of GGBs €805 mn, an increase of 11%
  - Profit after tax excluding the impairment of GGBs €312 mn, an increase of 2%
- **After tax and the impairment of GGBs by 60%, losses of €1.011 mn**
- **Capital Strengthening Plan**
  - Pro-forma Core Tier 1 of 9,1% upon the successful completion of the Plan

Nicosia, 21 February 2012

Founded in 1899, the Bank of Cyprus Group is the leading Cypriot banking and financial services group. In addition to retail and commercial banking, the Group's activities include finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Group currently operates through a total of 583 branches, of which 199 operate in Russia, 188 in Greece, 137 in Cyprus, 42 in Ukraine, 12 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has 6 representative offices in Russia, Romania, Ukraine, Serbia and South Africa. The Bank of Cyprus Group employs 11.326 staff worldwide.

At 31 December 2011, the Group's Total Assets amounted to €37,84 bn and the Shareholders' Funds were €2,70 bn. The Bank of Cyprus shares are listed on the Cyprus and Athens Stock Exchanges. Additional information can be found on the Group's website www.bankofcyprus.com.

A. Summary of Preliminary Results

The Group committed to its strategic priorities for increasing organic profitability, maintaining healthy liquidity, strengthening capital and effective risk management remains in a position to face the challenges of the ongoing negative environment in the main European markets in which it operates.

The Group achieved the profitability targets set for 2011, excluding the impairment of Greek Government Bonds (GGBs), despite the continuing negative economic developments in the main markets in which it operates, and achieving increased profit before provisions and increased profit before tax and impairment of GGBs for 2011. Profit before provisions and the impairment of GGBs reached €805 mn, noting an increase of 11% compared to €725 mn for 2010 and profit after tax excluding the impairment of GGBs reached €312 mn compared to €306 mn for 2010, noting an increase of 2%. Including the impairment of GGBs, losses after tax amounted to €1.011 mn.

The Group has reduced the book value of its GGBs by 60% of their nominal value. The after tax impairment of GGBs, including related hedging costs, amounted to €1.323 mn for 2011. At 31 December 2011 the book value after impairment of the GGBs held by the Group amounted to €975 mn.

The **final audited financial results** of the Group could potentially be materially different from the **preliminary results** due to the final determination of the impact of the Private Sector Involvement scheme for the restructuring of Greek public debt on the Group's financial results.

The Group is strengthening its capital base via the **Capital Strengthening Plan** which is expected to be completed in March 2012. The Plan includes a Rights Offering to raise up to €397 mn and a voluntary exchange of Convertible Enhanced Capital Securities with ordinary shares of up to €600 mn. In addition, the Group is proceeding with other actions to strengthen its capital adequacy ratios, including the effective management of risk weighted assets and the strengthening of its capital base from profits in order to comply with the required regulatory capital adequacy ratios.

In order to further strengthen its capital base and its liquid funds, on 16 December 2011 the Group signed a binding agreement to sell its subsidiary bank in Australia, Bank of Cyprus Australia Ltd. The sale has a positive contribution of around €77 mn to the Group's regulatory capital. The sale will improve the Group's liquid funds by around €250 mn.

Upon the completion of the Capital Strengthening Plan in its entirety, the pro-forma Core Tier 1 capital ratio and Tier 1 capital ratio as at 31 December 2011 would have been 9,1% and 10,5% respectively.

The main financial highlights for 2011 are set out in the tables below:

Table 1

Main financial highlights for 2011			
€ mn	**Change**	**FY11**	**FY10**
Total Income	+6%	1.541	1.450
Profit before provisions and impairment of Greek Government Bonds (GGBs)	+11%	805	725
Profit before tax excluding GGBs impairment	+8%	378	348
Profit after tax excluding GGBs impairment	+2%**	312**	306
Impairment of GGBs and change in fair value of related hedging derivatives (after tax)	-	(1.323)	-
(Loss)/Profit after tax and GGBs impairment	-	(1.011)	306
Earnings per share excluding GGBs impairment	-9,5 cent	30,9 cent	40,4 cent

Return on Equity excluding GGBs impairment	-1,3 p.p.*	10,6%	11,9%
Cost / Income	-2,2 p.p.*	47,8%	50,0%
Net Interest Margin	+32 b.p.*	2,98%	2,66%

* p.p. = percentage points, 1 percentage point = 1%
b.p. = basis points, 100 b.p. = 1 percentage point (1%)
** Excluding the special tax on banks in Cyprus of €19 mn profit reached €331 mn noting an 8% increase.

Table 2

Main financial highlights for 2011			
	Change	**FY11**	**FY10**
Total Loans (€ bn)	+4%	28,9	27,9[1]
Total Deposits (€ bn)	-7%	29,7	32,1[1]
Loans to Deposits[2]	+8,2 p.p.*	92,3%	84,1%
Non-performing loans ratio	+2,9 p.p *	10,2%	7,3%

* p.p. = percentage points, 1 percentage point = 1%

- **Significant increase in total income**: Total income for 2011 noted an increase of 6% reaching €1.541 mn, demonstrating the Group's ability to achieve increasing income even in adverse economic conditions.

- **Improved efficiency:** The cost to income ratio has improved to 47,8% for 2011 from 50,0% for 2010 due to the increase in total income and the contained increase of expenses.

- **Significant increase in profit before provisions**: The improved efficiency led to a significant increase in profit before provisions and impairment of GGBs for 2011. Profit before provisions and impairment of GGBs reached €805 mn for 2011, noting an increase of 11% compared to 2010 (€725 mn).

- **Improvement of interest margin**: The Group's net interest margin reached 2,98% for 2011, a significant increase of 32 basis points compared to 2,66% for 2010.

[1] Loans and deposits for the financial year 2010 have been adjusted to exclude the Australian operations
[2] Net loans to deposits

- **Healthy liquidity**: The Group has a healthy liquidity position with a loans to deposits ratio of 92%, minimal repayments of debt obligations in the next two years and minimal reliance on wholesale funding. The ratio of deposits to total assets ratio was 78% at 31 December 2011.

- **Adequate return on equity:** The return on equity excluding the impairment of GGBs (10,6% for 2011) was maintained at satisfactory levels in a particularly challenging environment.

- **Loans and deposits:** At 31 December 2011 Group loans and deposits were €28,9 bn and €29,7 bn respectively.

- **Effective credit risk management**: The non-performing loans ratio reached 10,2% at 31 December 2011 compared to 8,6% at 30 September 2011 and 7,3% at 31 December 2010. The provisions coverage ratio (provisions as % of non-performing loans) amounted to 51% at 31 December 2011. The coverage ratio including tangible collateral amounted to 118%.

B. Prospects for the 2012

Excluding the impairment of GGBs, the Group has achieved the profitability targets for 2011, and remains in a position to face the challenges of the economic environment. In the current environment, the Group continues to focus on maintaining its organic profitability, healthy liquidity, satisfactory capital adequacy and effective risk management.

C. Analysis of Results for 2011

C.1 Geographical analysis of profitability

The **Group** has achieved satisfactory profitability excluding the impairment of GGBs, having increased its recurring income for 2011. **Profit before provisions** and the impairment of GGBs reached €805 mn for 2011, recording an annual increase of 11%. Profit after tax, excluding the impairment of GGBs reached €312 mm which is an annual increase of 2%. Excluding the special tax on banks in Cyprus, of €19 mn profit reached €331 noting an increase of 8%.

In **Cyprus,** profit before provisions for 2011 reached €501 mn which is an annual increase of 15% compared to 2010. Profit after tax excluding the impairment of GGBs for 2011 reached €315 mn which is an increase of 23% compared to 2010.

In **Greece,** profit before provisions for 2011 reached €197 mn, compared to €194 mn for 2010. Loss after tax excluding the impairment of GGBs for 2011 was €26 mn versus a profit of €11 mn for 2010 as a result of higher provisions and tax.

In **Russia,** profit before provisions for 2011 reached €58 mn recording an annual increase of 29% compared to €46 mn for 2010. Profit after tax for 2011 reached €3 mn compared to €16 mn for 2010 as a result of higher provisions.

Profit after tax for **other countries** (Australia, United Kingdom, Ukraine and Romania) reached €20 mn. Profit after tax for the financial year 2011 include profits of €6 mn from the operations of BOC Australia.

C.2 Net Interest Income and Net Interest Margin

By adjusting its pricing policy for the new economic environment, the Group increased its net interest income for 2011. **Net interest income** for 2011 reached €1.168 mn, recording an annual increase of 12%.

The **net interest margin** of the Group continued to increase and in the fourth quarter of 2011 reached 3,34% compared to 3,11% for the third quarter of 2011 and 2,72% for the fourth quarter of 2010. The net interest margin for 2011 reached 2,98% recording a significant increase of 32 basis points compared to 2010 (2,66%).

C.3 Income from fees and commissions, foreign exchange income and gains from financial instruments

Net fee and commission income amounted to €232 mn for 2011 compared to €231 mn for 2010.

Foreign exchange income and gains from financial instruments for 2011 amounted to €49 mn versus €110 mn for 2010.

C.4 Greek Government Bonds

On 26 October 2011, the Eurozone summit announced a revised support plan for Greece, which includes a decision for the restructuring of Greek public debt with the voluntary exchange of existing GGBs held by private investors. The detailed terms of the restructuring and exchange of the bonds and their accounting treatment, including the necessary assumptions for the calculation of the net present value, have not yet been finalised.

The Group has reduced the book value of its GGBs by 60% of their nominal value. The after tax impairment of GGBs, including related hedging costs, amounted to €1.323 mn for 2011. At 31 December 2011 the book value after impairment of the GGBs held by the Group amounted to €975 mn.

The final audited financial results of the Group could potentially be materially different from the preliminary results due to the final determination of the impact of the Private Sector Involvement scheme for the restructuring of Greek public debt on the Group's financial results.

The table below sets out information regarding the GGBs as at 31 December 2011.

Table 3

	Nominal value	Book value pre-impairment	Impairment recognized in Profit and Loss	Book value post-impairment
	€ mn	€ mn	€ mn	€ mn
Available for Sale	13	3	10	3
Loans and Receivables	1.828	1.758	1.187	872
Held to maturity	247	247	148	99
Total bonds which have been impaired	**2.088**	**2.008**	**1.345**	**974**
Fair value through profit and loss	4	1	-	1
Total bonds	**2.092**	**2.009**	**1.345**	**975**

The pre-impairment book value of the GGBs of €2.009 mn and the impairment recognised in the profit and loss of €1.345 mn include an amount of €364 mn relating to the cost of hedging the GGBs up to the date of their impairment as well as changes in the fair value of derivatives used to hedge their interest rate risk.

C.5 Expenses

Total expenses for 2011 amounted to €736 mn which is an increase of 2% compared to €725 mn for 2010. Despite the increase, the significant increase in Group income led to a noteworthy improvement in the **cost to income ratio** which reached 47,8% noting a decrease of 2,2% compared to 2010 (50,0% for 2010).

Employee costs amounted to €443 mn recording an increase of 3% compared to 2010 while **other operating expenses** (excluding employee costs) amounted to €293 mn, recording a reduction of 1% compared to 2010.

D. Credit Risk Management

The quality of the Group's loan portfolio remains at adequate levels taking into consideration the continuing economic crisis. At 31 December 2011, the ratio of loans in arrears for longer than three months which are not fully covered by tangible collateral ("non-performing loans") over the total loans of the Group (non-performing loans ratio) was 10,2%, compared to 8,6% at 30 September 2011 and 7,3% at 31 December 2010.

At 31 December 2011, the relevant ratio was 9,5% in Cyprus (30 September 2011: 8,3%) and 11,6% in Greece (30 September 2011: 10,0%).

The Group, taking into consideration the macro-economic environment and the deterioration of the loan portfolio, increased the charge for the impairment of loans, which reached 1,48% of total loans for 2011, compared to 1,35% for 2010.

The coverage ratio (provisions/NPLs) amounted to 51% at 31 December 2011. The remaining balance of NPLs is fully covered by tangible collateral, with the coverage ratio including tangible collateral amounting to 118%.

E. Balance Sheet Analysis

E.1 Group Loans

At 31 December 2011 Group loans amounted to €28,9 bn recording an annual increase of 4%[3].

Table 4

Analysis of Loans by Geographic Sector at 31.12.2011

	€ mn	annual ±%	Contribution
Cyprus	14.931	8%	52%
Greece	9.983	-2%	35%
Russia	2.004	6%	7%
Other countries	1.954	0%	6%
Group	**28.872**	**4%**	**100%**

E.2 Group Deposits

The Group's total deposits at 31 December 2011 reached €29,7 bn recording an annual decrease of 7%[4].

The Group's healthy liquidity position, with a loans to deposits ratio of 92% and its minimal reliance on wholesale funding (deposits to total assets ratio of 78% at 31 December 2011) provide the Group with a competitive advantage particularly in the adverse conditions prevailing in international money markets and the intense competition on deposits evident in the main markets in which the Group operates.

[3] The annual change has been calculated excluding BOC Australia
[4] The annual change has been calculated excluding BOC Australia

During 2011, the Group completed two issues of Covered Bonds of €700 mn and €1bn which further strengthened its liquidity.

Table 5

Analysis of Deposits by Geographic Sector at 31.12.2011			
	€ mn	**annual ±%**	**Contribution**
Cyprus	19.166	-3%	65%
Greece	7.699	-21%	26%
Russia	1.294	+16%	4%
Other countries	1.495	+3%	5%
Group	**29.654**	**-7%**	**100%**

E.3 Capital Base

At 31 December 2011, the Group's shareholder funds amounted to €2,70 bn. At 31 December 2011 the Group's total capital adequacy ratio, including the impairment of GGBs, reached 9,2% with the core tier 1 ratio at 5,1% and the tier 1 ratio at 8,9%.

Upon the completion of the Capital Strengthening Plan in its entirety, the Group's pro-forma core tier 1 ratio, tier 1 ratio and total capital adequacy ratio at 31 December 2011 would have been 9,1%, 10,5% and 10,8% respectively.

It is noted that the regulatory authorities have significantly raised the minimum capital adequacy ratios with minimum ratios of 8,0% for Core Tier 1, 9,5% for Tier 1 (previously 4%) and 11,5% for the total capital adequacy ratio (previously 8%). The Group's capital adequacy ratios are lower than those required by the Central Bank of Cyprus. The Group expects that with the completion of the Capital Strengthening Plan, internally generated capital through profits and effective management of risk weighted assets it will be in a position to cover the minimum required ratios within a reasonable period of time.

Table 6

Analysis of Group Results and Other Financial Information						
€ mn	FY11	FY10	Annual change ±%	4Q11	3Q11	Quarterly change ±%
Net interest income	1.168	1.041	+12%	313	302	+4%
Net fee and commission income	232	231	+1%	61	58	+5%
Foreign exchange income and gains from financial instruments	49	110	-56%	16	7	+133%
Insurance income net of insurance claims	61	59	+3%	14	15	-4%
Other income	31	9	+251%	10	8	+15%
Total income	**1.541**	**1.450**	**+6%**	**414**	**390**	**+6%**
Personnel expenses	443	430	+3%	(113)	(110)	+3%
Other operating expenses	293	295	-1%	(93)	(59)	+58%
Total expenses	**736**	**725**	**+2%**	**(206)**	**(169)**	**+22%**
Profit before provisions	**805**	**725**	**+11%**	**208**	**221**	**-6%**
Provisions for impairment of loans and advances	(426)	(375)	+14%	(132)	(112)	+18%
Share of loss of associate	(1)	(2)	+26%	-	-	-
Profit before tax	**378**	**348**	**+8%**	**76**	**109**	**-30%**
Taxation	(73)	(46)	+59%	(15)	(20)	-27%
Non - controlling interests (loss)	7	4	+93%	5	1	+334%
Profit after tax	**312**	**306**	**+2%**	**66**	**90**	**-26%**
Impairment of Greek Government Bonds and change in fair value of related hedging instruments	(1.323)	-	-	(275)	(778)	-
(Loss)/Profit after tax and impairment of Greek Government Bonds	**(1.011)**	**306**	**-**	**(209)**	**(688)**	**+70%**
Net Interest Margin (NIM)	**2,98%**	**2,66%**	**+32 b.p.***	**3,34%**	**3,11%**	**+23 b.p.***
Cost to Income**	**47,8%**	**50,0%**	**-2,2 p.p.***	**49,9%**	**43,4%**	**+6,5 p.p.***
Return on equity**	**10,6%**	**11,9%**	**-1,3 p.p.***	**8,8%**	**12,7%**	**-3,9 p.p.***

* b.p. = basis points, 100 b.p. = 1 percentage point (1%)
** Excluding the impairment of GGBs

Table 7

Geographical Sector Analysis of Results and Other Financial Information												
Analysis does not include the impairment of Greek Government Bonds												
€ mn	**Cyprus**			**Greece**			**Russia**			**Other countries**		
	+%	**FY11**	**FY10**	**+%**	**FY11**	**FY10**	**+%**	**FY11**	**FY10**	**+%**	**FY11**	**FY10**
Net interest income	+16%	609	523	+7%	332	310	+9%	130	119	+10%	97	89
Net fee and commission income	+6%	135	127	+2%	52	51	-16%	34	41	-8%	11	12
Foreign exchange income and gains from financial instruments	-49%	39	76	-96%	1	22	-14%	8	9	-56%	1	3
Insurance income net of insurance claims	+6%	51	48	-9%	10	11	-	-	-	-	-	-
Other income	+190%	15	5	+500%	6	1	+376%	7	2	+151%	3	1
Total income	**+9%**	**849**	**779**	**+2%**	**401**	**395**	**+5%**	**179**	**171**	**+8%**	**112**	**105**
Personnel expenses	+1%	227	225	+6%	121	113	-1%	62	63	+15%	33	29
Other operating expenses	+3%	121	117	-5%	83	88	-7%	59	62	+12%	30	28
Total expenses	**+2%**	**348**	**342**	**+2%**	**204**	**201**	**-4%**	**121**	**125**	**+14%**	**63**	**57**
Profit before provisions	**+15%**	**501**	**437**	**+2%**	**197**	**194**	**+29%**	**58**	**46**	**+1%**	**49**	**48**
Contribution		*62%*	*60%*		*25%*	*27%*		*7%*	*6%*		*6%*	*7%*
Provisions for impairment of loans and advances	-9%	(132)	(145)	+18%	(217)	(184)	+123%	(54)	(25)	+13%	(23)	(21)
Share of loss of associate	+26%	(1)	(2)	-	-	-	-	-	-	-	-	-
Profit/(loss) before tax	**+27%**	**368**	**290**	**-305%**	**(20)**	**10**	**-79%**	**4**	**21**	**-8%**	**26**	**27**
Contribution		*97%*	*83%*		*-5%*	*3%*		*1%*	*6%*		*7%*	*8%*
Taxation	+45%	(57)	(39)	-487%	(6)	1	+11%	(4)	(4)	+31%	(6)	(4)
Non - controlling interests (loss/(profit))	-22%	4	5	-	-	-	-	3	(1)	-	0	0
Profit/(loss) after tax	**+23%**	**315**	**256**	**-329%**	**(26)**	**11**	**-81%**	**3**	**16**	**-16%**	**20**	**23**
Contribution		*101%*	*84%*		*-8%*	*4%*		*1%*	*5%*		*6%*	*7%*
Net interest margin (NIM)	**+28 b.p.**	**2,40%**	**2,12%**	**+51 b.p.**	**2,74%**	**2,23%**	**+1 b.p.**	**5,84%**	**5,85%**	**+6 b.p.**	**2,62%**	**2,56%**
Cost/Income Ratio	**-3,0 p.p.**	**41,0%**	**44,0%**	**-**	**50,8%**	**50,8%**	**-6,1 p.p.**	**67,2%**	**73,3%**	**-3,1 p.p.**	**56,8%**	**53,7%**
Return on equity (ROE)	**+3,8 p.p.**	**26,6%**	**22,8%**	**-5,4 p.p.**	**-3,8%**	**1,6%**	**-7,7 p.p.**	**1,7%**	**9,4%**	**-2,8 p.p.**	**10,1%**	**12,9%**

* b.p. = basis points, 100 b.p. = 1 percentage point (1%)

.
Table 8

Condensed Balance Sheet			
€ mn	±%	31.12.2011*	31.12.2010
Cash and balances with central banks	-39%	1.375	2.242
Placements with banks and reverse repurchase agreements	-47%	2.844	5.385
Debt securities, Treasury bills and equity investments	-26%	3.951	5.346
Net loans and advances to customers	-1%	27.367	27.725
Other assets	+18%	2.298	1.940
Total assets	**-11%**	**37.835**	**42.638**
Amounts due to banks and repurchase agreements	-17%	3.852	4.620
Customer deposits	-10%	29.654	32.953
Debt securities in issue	-41%	50	84
Other liabilities	+11%	1.362	1.222
Subordinated loan stock	-86%	128	931
Total liabilities	**-12%**	**35.046**	**39.810**
Share capital	1%	900	895
Share premium reserve	0%	1.165	1.160
Convertible Enhanced Capital Securities	-	862	-
Revaluation and other reserves	-	3	(186)
(Accumulated losses)/retained earnings	-126%	(225)	868
Shareholder's equity	**-1%**	**2.705**	**2.737**
Non controlling interest	-8%	84	91
Total equity	**-1%**	**2.789**	**2.828**
Total liabilities and equity	**-11%**	**37.835**	**42.638**

***Does not include Australia**
Notes:

1. The Preliminary Financial Results of the Group for the year ended 31 December 2011 have not been audited by the Group's external auditors.

2. All geographical sector analyses are shown following restatements made to bring each sector's capital to the same percentage level of the sector's risk weighted assets as well as to reflect the excess/shortfall liquidity

3. The audited Consolidated Financial Statements for the year 2011 will be available at the Bank of Cyprus Public Company Ltd Registered Office and on the Group's website, on the date of the announcement of the final results for the year as follows:

   - Registered Office: 51 Stassinos Street, Ayia Paraskevi, Strovolos,
     P.O. Box 24884, 1398 Nicosia, Cyprus
     Telephone: +357 22 122128, Fax: +357 22 378422
   - Website: www.bankofcyprus.com (Inv. Relations/Financial Information)

4. The detailed presentation of the preliminary financial results for 2011 has been posted on the Group's website www.bankofcyprus.com (Inv. Relations/Presentations)