Bank of Cyprus Group

Announcement

- Group Financial Results for the year ended 31 December 2005
  - **88% increase in profit after tax**
  - **Proposed dividend of 7 cent per share**
- Upgrading of Targets
  - **Profit target for 2006**

Nicosia, 27 February 2006

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 274 branches, of which 147 operate in Cyprus, 110 in Greece, six in the United Kingdom, ten in Australia and one in the Channel Islands. Bank of Cyprus also has representation in the United States of America, Canada, South Africa, Russia and Romania. The Bank of Cyprus Group employs 6.065 staff worldwide.

At 31 December 2005, the Group's Total Assets reached C£12,80bn (€22,32bn) and the Group's Shareholders' Funds were C£762mn (€1,33bn). 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

A. Summary of Results

Group profit after tax for 2005 recorded an increase of 88% compared to 2004. The improvement in all of the Group's profitability indicators was also significant. The reorganisation of the Group's activities in Cyprus, combined with the cost containment and income enhancement plans, the positive course of the Group's insurance operations and the continuation of its dynamic expansion in Greece contributed to the profitability improvement. As a result, the Group exceeded its targets.

The increased Group profitability, led the Board of Directors of the Bank to propose at the Annual General Meeting of its shareholders a dividend of 7 cent (€0,12 [4]) per share. The proposed dividend corresponds to a dividend yield of 2,7% based on the share price at 31 December 2005. The total proposed dividend to be distributed corresponds to 53% of the Group profit after tax.

Table 1

Group Financial Highlights			
in C£ mn	**±%**	**Year 2005**	**Year 2004**
Core profit *(profit before provisions)*	+32%	182	138
Profit before tax	+78%	91	51
Profit after tax	+88%	72	39
Earnings per Share	**+87%**	**14,4 cent**	**7,7 cent**
Dividend per Share	**+75%**	**7 cent**	**4 cent**
Cost/Income	**-5,6 p.p.***	**56,7%**	**62,3%**
Return on Equity	**+4,8 p.p.***	**11,9%**	**7,1%**

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

- Group profit after tax for 2005 reached C£72 mn (€126 mn) compared to C£39 mn (€67 mn) for 2004, recording an 88% increase.

- As a result of the significant increase in the Group's profitability, the Group return on equity increased by 4,8 percentage points compared to 2004, reaching 11,9%.

- The Group quarterly profitability also exhibited improvement. Group profit after tax for the 4th quarter 2005 recorded a 15% increase against the 3rd quarter 2005.

- Core profit (profit before provisions and tax) reached C£182 mn (€317 mn) for 2005, recording an annual increase of 32%.

- The cost to income ratio further improved to 56,7% compared to 62,3% for 2004.

- The above results reflect the positive effect of the steps taken for:
  - Improvement of income (14% increase in net interest income and 29% increase in income from insurance operations).
  - Containment of the rate of increase of expenses to 4% compared to the rate of increase of deposits and loans of 24% and 15%, respectively.

- The profitability improvement in the Group's Cyprus operations is remarkable:
  - Core profit increased by 51%.
  - Profit before tax increased to C£47 mn (€81 mn) from C£8 mn (€13 mn) for 2004.
  - Profit after tax increased to C£42 mn (€73 mn) from C£5 mn (€8 mn) for 2004.

- The contribution (34%) of the Group's Greek operations to profitability and the increase of footings in Greece continues to be noteworthy:
  - Core profit increased by 17%.
  - Deposits increased by 17%
  - Loans increased by 21%.

B. Prospects

The Group's three-year strategic plan 2006-2008 adopts the intensification of a series of actions, primarily aiming at profitability improvement, such as:

- productivity increase, resulting from changes in the organisational structure of the customer service network and the introduction of more developed and flexible systems and procedures,
- improvement in customer service, introduction of new products and entry into new markets,
- loan portfolio quality improvement, and
- continuation of the Group's dynamic expansion of profitable operations overseas.

The above actions focus on five basic pillars:

- strengthening of the Group's presence in Cyprus with improvement in both market share and profitability,
- further expansion in Greece through branch network expansion, increase in size and profitability improvement,
- consolidation of the Group's presence in the United Kingdom and further expansion in Australia,
- further exploitation of synergies between the Group's Cyprus and Greek operations, where available, so that costs are further reduced and the foundations for cost-efficient expansion in new markets are further strengthened, and
- entry into new markets, such as Russia and the Balkans.

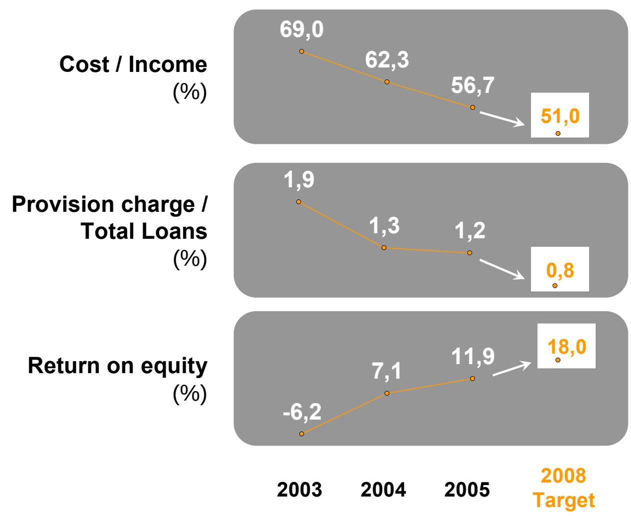
Based on the Group financial results to date, the indications for their further development, as well as the current conditions in the markets in which the Group operates, it is expected that the Group profit after tax will reach C£120 mn (€209 mn) for 2006 compared to C£72 mn (€126 mn) for 2005, marking an increase of 65%. Bearing in mind that the profit after tax for 2004 was C£39 mn (€67 mn) this means that profit will have tripled in only two years.

The significant increase is due to the improvement in profitability at the operating level, as well as the expected reduction of the provision charge for bad debts as a percentage of total loans. Specifically, this ratio is expected to fall from 1,2% for 2005 to under 1% for 2006, targeting a further reduction to 0,8% for 2008.

The Group's 2006-2008 targets have already been announced. Based on the new indications, as described above, the Group's targets are upgraded as follows:

- the cost to income target of 51% by 2008 remains (cost to income ratio for 2005 was 56,7%), and
- an upgraded target has been set for increasing return on equity by two percentage points each year for the next three years.

Evolution and Targets for 2008



C. Financial Footings

Table 2

Analysis of Financial Footings by Geographic Sector								
in C£ mn	**Group**		**Cyprus**		**Greece**		**Other countries**	
	annual ±%	**31.12.05**	**annual ±%**	**31.12.05**	**annual ±%**	**31.12.05**	**annual ±%**	**31.12.05**
Deposits	+24%	10.724	+30%	6.190	+17%	3.856	+9%	678
Contribution				*58%*		*36%*		*6%*
Loans	+15%	7.398	+10%	3.548	+21%	3.141	+12%	709
Contribution				*48%*		*42%*		*10%*

C.1 Group Loans

The Group's loans reached C£7,40 bn (€12,90 bn) at 31 December 2005, recording an increase of 15%.

C.1.1 Loans in Cyprus

The Group has significantly strengthened its presence in the consumer lending sector in Cyprus. As such, the market share of the Bank of Cyprus in total advances of the banking system, including credit cooperatives, increased from 24,3% at the end of 2004 to 25,6% in December 2005. The market share among the commercial banks increased from 34,4% to 36,3%.

In Cyprus, the Group's total loans at the end of December 2005 amounted to C£3,55 bn (€6,19 bn), recording an annual increase of 10%. During 2005, the Group proceeded with loan write-offs totaling C£180 mn (€313 mn), the majority of which relates to the Group's Cyprus operations. Adjusted for the write-offs, the increase in the Group's loans in Cyprus would have reached 16%.

C.1.2 Loans in Greece

In Greece, the annual rate of increase in the Group's loans reached 21% and continues to be higher than that of the total market (17%). The Group's loan portfolio in Greece increased to C£3,14 bn (€5,48 bn) at the end of December 2005.

As of end-November 2005, the Group's market share in loans in Greece increased to 3,86%, up from 3,67% a year ago.

The Group's expansion in lending in Greece focused mainly on housing and consumer loans. The balance of housing and consumer loans at 31 December 2005 increased by 67% and 57%, respectively, compared to 2004.

C.1.3 Loans in Other Countries

At the end of December 2005, the Group's loans in the United Kingdom and Australia increased by 8% and 30%, reaching C£562 mn (€981 mn) and C£147 mn (€256 mn), respectively.

C.1.4 Loans by Customer Sector

The Group's loan portfolio in Cyprus and Greece is split into three customer sectors as follows:

Table 3

Analysis of Loans by Customer Sector				
% of total loans	Cyprus		Greece	
	31.12.05	**31.12.04**	**31.12.05**	**31.12.04**
Corporate	49%	50%	26%	30%
Small and Medium-sized Enterprises (SMEs)	16%	17%	45%	48%
Retail	35%	33%	29%	22%
Total	100%	100%	100%	100%

C.1.5 Non-Performing Loans

The quality of the Group's loan portfolio improved further, with a reduction in the ratio of non-performing loans to total loans to 8,1% at 31 December 2005, compared to 10,8% for December 2004 and 8,7% for September 2005. The reduction in non-performing loans was the result of loan write-offs (net of suspended interest income) totaling C£138 mn (€241 mn) and collections of accrued and overdue amounts.

According to stricter rules issued by the Central Bank of Cyprus, effective as of 1 January 2006, the definition of non-performing loans has been revised to include all loans with arrears in excess of three months (instead of six months as per the superseded rules). Using the revised definition (three-months rule), the ratio of non-performing loans to total loans at 31 December 2005 increases to 9,3%.

The vast majority of non-performing loans relate to the Group's Cyprus operations, where the time required to foreclose collateral, especially property, is lengthy, and acts as a deterring factor in the repayment of overdue amounts. Possible enactment and implementation of improved procedures that would expedite the foreclosure of property collateral in Cyprus, will have positive impact on the level of non-performing loans.

In Greece, the Group's non-performing loans at 31 December 2005 accounted for 4,4% of total loans.

The ratio of coverage of non-performing loans by provisions was maintained at 50% at the end of 2005, despite the write-offs of fully provided loans during the year. The remaining balance of non-performing loans is covered by tangible collateral.

C.2 Deposits

The Group's total deposits at 31 December 2005 reached C£10,72 bn (€18,70 bn), recording a 24% annual increase.

C.2.1 Deposits in Cyprus

The attraction of new deposits by the Group in Cyprus, especially deposits in foreign currency, was significant. The Bank's market share in total banking system deposits in Cyprus, including credit cooperatives, increased from 29,4% In December 2004 to 31,9% in December 2005. The market share among the commercial banks increased from 40,0% to 42,2%. The Group's total deposits in Cyprus at 31 December 2005 recorded an annual increase of 30% reaching C£6,19 bn (€10,79 bn).

C.2.2 Deposits in Greece

In Greece, the rate of increase in Group deposits reached 17% and continues to be higher than that of the market (15%). At 31 December 2005, Group total deposits in Greece reached C£3,86 bn (€6,72 bn).

At end-November 2005, the Group's market share in deposits in Greece increased to 3,81%, up from 3,64% a year ago.

C.2.3 Deposits in Other Countries

At end-December 2005, the Group's deposits in the United Kingdom and Australia increased by 7% and 23%, reaching C£562 mn (€981 mn) and C£116 mn (€202 mn), respectively.

C.3 Capital Base and Capital Adequacy

In December 2005, the Bank successfully completed its share capital increase though a rights issue. The total proceeds of the issue amounted to C£109 mn (€190 mn) and therefore increased the Group shareholders' funds and specifically its core Tier 1 capital.

During 2005, the Group shareholders' funds increased by C£30 mn (€52 mn) as a result of the revaluation of government treasury bills and bonds available for sale, which are held by the Group for hedging interest rate risk in Cyprus pounds. The Group shareholders funds also increased by C£5 mn (€9 mn) as a result of the revaluation of equity holdings available for sale.

At 31 December 2005, the Group capital adequacy ratio stood at 14,1% and Group shareholders funds amounted to C£762 mn (€1,33 bn).

Table 4

Capital Adequacy Composition		
in C£ mn	**31.12.05**	**31.12.04**
Tier 1 Capital	727	565
- Core Tier 1 Capital	*636*	*477*
Tier 2 Capital	321	293
Total Capital	1.048	858
Risk-weighted Assets	7.457	6.255
Capital Adequacy Ratio	14,1%	13,7%
- Core Tier 1 Ratio	*8,5%*	*7,6%*
- Tier 1 Ratio	*9,8%*	*9,0%*
- Tier 2 Ratio	*4,3%*	*4,7%*

D. Analysis of Results for 2005

D.1 Net Interest Income and Net Interest Margin

Net interest income reached C£280 mn (€488 mn), recording an annual increase of 14%. The increase is attributable to the significant increase in the Group's footings in Greece and Cyprus. The Group net interest margin (NIM) for 2005 was 2,60%, compared to 2,66% for the 2004.

The net interest margin in Cyprus was contained at 2,27% for 2005 compared to 2,30% for 2004, despite the reduction in the Cyprus pound base rate by 1,25 percentage points since the beginning of the year. The successful management of the NIM of the Cyprus operations is the result of steps taken for improved product pricing and more efficient management of the Group's liquidity in both Cyprus pounds and foreign currency.

The net interest margin of the Group's Greek operations for 2005 stood at 2,82%, increasing from 2,76% for the nine-month 2005 period and 2,72% for the first half of 2005. For 2004, the margin stood at 2,86%.

D.2 Net Fee and Commission Income

Total net fees and commission income for 2005 reached C£90 mn (€156 mn), recording an annual increase of 4%, primarily as a result of increased income from the Group's operations in Cyprus.

D.3 Income from Insurance Business

In 2005 the Group's insurance operations performed very well. Income from insurance business increased by 29% increase, reaching C£23 mn (€41 mn), generating 8% of Group core profit for 2005. The profit before tax of the insurance operations recorded an increase of 47%, reaching C£14 mn (€23 mn), generating 16% of Group profit before tax.

The profit before tax of the Group's life insurance subsidiary, EuroLife, recorded an annual increase of 59%. This was the result of increased volume of business (increase in new business premiums of 14%), relatively lower claims and very good performance of its investment portfolio. EuroLife's operations in Greece continue to expand at a fast pace and doubled their after tax profits during 2005.

The performance of General Insurance of Cyprus, the Group's general insurance subsidiary, was also good. The company's gross premiums recorded an annual increase of 15%.

D.4 Expenses

The Group's cost containment programme had a positive impact on the Group results. Total expenses recorded an annual increase of 4% compared to the rate of increase of deposits and loans which was 24% and 15%, respectively.

Staff costs amounted to C£151 mn (€264 mn), recoding an annual increase of 9%, mainly due to the 9% increase in staff numbers in Greece (from 2.222 persons at the end of 2004 to 2.419 at the end of 2005) to support and operate the ten new branches which commenced operations in 2005 and the recent opening of four new branches in 2006.

In Cyprus, there was a reduction of 79 persons in the number of staff employed by the Group since the last quarter of 2004. Staff costs for the Group's Cyprus operations increased by 8%. Excluding the cost of the Early Retirement Plan amounting to C£3,7 mn (€6,4 mn), the increase in staff costs is adjusted to 6%.

The 4% reduction in the Group's other (non-staff) operating expenses to C£86 mn (€150 mn) is noteworthy. The reduction was mainly the result of the significant reduction (12%) recorded in the other operating expenses of the Group in Cyprus.

As a result of the cost containment programme, as well as the increased level of income, the cost to income ratio of the Group's operations in Cyprus improved to 58,0% for 2005, compared to 67,4% for 2004. The cost to income ratio of the Group's Greek operations remains at the very satisfactory level of 52,4%, despite being burdened by increased expenses for the opening and preparation of the new branches.

The Group's operating costs in the other countries it operates decreased by 1%, reflecting the positive results of the cost containment programme and the restructuring of the operations.

D.5 Provisions for Bad and Doubtful Debts

The provision charge for 2005 was C£91 mn (€159 mn). The provision charge represents 1,2% of total Group loans, compared to 1,3% for 2004. This percentage is expected to fall from 1,2% for 2005 to under 1% for 2006, targeting a further reduction to 0,8% for 2008. The efforts to reduce this ratio will be strengthened if the enactment and implementation of improved procedures, which would expedite the foreclosure of property collateral, takes place in Cyprus.

Table 5

Income and Expense Analysis							
in C£ mn	±%	**2005**	**2004**	±%	**4th Q '05**	**3rd Q '05**	**1st H '05**
Net interest income	+14%	280	246	+10%	77	70	132
Net fee and commission income	+4%	90	86	+4%	24	23	43
Foreign exchange income	-6%	14	16	-3%	4	4	6
Net gains/(losses) on sale and revaluation of financial instruments	-232%	6	(5)	-23%	3	4	-
Income from insurance business	+29%	23	18	+5%	6	6	12
Other income	+25%	6	5	-26%	1	1	4
Total income	**+15%**	**419**	**366**	**+7%**	**115**	**108**	**197**
Staff costs	+9%	(151)	(138)	+14%	(41)	(36)	(74)
Other operating expenses	-4%	(86)	(90)	-12%	(21)	(24)	(43)
Total expenses	**+4%**	**(237)**	**(228)**	**+4%**	**(62)**	**(60)**	**(117)**
Core profit (profit before provisions)	**+32%**	**182**	**138**	**+11%**	**53**	**48**	**80**
Provisions for bad and doubtful debts	+9%	(91)	(84)	-	(24)	(24)	(42)
Provision for impairment of available-for-sale investments		-	(3)	-	-	-	-
Profit before tax	**+78%**	**91**	**51**	**+22%**	**29**	**24**	**38**
Tax	+46%	(19)	(12)	+48%	(7)	(5)	(7)
Profit after tax	**+88%**	**72**	**39**	**+15%**	**22**	**19**	**31**
Net interest margin (NIM)	**-6 b.p.**	**2,60%**	**2,66%**	**+10 b.p.**	**2,64%**	**2,54%**	**2,63%**

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

Table 6

Analysis of Results and Other Financial Information by Geographic Sector									
in C£ mn	**Cyprus**			**Greece**			**Other countries**		
	±%	**2005**	**2004**	**±%**	**2005**	**2004**	**±%**	**2005**	**2004**
Net interest income	+14%	149	130	+17%	111	95	-3%	20	21
Other non-interest income	+23%	105	86	+6%	29	27	-20%	5	7
Total income	**+17%**	**254**	**216**	**+15%**	**140**	**122**	**-7%**	**25**	**28**
Staff costs	+8%	(103)	(96)	+18%	(37)	(31)	-1%	(11)	(11)
Other operating expenses	-12%	(44)	(49)	+8%	(36)	(34)	-	(6)	(7)
Total costs	**+1%**	**(147)**	**(145)**	**+13%**	**(73)**	**(65)**	**-1%**	**(17)**	**(18)**
Core profit (profit before provisions)	**+51%**	**107**	**71**	**+17%**	**67**	**57**	**-18%**	**8**	**10**
Contribution		***59%***	***51%***		***37%***	***41%***		***4%***	***8%***
Provisions for bad and doubtful debts	+1%	(60)	(60)	+25%	(31)	(24)	-	-	-
Provision for impairment of available-for-sale investments		-	(3)	-	-	-	-	-	-
Profit before tax	**+501%**	**47**	**8**	**+10%**	**36**	**33**	**-23%**	**8**	**10**
Contribution		***51%***	***15%***		***40%***	***64%***		***9%***	***21%***
Tax	+43%	(5)	(3)	+36%	(11)	(8)	+178%	(2)	(1)
Profit after tax	**+846%**	**42**	**5**	**+2%**	**25**	**25**	**-39%**	**6**	**9**
Contribution		***58%***	***11%***		***34%***	***64%***		***8%***	***25%***
Number of staff	**-1%**	**3.335**	**3.368**	**+9%**	**2.419**	**2.222**	**+4%**	**311**	**300**
Net interest margin (NIM)	**-3 bp**	**2,27%**	**2,30%**	**-4 bp**	**2,82%**	**2,86%**	**-19 bp**	**2,16%**	**2,35%**
Cost/Income ratio	**-9,4 pp**	**58,0%**	**67,4%**	**-0,8 bp**	**52,4%**	**53,2%**	**+4,2 pp**	**67,2%**	**63,0%**
Return on equity	**+10,6 pp**	**12,0%**	**1,4%**	**-1,2 pp**	**11,1%**	**12,3%**	**-9,2 pp**	**12,9%**	**22,1%**

Notes:

1. Due to the adoption of the revised International Accounting Standard 39 as from 1 January 2005, all relevant amounts for 2004 have been restated.

2. All analyses by geographic sector are shown following restatements in the capital of each sector to bring it in line with the capital required by the capital adequacy regulations.

3. The conversion from Cyprus Pounds (C£) to Euro (€) was made using the exchange rate at 31 December 2005 of €1=£0,5735.

4. The payment of the dividend will be based on the exchange rate in force on the working date immediately preceding the ex-dividend date, which may be different than the rate used for the purposes of this announcement.

5. The Group's Consolidated Financial Statements for the year ended 31 December 2005 are available at the Bank of Cyprus Public Company Ltd Registered Office and on the Group's website, as follows:
   - Registered Office 51 Stassinos Street, Ayia Paraskevi, Strovolos
     P.O. Box 24884, 1398 Nicosia, Cyprus
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