

Announcement

Strategy and targets for the three years to 2009

Profit target for 2007:

- £240 mn (€415 mn), 31% increase

Targets to 2009:

- Annual growth rate of profit after tax of at least 25%
- Increase of return on equity to greater than 25%
- Reduction of cost to income ratio to 40%
- Annual growth rate of loans of at least 20%
- Reduction of non-performing loans ratio to less than 4%

Accelerated penetration of new markets:

- Commencement of operations in Romania and Russia in the first half of 2007
- 20% of total loan portfolio in markets outside Greece and Cyprus by 2011

Nicosia, 7 February 2007

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 282 branches, of which 144 operate in Cyprus, 120 in Greece, 6 in the United Kingdom, 11 in Australia and 1 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 6,192 staff worldwide.

At 31 December 2006, the Group's Total Assets reached C£14,56bn (€25,19bn) and the Group's Shareholders' Funds were C£905mn (€1,57bn). 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. Progress registered during the two years to December 2006

At its meeting today the Board of Directors of Bank of Cyprus noted the exceptional development of the Group's operations and the improvement in its performance and profitability during the two years to December 2006:

- Total operating income increased from £366 mn (€633 mn) in 2004 to £531 mn (€918 mn) in 2006.
- The cost to income ratio improved from 62,3% to 46,7% with total operating expenses increasing by only 4% per annum.
- Profit after tax increased fourfold from £39 mn (€67 mn) to £183 mn (€317 mn).
- Return on equity increased reaching 21,7% from 7,1%.
- Total loans and deposits reached £8,83 bn (€15,27 bn) and £12,10 bn (€20,93 bn) respectively registering average annual growth of 17% and 18% respectively
 - In Cyprus, the Group enhanced its already dominant position expanding its market share in loans by two percentage points, from 24.3% to 26.4% and increased its number of clients by 32.672 (7% increase).
 - In Greece, the Group increased business volumes at rates higher than the market and gained a large number of new clients: in December 2006 the Group had over 700.000 active clients.
- Loan portfolio quality registered a very significant improvement with the non-performing loans ratio improving from 10,8% to 5,6%, despite the stricter definition for non-performing loans during the period:
 - In Cyprus, the Group has the lowest ratio of non-performing loans among Cypriot banks.
 - In Greece, the Group has a non-performing loan ratio lower than the average ratio of the banking system.

On the occasion of the announcement of the strategy and financial targets of the Group, the Chairman of the Board of Directors and the Group Chief Executive Officer made the following statements:

«With the results for 2006, Bank of Cyprus exceeded its targets two years ahead of plan. With its strong profitability and capital position, a management team with a proven track-record, and strong strategic positions in Greece and Cyprus as well as established client relationships in certain Eastern European countries, Bank of Cyprus is in a position to continue creating value for its shareholders.»

Eleftherios P. Ioannou, Chairman of the Board of Directors

«Following the consolidation of our position in Greece and the successful restructuring of our operations in Cyprus, Bank of Cyprus can focus its efforts on the acceleration of its international expansion plans. The significant existing client relationships in these markets and our experience of the successful expansion into the Greek market are critical for the success of our efforts and for creating value for our shareholders»

Andreas Eliades, Group Chief Executive Officer

B. Strategic priorities for the three years to 2009

Bank of Cyprus Group sets strategic priorities for the three years to December 2009 aiming to create shareholder value on a sustainable basis. The initiatives of the Group aim to take advantage of the strategic advantages of the Group for the benefit of shareholders, namely its leading position in Cypriot domestic banking, the critical role of the Group in the establishment of Cyprus as an international financial centre for businesses from Russia and other countries of Eastern Europe, and its particularly successful presence in the Greek market. Our strategic initiatives will provide opportunities for the profitable utilisation of the group's surplus liquidity and capital.

The strategic priorities of the group for the three years to December 2009 are focused on the following three directions:

B.1 Exploiting opportunities in Cyprus

- Enhancement of the position in the domestic market with particular focus on the retail sector in light of the positive macroeconomic environment, reinforced by the forthcoming entry into the European Monetary Union and the ongoing structural changes in the financial services sector.

The Group targets further market share gains in loans through its targeted product marketing policy, flexible products, cross-selling through alternative distribution channels and increase of front line personnel. The Group has been successful in attracting significant numbers of new customers in 2006 despite its already dominant position.

- In parallel to growth in total income, effective cost control is anticipated through further improvements in network efficiency, controlled recruitments, and through exploitation of cost synergy opportunities from the support functions in Greece and Cyprus.
- The provision charge is expected to decline through further credit quality improvements and the particularly effective new credit policy implemented.
- Further strengthening of the Group's leading position of profitable international banking to companies based in Cyprus.

Cyprus as an international financial centre offers specific advantages for corporations operating in Russia and other countries of ex-Soviet Union as well as corporations that invest in these countries. Cyprus, as a member of the European Union, with its competitive tax rate and efficient double taxation treaties, as well as high quality legal and accounting services, has significant prospects for further growth and consolidation of its position as a significant international financial centre. The number of international commercial and holding companies based in Cyprus has been increasing consistently over the last decade.

Bank of Cyprus aims to further strengthen its leading position in this profitable sector through the attraction of new clients, expansion of its product offering and utilisation of its comparative advantages arising from its position as the largest Cypriot bank with numerous years of operation in the sector and its specialised personnel.

B.2 Further expansion in Greece and growing profitability of its maturing network

- Further expansion of the Group's presence in the Greek banking market in light of the strong macroeconomic fundamentals and the persisting low banking penetration of the Greek market relative to the Eurozone.

To this end the group plans the expansion of the branch network to 190 branches by 2009 (from 120 today), with particular emphasis on the Athens metropolitan area and other urban centres.

- The maturity of the approximately 800.000 client relationships, offering improved pricing and cross-selling opportunities as well as the particularly cost efficient structure of the operations, are expected to significantly enhance profitability. The Group's experience of branch network maturity so far is particularly encouraging.

B.3 Expansion into new markets

The Group's expansion into new markets aims at the long-term continuation of its high growth rates and is based on its strategic advantages in order to minimise and create value for shareholders. Countries that have been targeted are those where Bank of Cyprus has existing client relationship, feature extensive population, strong macroeconomic environment, low banking sector penetration, and brand recognition for Bank of Cyprus, thus providing very good prospects for the Group. The experience of our successful expansion into the competitive Greek market, the group's high liquidity levels, and the existing client relationships form Bank of Cyprus' competitive advantage compared to the competition.

B.3.1 Commencement of operations in Romania

- Bank of Cyprus has already obtained all the relevant licenses for the commencement of banking operations in Romania and plans the full commencement of operations in the first six months of 2007.

Romanian real GDP growth stands at 7,2% while banking sector penetration remains low offering significant growth opportunities for the banking sector. Bank of Cyprus aims to benefit from these opportunities.

With existing client relationships in Romania the Group implements a strategy focused on personal service and recruitment of competent personnel and their training and development. In 2007 the Group will establish 7 branches, two business centers, and one corporate centre in Bucharest. Two more business centres/branches will operate in other major cities (Timisoara and Constanza).

- Bank of Cyprus has already launched leasing operations in Romania aiming to utilise its experience from the leasing sector in Greece where it has a 19% market share as well as its relationships with large retailers. Personnel of the leasing company will also be located in some of the bank's branches and business centres.

B.3.2 Commencement of operations in Russia in 2007

- Russia is a large market where the Group aims to commence operations in 2007. The largest part of the bank licensing procedure has already been completed.

The prospects of the banking sector in Russia are very attractive for new market entrants due to the low penetration of the sector and the rapid growth rates of the Russian economy.

Bank of Cyprus has a large number of client relationships with companies that operate in Russia given that Cyprus is the registration country for a large number of their subsidiaries. On the back of these relationships Bank of Cyprus has already completed the recruitment of the key personnel for its operations in Russia and is preparing the infrastructure to expand rapidly upon completion of the licensing procedure. In this context a building has been rented in Moscow, which is being adapted according to the needs of the operations.

Bank of Cyprus strategy to penetrate the Russian banking market entails initially the development of a loan portfolio and the provision of services (guarantees, letters of credit, foreign exchange services, payment orders, liquidity management) to existing corporate clients of the Group thus minimising credit risk and effectively deploying excess liquidity. At this stage the provision of leasing services is also being examined and at a later stage, the establishment of a branch network in Moscow and St. Petersburg aiming to offer retail banking services.

B.3.3 Selective acquisitions as part of the group's organic growth strategy

- In the context of its organic growth strategy the Group will continue to evaluate on an ongoing basis, in parallel with its organic growth plans, acquisition opportunities in the targeted markets with the aim of accelerating its penetration into these markets. Bank of Cyprus has a strong capital base and increasing undistributed profits are projected within the context of its three-year plan, which can be invested in the further expansion of the Group's operations.

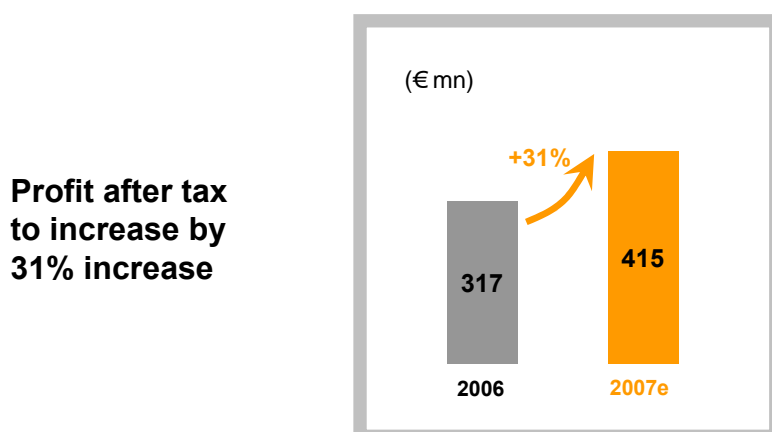
It should be noted that the financial targets presented do not incorporate the impact of potential acquisitions.

C. Profit target for 2007

On the basis of the assumptions of the Group's three-year strategic plan and the current conditions in the markets in which the Group operates, the Group's expected profit after tax for 2007 is expected to reach £240 mn (€415 mn). An expected increase of 31% compared to 2006.

Chart 1

Profit target for 2007



D. Targets 2007-2009

The strategic priorities set by the Group for the three years to December 2009 and the successful execution of its strategy so far are expected to lead to exceptional results. Following their approval by the Board of Directors of the Bank these expected results comprise the targets for all the personnel of the Group. More specifically, by 2009, the Group aims to:

D.1 Increase profit after tax and consequently the benefit to the shareholder

With an annual increase in profit after tax of at least 25%

D.2 Reduce the cost to income ratio to 40%

The respective ratio for 2006 stood at 46,7%.

D.3 Increase return on equity to at least 25%

The respective ratio stood at 21,7% for 2006.

D.4 Improve loan quality

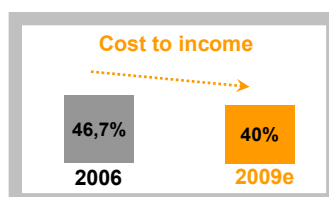
More specifically:

- Reduce the non-performing loans ratio to below 4% from 5,6% in 2006.
- Increase non-performing loans coverage from 66% in 2006 to 80%.

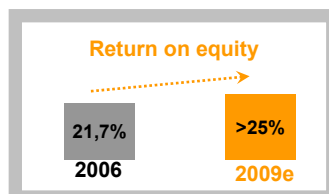
Chart 2

Financial targets 2007-2009

- Widen “jaws”



- Improve profitability



- Increase shareholder value

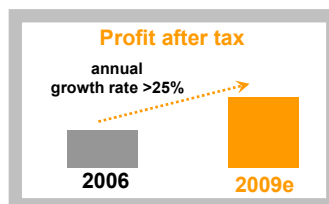
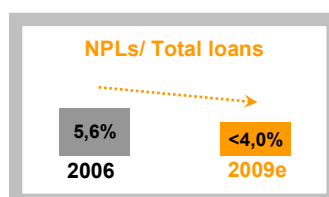


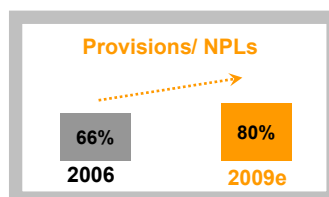
Chart 3

Targets 2007-2009 for loan quality

- Quality lending



- Increase provision coverage



D.5 High volume growth targets

More specifically the basic assumptions of the three-year plan are:

- Loan annual growth rate of 21%.
- Deposit annual growth rate of 15%.
- Net interest income annual growth rate of 18%.
- Total operating income annual growth rate of 16%.

As a result of the increasing productivity and economies of scale the annual growth rate of total operating expenses is expected to be restricted to 9% despite the significantly higher loan growth rates (21%) and network expansion costs abroad.

The loans to deposits ratio is expected to increase by 12 percentage points to reach the healthy level of 85% with a parallel increase of the net interest margin.

D.6 Maintenance of high capital adequacy

The aforementioned high growth rates are achievable given the Group's strong capital position and its enhancement through significantly increasing retained earnings levels while maintaining the current dividend policy. On 31 December 2006 Group shareholders' funds stood at €1,57 bn and total capital adequacy ratio stood at 12,0% (Core Tier 1: 7,9%). The ratio is expected to be maintained at around 11% (Core Tier 1: 8%) allowing significant room for the issue of Tier 2 capital.

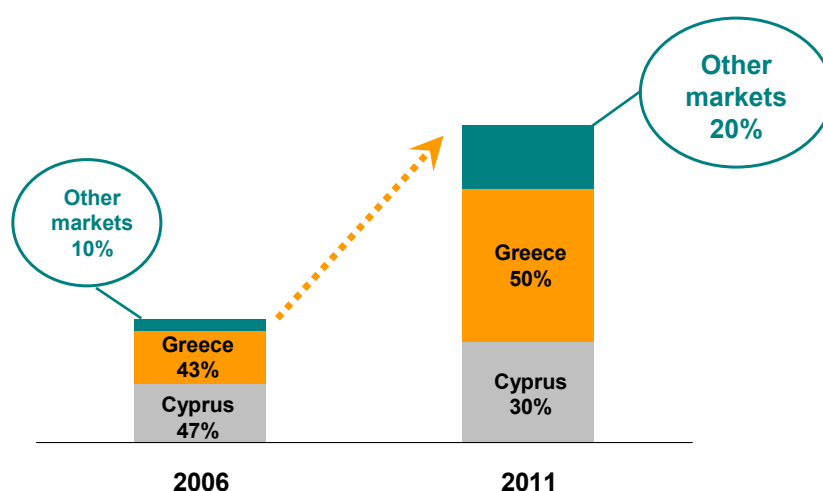
E. Aim of accelerated expansion in new markets by 2011

The broader target of the Group for the next five years is the significant increase of its volumes of business through the accelerated expansion in new markets via both organic growth and potential acquisitions.

More specifically, by 2011, the Group aims for countries outside Greece and Cyprus to represent at least 20% of total loan portfolio. Greece is expected to account for 50% of the overall loan portfolio of the Group effectively meaning that by 2011 more than 70% of the Group's loan portfolio will be located outside Cyprus.

Chart 4

Expansion into new markets: Loan portfolio composition in 2011



F. Track-record provides assurance for future growth

The track record of the executive management in exceeding previously set targets provides assurance for the achievement of the targets set today. The strategy of the Group is clear. The Group's strategic priorities for autonomous growth, high profitability, and accelerated expansion into new markets are also well defined and clear. The primary objective has always been and remains the maximisation of value for the shareholder.

Notes:

1. The conversion from Cyprus Pounds (C£) to Euro (€) was made using the exchange rate at 31 December 2006 of €1=£0,5782.
2. The detailed presentation of the preliminary financial results for the year 2006 and the Group's strategy and targets for the three year period 2007-2009 has been posted on the Group's website www.bankofcyprus.com (Investor Relations/Presentations)
3. The audit of the Group Consolidated Financial Statements for the year ended 31 December 2006 by the Group's external auditors will be completed on 27 February 2007. Therefore, the final audited financial results and the audited Consolidated Financial Statements for the year ended 31 December 2006 will be announced on 27 February 2007 and will be available on the same date at the Bank of Cyprus Public Company Ltd Registered Office and on the Group's website, as follows:
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