Bank of Cyprus Group

Announcement

Group Preliminary Financial Results for the year ended 31 December 2006

- **Spectacular increase in profits of 153%**
  C£183 mn (€317 mn) profit after tax

- **C£0,10 (€0,17 [3]) proposed final dividend per share**
  (C£0,17 (€0,29) total dividend for the year)

- **Significant improvement of the ratio of non-performing loans to total loans from 9,3% to 5,6%**

Nicosia, 7 February 2007

A. Summary of Results

Group profit after tax for 2006 reached C£183 mn (€317 mn), recording an increase of 153% compared to 2005. There was a significant improvement in all of the Group's performance indicators during 2006, with the return on equity ratio increasing to 21,7% and the cost to income ratio decreasing to 46,7%. The fast growth rate of the Group's business in Cyprus, combined with the cost containment program, the very positive course of the Group's insurance operations and the continuation of its dynamic expansion in Greece contributed to the profitability improvement. It is noted that the Group's profits primarily come from core banking and insurance operations.

The improvement in the Group's loan portfolio quality indicators is exceptional. Specifically, the ratio of non-performing loans to total loans has improved from 9,3% at 1 January 2006 to 5,6% at 31 December 2006, thus enabling the annual provision charge to decrease to 0,7% of total loans.

The increased Group profitability, led to the decision of the Board of Directors of the Bank to propose at the Annual General Meeting of its shareholders a dividend of C£0,10 (€0,17 [3]) per share. The total of the proposed dividend and the interim dividend of C£0,07 (€0,12) per share which was paid in December 2006 amounts to C£0,17 (€0,29) per share compared to C£0,07 (€0,12) paid last year, recording an increase of 143%.

Table 1

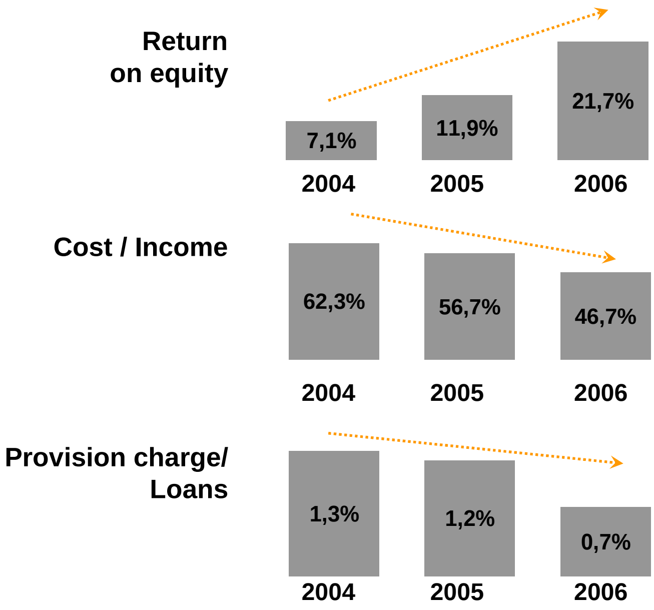
Group Financial Highlights			
in € mn	**Change**	**2006**	**2005**
Profit before provisions	+56%	489	314
Profit before tax	+148%	388	157
Profit after tax	+153%	317	125
Earnings per Share	**+132%**	**57,7 cent**	**24,9 cent**
Cost/Income	**-10,0 p.p.***	**46,7%**	**56,7%**
Return on Equity	**+9,8 p.p.***	**21,7%**	**11,9%**

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

- Group profit after tax for 2006 reached C£183 mn (€317 mn) compared to C£72 mn (€125 mn) for 2005, recording an increase of 153%.
- The Group return on equity increased substantially to 21,7% compared to 11,9% for 2005.
- The cost to income ratio improved to 46,7% compared to 56,7% for 2005.
- The above results reflect the positive effect of the steps taken for:
  - Increase in business volumes (19% in loans and 13% in deposits).
  - Increase in net interest income by 28%.
  - Increase in fee and commission income by 13%.
  - Increase in income from insurance operations by 13%.
  - Containment of the rate of increase of expenses to 4%
  - Decrease of the annual provision charge to 0,7% of total loans.
- The improvement in the profitability of the Group's Cyprus operations is exceptional. Profit after tax increased by 239% to C£141 mn (€244 mn).
- The profitability of the Greek operations also registered a significant increase with profit after tax increasing by 50% to reach C£37 mn (€65 mn).

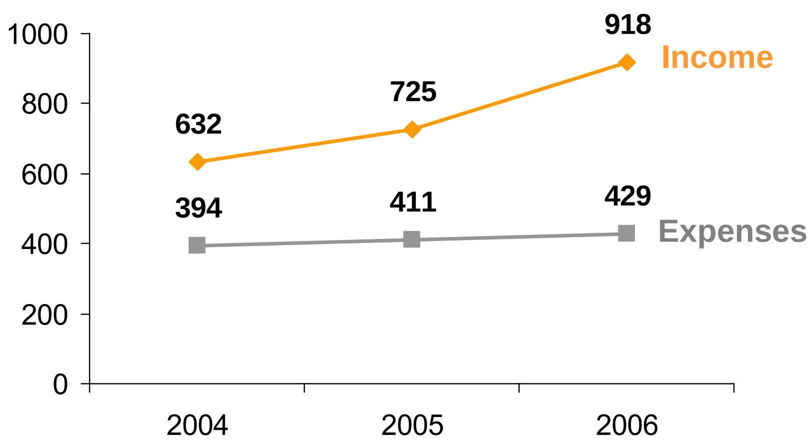
Graph 1

Evolution of indicators



Graph 2

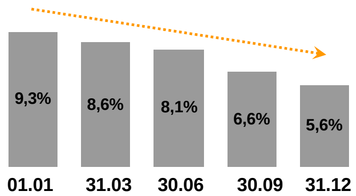
Evolution of income and expenses (in € mn)



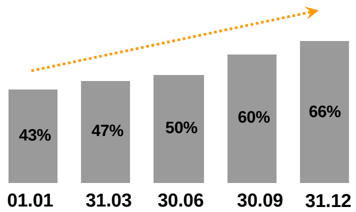
Graph 3

Evolution of non performing loans (NPLs)

NPL Ratio (NPLs/ Total loans)
2006



Coverage Ration (Provisions/ NPLs)
2006



B. Financial Footings

Table 2

Analysis of financial footings by Geographic Sector

in € mn	Group		Cyprus		Greece		Other countries	
	annual ±%	**31.12.06**	**annual ±%**	**31.12.06**	**annual ±%**	**31.12.06**	**annual ±%**	**31.12.06**
Loans	+19%	15.266	+18%	7.245	+21%	6.553	+20%	1.468
Contribution				*47%*		*43%*		*10%*
Deposits	+13%	20.927	+11%	11.913	+14%	7.635	+17%	1.379
Contribution				*57%*		*36%*		*7%*

B.1 Group Loans

The Group's loans reached C£8,83 bn (€15,27 bn) at 31 December 2006, recording an annual increase of 19%.

B.1.1 Loans in Cyprus

The Group has increased its market share in total advances, to 26,4% in November 2006 (latest published figures) compared to 25,3% in November 2005. The continuous increase in market share over the last two years is the result of the successful mobilization of the entire branch network as well as the effective promotion campaigns addressed to the retail lending sector and specifically mortgage lending. It is estimated that greater increases in market share have been achieved in the retail lending sector for which no statistics are available for the total banking system.

In Cyprus, the Group's total loans at 31 December 2006 amounted to C£4,19 bn (€7,24 bn), recording an annual increase of 18%.

B.1.2 Loans in Greece

In Greece, the annual rate of increase in the Group's loans reached 21% with the Group's Greek loan portfolio increasing to C£3,79 bn (€6,55 bn). The average annual rate of increase for 2004-2006 of the Group's loans in Greece (21%) is greater than the rate of increase of loans of the Greek banking system (18%) (based Central Bank of Greece data).

The Group's dynamic expansion in Greece is mainly focused on housing and consumer loans. The balance of housing and consumer loans at 31 December 2006 increased by 27% and 31%, respectively, compared to 31 December 2005. Loans to small and medium size businesses and to the retail sector, which represent the main focus of the Group's operations in Greece, reached 74% of the total loan portfolio.

B.1.3 Loans in Other Countries

At 31 December 2006, Group loans in the United Kingdom and Australia increased by 21% and 15%, reaching C£681 mn (€1,18 bn) and C£168 mn (€291 mn), respectively.

B.1.4 Loans by Customer Sector

The breakdown of the Group's loan portfolio in Cyprus and Greece into the three customer sectors is shown below. The Group's increasing penetration into the retail sectors of Cyprus and Greece as well as its dominant presence in the small and medium size business sector in Greece are noteworthy:

Table 3

Analysis of Loans by Customer Sector

Percentage (%) of total loans	Cyprus		Greece	
	31.12.06	31.12.05	**31.12.06**	31.12.05
Corporate	45,4%	48,7%	26,3%	26,1%
Small and Medium-sized Enterprises (SMEs)	16,2%	16,4%	42,8%	45,5%
Retail	38,4%	34,9%	30,9%	28,4%
Total	100,0%	100,0%	100,0%	100,0%

B.1.5 Non-Performing Loans ("NPLs")

During 2006, the improvement in the quality of the Group's loan portfolio was exceptional, resulting from:

- Collections of overdue amounts.
- Lower inflow of new NPLs as a result of improved credit risk control systems implemented by the Group over the past two years.

Group NPLs declined in absolute numbers from C£676 mn (€1,17 bn) at 1 January 2006 to C£490 mn (€847 mn) at 31 December 2006. The Group applies the stricter definition of NPLs which includes all loans in arrear for longer than three months (previously six months). In addition, the NPL classification extends to all other loans of the customers who have a specific facility classified as non-performing. The ratio of NPLs to total Group loans was 5,6% at 31 December 2006 compared to 9,3% at 1 January 2006.

The ratio of coverage of NPLs by provisions increased to 66% at 31 December 2006, compared to 43% at 1 January 2006. The remaining balance of NPLs is covered by tangible collateral.

The vast majority of non-performing loans relate to the Group's Cyprus operations with the relevant indicator improving to 8,2% compared to 14,0% at 1 January 2006. It is noted that in Cyprus, the long time required for the foreclosure of collateral, especially property, acts as a deterring factor in the repayment of overdue amounts. The potential harmonization of the relevant legislation to European standards is expected to expedite the process of further decreasing non-performing loans.

The quality of the Group loan portfolio in Greece remains satisfactory despite the high growth rate of the loan portfolio. Using the stricter definition mentioned before, the Group's NPLs in Greece decreased to 3,9% of total loans at 31 December 2006, compared to 5,9% at 1 January 2006. This ratio compares favourably to the ratio of the Greek banking system. According to the official statistics, issued by the Central Bank of Greece, which use the same definition of non-performing loans (that is arrears greater than three months), the corresponding ratio of non-performing loans to advances of the Greek banking system was 6% at 30 September 2006.

B.2 Deposits

The Group's total deposits at 31 December 2006 reached C£12,10 bn (€20,93 bn), recording a 13% annual increase.

B.2.1 Deposits in Cyprus

In Cyprus, the annual rate of increase in Group deposits was 11% and total amounted to C£6,89 bn (€11,91 bn) deposits at 31 December 2006. The Bank's market share of total banking system deposits in Cyprus, including credit cooperatives, for November 2006 (latest available data) amounted to 29,5%, compared to 30,9% for November 2005 as a result of a policy to consciously avoid expensive deposits and efficiently manage the Group's high liquidity.

The Group's foreign currency deposits amounted to 58% of total deposits of Cyprus operations.

B.2.2 Deposits in Greece

Group deposits in Greece increased significantly at an annual rate of 14%, with total deposits reaching to C£4,41 bn (€7,63 bn) at 31 December 2006 and market share was maintained at the level of 3,8% (November 2006). The increase in deposits was accompanied by a significant decrease in their cost το the Group.

B.2.3 Deposits in Other Countries

At 31 December 2006, the Group's deposits in the United Kingdom and Australia reached C£661 mn (€1,14bn) and C£136 mn (€236 mn), recording an annual increase of 17% and 18%, respectively.

B.3 Capital Base and Capital Adequacy

Table 4

Capital Adequacy Composition		
in € mn	**31.12.06**	31.12.05
Core Tier 1 Capital	1.191	1.101
Hybrid Tier 1 Capital	163	156
Tier 2 Capital	450	564
Total Capital	1.804	1.821
Risk-weighted Assets	14.978	12.898
Capital Adequacy Ratio	12,0%	14,1%
- Core Tier 1 Ratio	*7,9%*	*8,5%*
- Tier 1 Ratio	*9,0%*	*9,8%*
- Tier 2 Ratio	*3,0%*	*4,3%*

At 31 December 2006, the Group shareholders' funds amounted to C£905 mn (€1,57 bn) and the Group capital adequacy ratio stood at 12,0% compared to the minimum capital adequacy requirement of 8% imposed by the Central Bank of Cyprus effective 1 January 2007.

C. Analysis of 2006 Results

C.1 Net Interest Income and Net Interest Margin

Net interest income reached C£359 mn (€620 mn), recording an annual increase of 28%. The increase is primarily attributable to the significant increase in the Group's footings in Greece and Cyprus, as well as to the improvement in the net interest margin (NIM) of the Group's operations in Greece.

The Group net interest margin for 2006 was 2,81%, compared to 2,60% for 2005. As already mentioned, the improvement is mainly the result of the significant improvement in the NIM of the Group's operations in Greece from 2,82% in 2005 to 3,14% in 2006 despite the increased competition. The spread between the cost of deposits compared to the Euribor improved by 60 basis points over the last year. It is noted that the loans to deposits ratio reached 86% allowing for the significant growth in volumes of the Greek operations.

The net interest margin in Cyprus increased to 2,38% for 2006 compared to 2,27% for 2005. The net interest margin in Cyprus is adversely affected by the low margin earned on foreign currency deposits in Cyprus, that is the placement of these funds in money market instruments and high rated bonds, for which the liquidity requirement imposed by the Central Bank of Cyprus remains at the high level of 75%.

C.2 Net Fee and Commission Income

Net fee and commission income for 2006 reached C£101mn (€175 mn), recording an annual increase of 13%, primarily as a result of increased income from the Group's operations in Cyprus.

C.3 Income from Insurance Business

The growth of the Group's insurance operations was significant with an increase in new business premiums of 9% in life insurance and 8% in general insurance premiums. Income from insurance business recorded a 13% annual increase, reaching C£26 mn (€46 mn). Insurance business contributed 8% to Group profit before tax and reached C£17 mn (€30 mn), recording an increase of 23%. The Group's life insurance operations consist mainly of saving/life insurance products distributed via the branch network.

C.4 Net Gains on Sale and Change in Fair Value of Financial Instruments

During 2006, the Group recorded C£15 mn (€26 mn) net gains on sale and change in fair value of financial instruments.

C.5 Expenses

The Group's cost containment programme had a positive impact on the Group profitability. Total expenses for the 2006 amounted to C£248 mn (€429 mn), with the annual rate of increase being contained to 4% compared to the rate of increase in loans of 19%. As a result of the cost containment, as well as the increased level of income, the cost to income ratio improved to 46,7% for 2006, compared to 56,7% for 2005.

Staff costs amounted to C£156 mn (€270 mn), recoding an annual increase of 3%, mainly due to the reduction of the cost relating to the Group's Cyprus operations by 1%. The decrease was attributable to the reduction in staff numbers in Cyprus and the reduced contributions to the staff pension plan. The staff pension plan of the Group recorded a surplus of C£45 mn (€78 mn) at 31 December 2006 compared to a deficit of C£71 mn (€123 mn) at the end of 2005. Staff costs relating to the Group's Greek operations increased by 14%, as a result of the increase in staff numbers by 8% to 2.603 employees in response to the increased business volumes (21% increase in loans) and for the operation of the fourteen new branches which opened in 2006.

The other (non-staff) operating expenses of the Group recorded an annual increase of 6% and amounted to C£92 mn (€159 mn).

The cost to income ratio of the Group's Cyprus operations improved from to 58% for 2005 to 44,3% for 2006. The ratio for the Group's Greek operations stands at the very satisfactory level of 47,7% (2005: 52,4%), especially considering the relatively low maturity level of the branch network.

The Group's expenses in the other countries where it operates decreased by 1%.

C.6 Provisions for Bad and Doubtful Debts

The provision charge for 2006 amounted to C£58 mn (€101 mn). The provision charge represented 0,7% (2005: 1,2%) of total Group loans at 31 December 2006.

D. Strategy and Targets

The credibility, consistency and reliability of Bank of Cyprus have resulted in excellent results and have created a strong base allowing for well-planned further growth and greater success.

As far as the Group's strategy and targets for the three year period 2007-2009 are concerned, the Group, in parallel with this announcement of the results for the year 2006, has issued a separate announcement which has been posted on the Group's website www.bankofcyprus.com (Investor Relations / Press Releases).

Table 5

Income and Expense Analysis

In € mn	±%	2006	2005	±%	4th Q06	3rd Q06	1st H06
Net interest income	+28%	620	484	+7%	174	163	283
Net fee and commission income	+13%	175	155	+16%	48	42	85
Foreign exchange income	+43%	36	25	+3%	11	10	15
Net gains on sale and change in fair value of financial instruments	+149%	26	11	-141%	5	-11	32
Income from insurance business	+13%	46	40	-4%	11	12	23
Other income	+48%	15	10	-13%	5	6	4
Total income	**+27%**	**918**	**725**	**+14%**	**254**	**222**	**442**
Staff costs	+3%	(270)	(262)	+8%	(73)	(67)	(130)
Other operating expenses	+6%	(159)	(149)	+21%	(44)	(37)	(78)
Total expenses	**+4%**	**(429)**	**(411)**	**+13%**	**(117)**	**(104)**	**(208)**
Profit before provisions	**+56%**	**489**	**314**	**+16%**	**137**	**118**	**234**
Provisions for bad and doubtful debts	-36%	(101)	(157)	-42%	(15)	(26)	(59)
Profit before tax	**+148%**	**388**	**157**	**+33%**	**122**	**92**	**175**
Tax	+128%	(71)	(32)	+121%	(30)	(14)	(28)
Profit after tax	**+153%**	**317**	**125**	**+17%**	**92**	**78**	**147**
Net interest margin (NIM)	**+21 b.p***	**2,81%**	**2,60%**	**+5 b.p***	**2,95%**	**2,90%**	**2,70%**

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

Table 6

Analysis of Results and Other Financial Information by Geographic Sector									
in € mn	**Cyprus**			**Greece**			**Other counties**		
	+%	**2006**	**2005**	**+%**	**2006**	**2005**	**+%**	**2006**	**2005**
Net interest income	+34%	344	256	+25%	240	192	0%	35	35
Net fee and commission income	+14%	122	107	+8%	43	39	+15%	10	9
Foreign exchange income	+57%	32	20	-17%	4	4	+2%	1	1
Net gains on sale and change in fair value of financial instruments	+213%	30	10	+14%	2	2	-438%	(7)	(1)
Income from insurance business	+10%	41	37	+48%	5	3	-	-	-
Other income	+76%	16	9	-104%	0	1	-	0	0
Total income	**+33%**	**585**	**439**	**+21%**	**294**	**241**	**-11%**	**39**	**44**
Staff costs	-1%	(178)	(179)	+14%	(73)	(64)	-1%	(18)	(18)
Other operating expenses	+7%	(82)	(76)	+7%	(67)	(62)	-2%	(11)	(12)
Total expenses	**+2%**	**(260)**	**(255)**	**+11%**	**(140)**	**(126)**	**-1%**	**(29)**	**(30)**
Profit before provisions	**+76%**	**325**	**184**	**+34%**	**154**	**115**	**-31%**	**10**	**14**
Contribution		*67%*	*59%*		*31%*	*37%*		*2%*	*4%*
Provisions for bad and doubtful debts	-57%	(45)	(104)	+11%	(58)	(52)	-	2	(1)
Profit before tax	**+250%**	**280**	**80**	**+53%**	**96**	**63**	**-11%**	**12**	**13**
Contribution		*72%*	*51%*		*25%*	*40%*		*3%*	*9%*
Tax	+344%	(36)	(8)	+58%	(31)	(20)	26%	(4)	(3)
Profit after tax	**+239%**	**244**	**72**	**+50%**	**65**	**43**	**-24%**	**8**	**10**
Contribution		*77%*	*58%*		*20%*	*34%*		*3%*	*8%*
Number of staff	**-1%**	**3.295**	**3.335**	**+8%**	**2.603**	**2.419**	**-5%**	**294**	**311**
Net interest margin (NIM)	**+11 b.p.**	**2,38%**	**2,27%**	**+32 b.p.**	**3,14%**	**2,82%**	**-19 b.p.**	**1,97%**	**2,16%**
Cost/Income ratio	**-13,7 p.p.**	**44,3%**	**58,0%**	**-4,7 p.p.**	**47,7%**	**52,4%**	**+7,5 p.p.**	**74,7%**	**67,2%**
Return on equity (ROE)	**+23,5 p.p.**	**35,5%**	**12,0%**	**+2,9 p.p.**	**14,0%**	**11,1%**	**-4,3 p.p.**	**8,6%**	**12,9%**

Table 7

Balance Sheet overview			
In € mn	±%	2006	2005
Cash and balances with central banks	+12%	1.181	1.058
Placements with banks	-4%	4.300	4.459
Debt securities, tbills, equity investments	+15%	4.060	3.519
Net loans to customers	+20%	14.468	12.079
Other assets	+15%	1.178	1.026
Total assets	**+14%**	**25.187**	**22.141**
Amounts due to banks	+47%	452	307
Customer deposits	+13%	20.927	18.548
Debt securities in issue	+36%	750	550
Other liabilities	+19%	940	788
Subordinated loan stock	-12%	553	631
Shareholder's equity	**19%**	**1.565**	**1.317**

Notes:

1. 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.

2. The conversion from Cyprus Pounds (C£) to Euro (€) was made using the exchange rate at 31 December 2006 of €1=£0,5782.

3. 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.

4. 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)

5. 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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