Bank of Cyprus Group

Announcement

Group Financial Results for the quarter ended 31 March 2012

- **Significant increase in profitability**
  - Profit before provisions €219 mn, a year on year (y-o-y) increase of 25%
  - Profit after tax, excluding the impairment of Greek Government Bonds (GGBs) and the related tax, €99 mn which is a y-o-y increase of 33%
  - Profit after tax €295 mn

- **Healthy liquidity with loans to deposits ratio at 93%**

- **Significant capital strengthening**
  - Strengthening from profits of the first quarter 2012
  - Positive impact from deferred tax asset
  - Increase of Core Tier 1 capital by €592 mn (€160mn from the Rights Issue and €432 mn from the conversion of CECS to shares)

- **European Banking Authority (EBA) requirements**
  - Taking into account the expected profits until 30 June 2012 the capital needed to meet the requirements set by the EBA is reduced to about €200 mn

Nicosia, 10 May 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 573 branches, of which 194 operate in Russia, 187 in Greece, 135 in Cyprus, 42 in Ukraine, 10 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 11.175 staff worldwide.

At 31 March 2012, the Group's Total Assets amounted to €38,66 bn and the Shareholders' Funds were €2,85 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 Group Financial Results for 1st Quarter 2012

The Group, committed to its strategic priorities, achieved increasing organic profitability and significant strengthening of its capital position during the first quarter of 2012.

The Group's **total income** recorded an increase of 6% reaching €378 mn for the first quarter of 2012, demonstrating the Group's ability to achieve increasing recurring income even in adverse economic conditions. The Group's **profit before provisions** for the first quarter of 2012 reached €219 mn recording an annual increase of 25%. Profit after tax and excluding the change in fair value of hedging derivatives related to Greek Government Bonds (GGBs) and the tax related to the GGBs impairment reached €99 mn, recording an annual increase of 33% compared to €74 mn for the first quarter of 2011. **Profit after tax** reached €295 mn compared to €74 mn for the first quarter of 2011, positively affected by €197 mn which is the net amount of €231 mn relating to the recognition of a deferred tax asset for the impairment of GGBs and €34 mn loss relating to changes in the fair value of hedging derivatives used to hedge the interest rate risk of GGBs.

As at 31 March 2012 the Group's total capital ratio reached 9,2% with the Core Tier 1 ratio at 6,8% and the Tier 1 ratio at 8,9%.[1] In March 2012, the Group via the Capital Strengthening Plan, strengthened significantly its capital base with its Core Tier 1 capital increasing by €592 mn. In addition, in December 2011 the Group sold Bank of Cyprus Australia Ltd which increased its capital base by about €80mn.

It is noted that the regulatory authorities have significantly raised the minimum capital adequacy ratios. The minimum ratios set by the Central Bank of Cyprus are 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 through its future profitability, the effective management of risk weighted assets and other actions, it will be in a position to cover the minimum required Core Tier 1 and Tier 1 ratios within a reasonable period of time.

Based on the performance and the capital position of the Group to date and taking into account the expected profitability up to 30 June 2012, the Group estimates the capital needed to meet the European Banking Association (EBA) requirement at about €200 mn. The Group expects to cover this capital requirement through the effective management of risk weighted assets and/or other actions.

The main financial highlights for the first quarter of 2012 are set out in the tables below:

[1] The Group's capital adequacy ratios at 31 March 2012 include the Group's results (unaudited) for the first quarter of 2012.

Table 1

Main financial highlights for the first quarter of 2012				
€ mn	**Change**	**1Q2012**	**1Q2011**[2]	**Year 2011**[2]
Total income	+6%	378	356	1.541
Profit before provisions and the impairment of Greek Government Bonds (GGBs)	+25%	219	175	816
Profit after tax excluding the GGBs impairment and the related tax	+33%	99	74	323
Impairment of GGBs and change in fair value of related hedging derivatives and tax	-	197	-	(1.682)
Profit/(Losses) after tax	+299%	295	74	(1.359)
Earnings per share excluding GGBs impairment	+1,6 cent	9,9 cent	8,3 cent	32,2 cent

Return on Equity	+4,1 p.p.*	15,1%**	11,0%	11,3%**
Cost / Income	-8,9 p.p.*	42,0%	50,9%	47,0%
Net Interest Margin	+54 b.p *	3,31%	2,77%	2,98%

* p.p. = percentage points, 1 percentage point = 1%
b.p. = basis points, 100 b.p. = 1 percentage point (1%)
** Excluding the impairment of GGBs, changes in fair value of hedging derivatives used to hedge GGBs and tax related to GGBs impairment

Table 2

Main financial highlights as at 31.03.2012[3]				
	Change	**31.03.2012**	**31.03.2011**	**31.12.2012**
Total Loans (€ bn)	+2%	28,8	28,2	28,9
Customer Deposits (€ bn)	-7%	29,2	31,3	29,7
Net Loans to Deposits ratio	+6 p.p*	93%	87%	92%
Non-performing loans ratio	+4,3 p.p*	11,9%	7,6%	10,2%

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

- **Significant increase in total income**: Total income for the first quarter of 2012 noted a significant increase of 6%, compared with the first quarter of 2011, and reached €378. It is noted that net interest income increased significantly by 7% reaching €295 mn for the first quarter of 2012 compared to €276 mn for the first quarter of 2011.

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[2] Restated due to change in accounting policy
[3] Loans and deposits for the year 2011 have been restated excluding Australia

- **Improved efficiency:** The cost to income ratio for the first quarter of 2012 has improved to 42,0% from 50,9% for the first quarter of 2011, due to the increase in total income and cost containment.

- **Significant increase in profit before provisions**: The improved efficiency led to a significant increase in profit before provisions for the first quarter of 2012. Profit before provisions reached €219 mn for the first quarter of 2012, noting an increase of 25% compared to the first quarter of 2011 (€175 mn).

- **Improvement of interest margin**: The Group's net interest margin reached 3,31% for the first quarter of 2012 compared to 2,77% for the first quarter of 2011 and 2,98% for 2011.

- **Healthy liquidity**: The Group has a healthy liquidity position with a loans to deposits ratio of 93%, 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 76% at 31 March 2012.

- **Adequate return on equity:** The return on equity excluding the GGBs impairment (15,1% for the first quarter of 2012) was maintained at satisfactory levels in a particularly challenging environment.

- **Loans and deposits:** As at 31 March 2012 Group loans and deposits were €28,8 bn and €29,2 bn respectively.

- **Credit risk management**: The non-performing loans ratio reached 11,9% at 31 March 2012 compared to 10,2% at 31 December 2011 and 7,6% at 31 March 2011. The provisions coverage ratio (provisions as % of non-performing loans) amounted to 46% at 31 March 2012, while the coverage ratio including tangible collateral amounted to 114%.

B. Prospects for 2012

The Group is taking all the necessary measures to be in a position to face the challenges of the uncertain economic environment and focuses on strengthening its capital position, on effectively managing risks, on maintaining its healthy liquidity position and satisfactory organic profitability.

The Group aims at improving its capital adequacy through the effective management of risk weighted assets with the aim of reducing them, the internal generation of capital through profitability and other actions.

Maintaining healthy liquidity is pursued through the attraction of deposits whilst avoiding any negative impact on the interest spread.

C. Analysis of Results for the first quarter of 2012

C.1 Geographical analysis of profitability excluding changes in the fair value of related hedging derivatives for GGBs and the tax for the GGBs impairment

The **Group** has achieved satisfactory profitability, having increased its recurring income for the first quarter of 2012, with **profit before provisions** reaching €219 mn, recording an annual increase of 25%. **Net interest income** increased by 7% and reached €295 mn compared to €276 mn for the first quarter of 2011, while total expenses declined by 12% during the first quarter of 2012 (€159 mn) compared to the first quarter of 2011 (€181 mm).

Profit after tax excluding the changes in the fair value of hedging derivatives related to GGBs and the tax related to GGBs impairment reached €99 mn, recording a 33% increase year on year. Profit after tax reached €295 mn for the first quarter of 2012 compared to €74 mn for the first quarter of 2011.

In **Cyprus,** profit before provisions for the first quarter of 2012 reached €143 mn, a 38% increase compared to the first quarter of 2011, while profit after tax reached €94 mn, recording an increase of 55% compared to the first quarter of 2011. Employee costs in Cyprus for the first quarter of 2012 include a positive, non-recurring amount of €13 mn as a result of a change in the accounting policy relating to employee retirement benefits and the termination of the defined benefit scheme for the Group's personnel in Cyprus as of January 2012.

In **Greece,** profit before provisions for the first quarter of 2012 reached €57 mn, a 23% increase compared to the first quarter of 2011. Loss after tax for the first quarter of 2012 reached €2 mn versus a profit of €3 mn for the first quarter of 2011, as a result of higher provisions.

In **Russia,** profit before provisions for the first quarter of 2012 reached €9 mn compared to €12 mn for the first quarter of 2011, while profit after tax for the first quarter of 2012 reached €3 mn compared to €4 mn for the first quarter of 2011.

Profit after tax for **other countries** (United Kingdom, Ukraine and Romania) reached €4 mn compared to €5 mn for the first quarter of 2011. Profit after tax for the first quarter of 2011 includes profits of €1 mn from the Group's operation in Australia which was sold in 2011.

C.2 Analysis of income

By adjusting its pricing policy for the new economic environment, the Group increased its **net interest income** for the first quarter of 2012 which reached €295 mn, noting a 7% increase compared to €276 mn for the first quarter of 2011.

The **net interest margin** of the Group in the first quarter of 2012 reached 3,31% compared to 3,34% for the fourth quarter of 2011 and 2,77% for the first quarter of 2011.

Net fee and commission income amounted to €56 mn for the first quarter of 2012 compared to €56 mn for the first quarter of 2011.

Foreign exchange income and gains from financial instruments for the first quarter of 2012 amounted to €10 mn versus €4 mn for the first quarter of 2011.

C.3 Analysis of expenses

Total expenses for the first quarter of 2012 amounted to €159 mn recording a decrease of 12% compared to €181 mn for the first quarter of 2011. The increase in Group income and the decrease in Group expenses led to a noteworthy improvement in the **cost to income ratio** which reached 42,0% noting a decrease of 8,9 percentage points compared to the first quarter of 2011 (50,9%).

Employee costs amounted to €93 mn recording a decrease of 17% compared to the first quarter of 2011, while **other operating expenses** (excluding employee costs) amounted to €66 mn, recording a reduction of 4% compared to the first quarter of 2011.

Employee costs in Cyprus for the first quarter of 2012 include a positive, non-recurring amount of €13 mn as a result of a change in the accounting policy relating to employee retirement benefits and the termination of the defined benefit scheme for the Group's personnel in Cyprus as of January 2012.

C.4 Change in fair value of related hedging derivatives for GGBs and the tax for the GGBs impairment

In the first quarter of 2012 the Group recognised a deferred tax asset of €231 mn which relates to future tax benefits from the utilisation of the impairment losses of GGBs in Greece.

The results of the first quarter of 2012 include a loss of €34 mn relating to changes in the fair value of hedging derivatives used to hedge GGBs interest rate risk. The derivative positions were gradually terminated by April 2012 without any significant additional impact on the financial results of the Group.

D. Credit Risk Management

The quality of the Group's loan portfolio remains at adequate levels taking into consideration the deteriorating economic conditions in the Group's main markets. At 31 March 2012, 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 11,9%, compared to 10,2% at 31 December 2011 and 7,6% at 31 March 2011.

At 31 March 2012, the relevant ratio was 11,5% in Cyprus (31 December 2011: 9,5%) and 13,4% in Greece (31 December 2011: 11,6%).

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 amounted to 1,39% of total loans for the first quarter of 2012, compared to 1,09% for the first quarter of 2011.

The coverage ratio (provisions/NPLs) amounted to 46% at 31 March 2012. The remaining balance of NPLs is fully covered by tangible collateral, with the coverage ratio including tangible collateral amounting to 114%.

E. Balance Sheet Analysis

E.1 Group Loans

As at 31 March 2012 Group loans amounted to €28,8 bn recording an annual increase of 2%[4].

Table 3

Analysis of Loans by Geographic Sector at 31.03.2012			
	€ mn	**annual ±%**	**Contribution**
Cyprus	15.009	+6%	52%
Greece	9.810	-4%	34%
Russia	2.085	+9%	7%
Other countries	1.896	-2%	7%
Group	**28.800**	**+2%**	**100%**

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

E.2 Group Deposits

The Group's total deposits at 31 March 2012 reached €29,2 bn recording an annual decrease of 7%[5].

The Group's healthy liquidity position, with a loans to deposits ratio of 93% and its minimal reliance on wholesale funding (deposits to total assets ratio of 76% at 31 March 2012) 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.

Table 4

Analysis of Deposits by Geographic Sector at 31.03.2012			
	€ mn	**annual ±%**	**Contribution**
Cyprus	19.220	+1%	66%
Greece	7.173	-25%	24%
Russia	1.349	+10%	5%
Other countries	1.445	+2%	5%
Group	**29.187**	**-7%**	**100%**

E.3 Capital Base

As at 31 March 2012, the Group's shareholder funds amounted to €2,85 bn. As at 31 March 2012 the Group's total capital ratio reached 9,2% with the Core Tier 1 ratio at 6,8% and the Tier 1 ratio at 8,9%.[6]

In March 2012, the Group via the Capital Strengthening Plan, strengthened significantly its capital base with its Core Tier 1 capital increasing by €592 mn. In addition, in December 2011 the Group sold Bank of Cyprus Australia Ltd which increased its capital base by about €80mn.

It is noted that the regulatory authorities have significantly raised the minimum capital adequacy ratios. The minimum ratios set by the Central Bank of Cyprus are 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 through its future profitability, the effective management of risk weighted assets and other actions, it will be in a position to cover the minimum required Core Tier 1 and Tier 1 ratios within a reasonable period of time.

Based on the performance and the capital position of the Group to date and taking into account the expected profitability up to 30 June 2012, the Group estimates the capital needed to meet the European Banking Association (EBA) requirement at about €200 mn. The Group expects to cover this capital requirement through the effective management of risk weighted assets and/or other actions.

5 The annual change has been calculated excluding BOC Australia
6 The Group's capital adequacy ratios at 31 March 2012 include the Group's results (unaudited) for the first quarter of 2012.

Table 5

Analysis of Group Results and Other Financial Information						
€ mn	**1Q2012**	**1Q2011[7]**	**Annual change ±%**	**4Q11[7]**	**Quarterly change ±%**	**FY2011[7]**
Net interest income	295	276	+7%	313	-6%	1.168
Net fee and commission income	56	56	-1%	61	-10%	232
Foreign exchange income and gains from financial instruments	10	4	+91%	16	-35%	49
Insurance income net of insurance claims	16	17	-5%	14	+12%	61
Other income	1	3	-43%	10	-85%	31
Total income	**378**	**356**	**+6%**	**414**	**-9%**	**1.541**
Personnel expenses	(93)	(112)	-17%	(110)	-16%	(432)
Other operating expenses	(66)	(69)	-4%	(93)	-29%	(293)
Total expenses	**(159)**	**(181)**	**-12%**	**(203)**	**-22%**	**(725)**
Profit before provisions	**219**	**175**	**+25%**	**211**	+4%	**816**
Provisions for impairment of loans and advances	(100)	(79)	+27%	(132)	-24%	(426)
Share of loss of associate	-	-	-	-	-	(1)
Profit before tax	**119**	**96**	**+24%**	**79**	**+52%**	**389**
Taxation	(21)	(22)	-1%	(15)	+45%	(73)
Non - controlling interests (loss)	1	-	-	5	-85%	7
Profit after tax	**99**	**74**	**+33%**	**69**	**+43%**	**323**
Impairment of GGBs and change in fair value of related hedging instruments including taxation	197	-	-	(636)		(1.682)
Profit/(Loss) after tax and impairment of Greek Government Bonds	**295**	**74**	**+299%**	**(567)**		**(1.359)**
Net Interest Margin (NIM)	**3,31%**	**2,77%**	**+54 b.p.***	**3,34%**	**-3 b.p.***	**2,98%**
Cost to Income	**42,0%**	**50,9%**	**-8,9 p.p.***	**49,2%**	**-7,2 p.p.***	**47,0%**
Return on equity**	**15,1%**	**11,0%**	**+4,1 p.p.***	**9,1%**	**+6,0 p.p.***	**11,3%**

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

[7] Restated due to change in accounting policy

Table 6

Geographical Sector Analysis of Results and Other Financial Information												
Analysis does not include changes in fair value of hedging derivatives used to hedge GGBs and tax related to GGBs impairment												
€ mn	**Cyprus**			**Greece**			**Russia**			**Other countries**		
	±%	**1Q12**	**1Q11**	**±%**	**1Q12**	**1Q11**	**±%**	**1Q12**	**1Q11**	**±%**	**1Q12**	**1Q11**
Net interest income	+14%	157	139	+16%	92	79	-16%	28	33	-27%	18	24
Net fee and commission income	+6%	35	33	+5%	12	12	-18%	7	8	-47%	2	3
Foreign exchange income and gains/(losses) from financial instruments and sale of subsidiaries	+447%	7	1	-157%	(1)	2	+157%	3	1	+316%	1	0
Insurance income net of insurance claims	-3%	14	14	-16%	2	3	-	-	-	-	-	-
Other income	-21%	1	1	-75%	0	1	-40%	0	1	-	0	0
Total income	**+14%**	**214**	**188**	**+8%**	**105**	**97**	**-12%**	**38**	**43**	**-26%**	**21**	**27**
Personnel expenses	-28%	(42)	(59)	+1%	(29)	(28)	-6%	(16)	(17)	-28%	(6)	(8)
Other operating expenses	+12%	(29)	(26)	-13%	(19)	(22)	-10%	(13)	(14)	-25%	(5)	(7)
Total expenses	**-16%**	**(71)**	**(85)**	**-5%**	**(48)**	**(50)**	**-8%**	**(29)**	**(31)**	**-27%**	**(11)**	**(15)**
Profit before provisions	**+38%**	**143**	**103**	**+23%**	**57**	**47**	**-22%**	**9**	**12**	**-26%**	**10**	**12**
Contribution		*65%*	*59%*		*27%*	*27%*		*4%*	*7%*		*4%*	*7%*
Provisions for impairment of loans and advances	+14%	(33)	(29)	+44%	(55)	(38)	+9%	(7)	(6)	-6%	(5)	(5)
Share of loss of associate	-	0	(0)	-	-	-	-	-	-	-	-	-
Profit before tax	**+48%**	**110**	**74**	**-76%**	**2**	**9**	**-58%**	**2**	**6**	**-39%**	**5**	**7**
Contribution		*92%*	*77%*		*2%*	*9%*		*2%*	*6%*		*4%*	*8%*
Taxation	+17%	(16)	(13)	-23%	(4)	(6)	-57%	(0)	(1)	-48%	(1)	(2)
Non - controlling interests (loss/(profit))	--	0	(0)	-	-	-	-	1	(1)	-	0	0
Profit/(loss) after tax	**+55%**	**94**	**61**	**-185%**	**(2)**	**3**	**-39%**	**3**	**4**	**-36%**	**4**	**5**
Contribution		*95%*	*82%*		*-2%*	*4%*		*3%*	*6%*		*4%*	*8%*
Net interest margin (NIM)	**+29 b.p.**	**2,48%**	**2,19%**	**+84 b.p.**	**3,40%**	**2,56%**	**-109 b.p.**	**5,10%**	**6,19%**	**+26 b.p.**	**2,89%**	**2,63%**
Cost/Income Ratio	**-11,7 p.p.**	**33,3%**	**45,0%**	**-6,4 p.p.**	**45,3%**	**51,7%**	**+3,2 p.p.**	**75,7%**	**72,5%**	**-0,3 p.p.**	**54,7%**	**55,0%**
Return on equity (ROE)	**+10,6 p.p.**	**31,5%**	**20,9%**	**-3,0 p.p.**	**-1,4%**	**1,6%**	**-3,9 p.p.**	**5,8%**	**9,7%**	**-0,1 p.p.**	**11,9%**	**12,0%**

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

Table 7

Condensed Balance Sheet				
€ mn	**±%**	**31.03.2012[1]**	**31.03.2011[2]**	**31.12.2011[1,2]**
Cash and balances with central banks	+62%	1.575	971	1.375
Placements with banks and reverse repurchase agreements	-25%	4.023	5.340	2.844
Debt securities, Treasury bills and equity investments	-38%	3.429	5.542	3.567
Net loans and advances to customers	-3%	27.211	27.926	27.367
Other assets	+25%	2.417	1.937	2.321
Total assets	**-7%**	**38.655**	**41.716**	**37.474**
Amounts due to banks and repurchase agreements	+22%	5.244	4.282	3.852
Customer deposits	-9%	29.187	32.194	29.654
Debt securities in issue	-47%	37	70	50
Other liabilities	-13%	1.203	1.391	1.447
Subordinated loan stock	-86%	130	940	128
Total liabilities	**-8%**	**35.801**	**38.877**	**35.131**
Share capital	+101%	1.795	895	900
Share premium reserve	-26%	861	1.160	1.165
Convertible Enhanced Capital Securities	-	429	-	862
Revaluation and other reserves	+139%	59	(153)	3
(Accumulated losses)/retained earnings	-145%	(376)	845	(671)
Shareholder's equity	**+1%**	**2.768**	**2.747**	**2.259**
Non controlling interest	-6%	86	92	84
Total equity	**+1%**	**2.854**	**2.839**	**2.343**
Total liabilities and equity	**-7%**	**38.655**	**41.716**	**37.474**

[1]Does not include Australia
[2]Restated due to change in accounting policy

Notes:

1. 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

2. The Interim Condensed Consolidated Financial Statements for the first quarter of 2012 will be 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 Telephone: +357 22 122128, Fax: +357 22 378422
   - Website: www.bankofcyprus.com (Inv. Relations/Financial Information)

3. The detailed presentation of the financial results for the first quarter of 2012 has been posted on the Group's website www.bankofcyprus.com (Inv. Relations/Presentations)