

Announcement

Revised results of European Banking Authority Capital Exercise for addressing concerns over sovereign exposure

Nicosia, 8 December 2011

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, life and general insurance. The Group currently operates through a total of 609 branches, of which 209 operate in Russia, 185 in Greece, 141 in Cyprus, 44 in Ukraine, 12 in Romania, 13 in Australia, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has 9 representative offices in Russia, Romania, Ukraine, Serbia, Canada and South Africa. The Bank of Cyprus Group employs 11.551 staff worldwide.

At 30 September 2011, the Group's Total Assets amounted to €39,57 bn and the Shareholders' Funds were €2,99 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.



Bank of Cyprus Public Company Ltd (Bank of Cyprus or Bank) notes the announcements made today by the European Banking Authority (EBA) and the Central Bank of Cyprus regarding the capital exercise, which demonstrate the following result for Bank of Cyprus.

The capital exercise proposed by the EBA and agreed by the Council on 26 October 2011 requires banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect current market prices. In addition, it requires them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any final capital shortfall identified is based on September 2011 figures. The amount of the sovereign capital buffer will not be revised. The revised capital exercise has been carried out using the balance sheet as at 30 September 2011 whereas the results of the previous exercise which were announced on 27 October 2011 were based on the balance sheet as at 30 June 2011.

71 banks across Europe, including the Bank of Cyprus, were subject to the capital exercise whose objective is to create an exceptional and temporary capital buffer to address current market concerns over sovereign risk and other residual credit risk related to the current difficult market environment. This buffer would explicitly not be designed to cover losses in sovereigns but to provide a reassurance to markets about banks' ability to withstand a range of shocks and still maintain adequate capital.

Following completion of the capital exercise conducted by the European Banking Authority, in close cooperation with the Central Bank of Cyprus, the exercise has determined that Bank of Cyprus has a capital shortfall of €1.560 mn which must be addressed by end June 2012. The EBA intends to consider contingent convertibles, which are intended to absorb potential contingent losses, as eligible for the capital buffer. Bank of Cyprus has in issue €887 mn Convertible Enhanced Capital Securities (CECS) which are currently part of Tier 1 capital, are Basel III compliant and which have truly loss absorbing characteristics. Taking into account the already issued €887 mn CECS, the remaining capital shortfall based on the estimate by EBA is €673 mn. **Bank of Cyprus is in a position to cover the capital shortfall of €673 mn through the expected completion of a rights issue up to €396 mn which is offered to the current shareholders and to holders of eligible convertible securities as announced on 3 November, internal profit generation for the 9 month period ending June 2012 and other actions among which is the efficient management of risk weighted assets.**

Bank of Cyprus will ensure that by the end of June 2012 it will adhere to the 9% core tier ratio and, to this end, submit a plan to the Central Bank of Cyprus. In this plan the Bank will set out the proposed mix of actions to meet the required 9% target thereby bringing the shortfall to zero by June 2012. The plan – to be submitted by 20 January 2012 – will be discussed with Central Bank of Cyprus, in consultation with the relevant college of supervisors and the EBA.

The capital to be raised and measures to be taken by the banks are designed to restore confidence in market participants, to facilitate banks' access to the funding markets as well as to put them in the condition to continue providing financial support to the real economy.

The methodology underlying the capital exercise was outlined by the EBA prior to its announcement to ensure consistency across all banks in the EU banking system involved in the exercise.

Bank of Cyprus remains in a position to face the challenges of the ongoing negative environment in the main European markets in which it operates, focusing on maintaining increasing recurring profitability and healthy liquidity. Excluding the impairment of Greek Government Bonds, the Group's profit before provisions for the nine months of 2011 reached €597 mn, recording an annual increase of 17%. The Bank maintains a loans to deposits ratio of 89% at 30 September 2011, has minimal reliance on wholesale funding (deposits to total assets ratio of 80% at 30 September 2011) and limited refinancing needs over the next couple of years. The high level of liquidity and conservative funding structure of the Bank are a strong competitive advantage particularly in the prevailing adverse conditions.

Composition of capital as of 30 September 2011 (CRD3 rules)

Name of the bank:

CY007

BANK OF CYPRUS PUBLIC CO LTD

Capital position CRD3 rules	September 2011		References to COREP reporting
	Million EUR	% RWA	
A) Common equity before deductions (Original own funds <u>without hybrid instruments and government support measures other than ordinary shares</u>) (+)	1,582		COREP CA 1.1 - hybrid instruments and government support measures other than ordinary shares
Of which: (+) eligible capital and reserves	1,867		COREP CA 1.1.1 + COREP line 1.1.2.1
Of which: (-) intangibles assets (including goodwill)	-362		Net amount included in T1 own funds (COREP line 1.1.5.1)
Of which: (-/+) adjustment to valuation differences in other AFS assets ⁽¹⁾	0		Prudential filters for regulatory capital (COREP line 1.1.2.6.06)
B) Deductions from common equity (Elements deducted from original own funds) (-)	-52		COREP CA 1.3.T1* (negative amount)
Of which: (-) deductions of participations and subordinated claims	0		Total of items as defined by Article 57 (l), (m), (n) (o) and (p) of Directive 2006/48/EC and deducted from original own funds (COREP lines from 1.3.1 to 1.3.5 included in line 1.3.T1*)
Of which: (-) securitisation exposures not included in RWA according with CRD3 (2)	0		COREP line 1.3.7 included in line 1.3.T1* (50% securitisation exposures in the banking and trading book subject to 1250% risk weight; Art. 57 (r) of Directive 2006/48/EC)
Of which: (-) IRB provision shortfall and IRB equity expected loss amounts (before tax)	0		As defined by Article 57 (q) of Directive 2006/48/EC (COREP line 1.3.8 included in 1.3.T1*)
C) Common equity (A+B)	1,531	5.82%	
Of which: ordinary shares subscribed by government	0		Paid up ordinary shares subscribed by government
D) Other Existing government support measures (+)	0		
E) Core Tier 1 including existing government support measures (C+D)	1,531	5.82%	Common equity + Existing government support measures included in T1 other than ordinary shares
Shortfall to 9% before application sovereign capital buffer	837	3.18%	9%RWA-Core Tier 1 including existing government support measures; if >0.
F) Hybrid instruments not subscribed by government	955		Net amount included in T1 own funds (COREP line 1.1.4.1a + COREP lines from 1.1.2.2***01 to 1.1.2.2***05 + COREP line 1.1.5.2a (negative amount)) not subscribed by government
Tier 1 Capital (E+F) (Total original own funds for general solvency purposes)	2,486	9.45%	COREP CA 1.4 = COREP CA 1.1 + COREP CA 1.3.T1* (negative amount)
RWA as of end September 2011 including add-on for CRD3 ⁽²⁾	26,306		
Of which: RWA add-on for CRD III as of end September 2011 ⁽²⁾	0		
Sovereign Capital buffer			
G) Prudential filter (AFS sovereign assets in EEA as of 30th September 2011) (-/+)	0		Please report the prudential filter as a positive number if the AFS revaluation reserve for sovereign assets is negative. Please report the prudential filter as a negative number if the AFS revaluation reserve is positive. If the bank does not apply a prudential filter on AFS sovereign assets, please fill in zero.
H) Difference between the book value and the fair value of sovereign assets (Bonds and Loans and advances) in the HTM and Loans & Receivables portfolios (3).	724		Difference between the book value and the fair value at the reference date. Please provide a positive number if the book value is larger than the fair value of sovereign assets. Please provide a negative number if the book value is smaller than the fair value of the sovereign assets.
Sovereign capital buffer for exposures in EEA (G+H)	724	2.75%	Sum of Prudential filter and valuation. If negative it is set to 0
Overall Shortfall after including sovereign capital buffer	1,560	5.93%	9%RWA-(Core Tier 1 including existing government support measures-Sovereign capital buffer for exposures in EEA); if >0.

Notes and definitions

(1) The amount is already included in the computation of the eligible capital and reserves and it is provided separately for information purposes.

(2) According with CRD3 it can include also 50% securitisation exposures in the trading book subject to 1250% risk weight and not included in RWA.

(3) It includes also possible differences between the book value and the fair value of: i) direct sovereign exposures in derivatives; ii) indirect sovereign exposures in the banking and trading book

Residual Maturity	Country	GROSS DIRECT LONG EXPOSURES (accounting value gross of provisions) ⁽¹⁾		NET DIRECT POSITIONS (gross of provisions and write-off exposures (long) net of cash short position of sovereign debt to other counterparties only where there is maturity matching) ⁽¹⁾				DIRECT SOVEREIGN EXPOSURES IN DERIVATIVES ⁽¹⁾	INDIRECT SOVEREIGN EXPOSURES ⁽²⁾ (on and off balance sheet)	Memo Item	Provisions and write-off on Sovereign assets (loans, advances and debt securities) (+)	Prudential filter AFS sovereign assets (including the fair value of Cash flow and fair value hedging contracts) (+/-) ⁽⁴⁾	Reserve AFS sovereign assets (gross the fair value of Cash flow and fair value hedging contracts) (+/-) ⁽⁴⁾	Fair value of Cash flow and fair value hedging contracts on AFS sovereign assets (+/-) ⁽⁴⁾
			of which: <u>loans and advances</u> in the HTM and Loans and receivables portfolios		of which: Available for sale financial assets (AFS)	of which: Financial assets designated at fair value through profit or loss (FVO)	of which: Financial assets held for trading ⁽²⁾	Net position at fair values (Derivatives with positive fair value + Derivatives with negative fair value)	Net position at fair values (Derivatives with positive fair value + Derivatives with negative fair value)	Nominal Value <u>Debt securities</u> in HTM and Loans and Receivables portfolios				
3M	United Kingdom	0	0	0	0	0	0	0	0	0		0	0	0
1Y		0	0	0	0	0	0	0	0	0		0	0	0
2Y		0	0	0	0	0	0	0	0	0		0	0	0
3Y		0	0	0	0	0	0	0	0	0		0	0	0
5Y		0	0	0	0	0	0	0	0	0		0	0	0
10Y		0	0	0	0	0	0	0	0	0		0	0	0
15Y		0	0	0	0	0	0	0	0	0		0	0	0
Tot		0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EEA 30		3,605	0	3,605	900	17	0	-8	0	2,653	751	0	10	-30

Notes and definitions

(1) The exposures reported cover only exposures to central, regional and local governments on immediate borrower basis, and do not include exposures to other counterpart with full or partial government guarantees

(2) The banks disclose the exposures in the "Financial assets held for trading" portfolio after offsetting the cash short positions having the same maturities.

(3) The exposures reported include the positions towards counterpart (other than sovereign) on sovereign credit risk (i.e. CDS, financial guarantees) booked in all the accounting portfolio (on-off balance sheet). Irrespective of the denomination and or accounting classification of the positions the economic substance over the form must be used as a criteria for the identification of the exposures to be included in this column. This item does not include exposures to counterpart (other than sovereign) with full or partial government guarantees by central, regional and local governments

(4) According with CEBS Guidelines on prudential filters it is required a consistent treatment of gains and losses resulting from a transaction whereby a cash flow hedge is created for an available for sale instrument: i.e. if the gains on the hedged item are recognised in additional own funds, so should the results of the corresponding cash flow hedging derivative. Moreover if fair-value hedging contracts on sovereign assets are taken in consideration for the computation of the prudential filters (before their removal), the FV of such contracts must be reported in the column AB.

(5) Please report gross and net direct positions before eventual write-off (PSI); in the column provisions must be included eventual write-off (PSI).

Composition of RWA as of 30 September 2011

Name of the bank:

CY007

BANK OF CYPRUS PUBLIC CO LTD

(in million Euro)

	Rules at the end of September	CRD 3 rules
Total RWA ⁽¹⁾	26,306	26,306
RWA for credit risk	23,147	23,147
RWA Securitisation and re-securitisations	-	-
RWA Other credit risk	23,147	23,147
RWA for market risk	3	3
RWA operational risk	2,419	2,419
Transitional floors ⁽²⁾	-	-
RWA Other	738	738

Notes and definitions

(1) The RWA calculated according to CRD III can be based on models that have not yet been approved by the National Supervisory Authority.

(2) All IRB/AMA banks in the exercise have applied transitional floor which assess the impact 80% of the Basel 1 requirements. However, wide divergences in national approaches to the floors means that two main approaches have been identified as set out in the methodological note. The transitional floor has been applied according to the following approach:

Not applicable

CDS and other contract Sovereign exposures (central, regional and local governments) in EEA towards other counterparties, as of 30 September 2011, mln EUR

Name of the bank: CY007 **BANK OF CYPRUS PUBLIC CO LTD**

Country (2)	Credit default swaps (CDS) and other contracts (1)	
	Bank is protection seller	Bank is protection buyer
	Notional amount outstanding (3)	Notional amounts outstanding (3)
Austria	-	-
Belgium	-	-
Bulgaria	-	-
Cyprus	-	-
Czech Republic	-	-
Denmark	-	-
Estonia	-	-
Finland	-	-
France	-	-
Germany	-	-
Greece	-	-
Hungary	-	-
Iceland	-	-
Ireland	-	-
Italy	-	-
Latvia	-	-
Liechtenstein	-	-
Lithuania	-	-
Luxembourg	-	-
Malta	-	-
Netherlands	-	-
Norway	-	-
Poland	-	-
Portugal	-	-
Romania	-	-
Slovakia	-	-
Slovenia	-	-
Spain	-	-
Sweden	-	-
United Kingdom	-	-

(1) It includes credit derivatives and other credit risk transfer contracts/instruments that irrespective of the denomination represent indirect exposures (as protection seller/buyer) on sovereign risk (reference entity)

(2) The country identifies the reference entity single name of the CDS and other contracts.

(3) Notional amounts outstanding: Nominal or notional amounts outstanding are defined as the gross nominal or notional value of all contracts concluded and not yet settled on the reporting date. For contracts with variable nominal or notional principal amounts, the basis for reporting is the nominal or notional principal amounts at the time of reporting.