



## Announcement

# CONVERTIBLE ENHANCED CAPITAL SECURITIES (TIER 1 CAPITAL)

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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 595 branches, of which 211 operate in Russia, 185 in Greece, 143 in Cyprus, 27 in Ukraine, 12 in Romania, 12 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, Canada and South Africa. The Bank of Cyprus Group employs 12.009 staff worldwide.

At 31 December 2010, the Group's Total Assets amounted to €42,64 bn and the Shareholders' Funds were €2,74 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](http://www.bankofcyprus.com).



At its meeting held today, the Board of Directors of Bank of Cyprus examined, among other matters, the structure of the Group's capital base.

The strategic priorities of the Group focus on maintaining the Group's strong liquidity position and its high capital adequacy, the effective management of risks and the selective expansion of operations in the main markets in which it operates.

According to the Group's audited financial statements as at 31 December 2010, the Capital Adequacy ratio (per Basel II requirements) stood at 11,9% and Tier 1 ratio at 11,0%. The aforementioned ratios are considered satisfactory taking into consideration the Group's risk profile and its healthy balance sheet.

The Board of Directors, taking into consideration the importance of maintaining high capital adequacy ratios for the continuous expansion of the Group, the global stricter regulatory environment with regards to capital and the importance of further strengthening the capital position ahead of Basel III, has decided to propose at an Extraordinary General Meeting of the shareholders the issue of **Convertible Enhanced Capital Securities (CECS)** of up to €1.342 mn.

The CECS will be offered via a priority right to subscribe to the existing shareholders ('Eligible Shareholders'). Eligible Shareholders and other applicants may subscribe to the Convertible Enhanced Capital Securities issue by paying the corresponding consideration for the CECS either in cash or in the form of 'Eligible Securities' of the Bank and specifically (i) Convertible Bonds 2013/18 (ii) Convertible Capital Securities and (iii) Capital Securities 12/2007, of an equal nominal value, which have priority after the Eligible Shareholders and before any other applicants.

Within the context of the above, the Bank will take all necessary actions for the approval of the issue and its detailed Terms by the relevant regulatory authorities.

The proposed issue will further strengthen and enhance the Group's strong, high quality capital base, with the pro-forma capital adequacy ratio and the Tier 1 ratio at 31 December 2010 reaching 14,0% and 12,7% respectively based on the assumption that all 'Eligible Securities' (€318 mn) are exchanged for the new CECS.

**The proposed terms of the Convertible Enhanced Capital Securities issue ("Convertible Enhanced Capital Securities") include inter alia:**

## KEY TERMS OF CONVERTIBLE ENHANCED CAPITAL SECURITIES ISSUE

<b>Issuer</b>	Bank of Cyprus Public Company Limited ("Bank", "Issuer")
<b>Securities Offered</b>	Convertible Enhanced Capital Securities ("CECS")
<b>Total issue size</b>	Up to €1.342.422.297
<b>Nominal Value</b>	€1,00
<b>Issue Price</b>	At par and multiples thereof
<b>Offer and Allotment</b>	<p>CECS will be offered to all registered shareholders in the ratio of €3 CECS for every 2 shares held as at Record Date ("Eligible Shareholders"). The Subscription Priority Right will not be transferable.</p> <p>This issue will not be offered to any shareholders in any country in which, according to the laws of such country, such an offer is illegal or constitutes breach of any applicable law, rule or regulation (e.g. United States, Canada, Australia, South Africa, Japan).</p>
<b>Option to issue CECS in US\$</b>	The Bank offers the option to Eligible Shareholders for the CECS to be issued in US dollars (\$). The Subscription priority right will be offered in Euros and at the close of Subscription lists the amount subscribed in Euros will be converted into US dollars at the conversion rate of €:\$ at the Issue Date of the CECS. The Bank will proceed with the issue of CECS in US dollars provided total subscriptions and allocations to Eligible and Non Eligible Shareholders exceed an aggregate of US\$50m.
<b>Application for unsubscribed CECS</b>	<p>During the Subscription Period, Non-Eligible Shareholders will be able to submit applications for any unsubscribed CECS in Euros (€) or Dollars (\$).</p> <p>At the allotment of any unsubscribed CECS priority will be given to subscriptions of holders of (i) Convertible Bonds 2013/18, (ii) Convertible Capital Securities and (iii) Capital Securities 12/2007, on a pro rata basis.</p>
<b>Subscription Consideration Payment</b>	<p>Eligible Shareholders and other applicants may subscribe to the CECS's issue either by paying the corresponding consideration for the CECS in cash or by exchanging existing issued Tier 1 and Tier 2 instruments and specifically (i) Convertible Bonds 2013/18 (ii) Convertible Capital Securities and Capital Securities 12/2007, of an equal nominal value.</p> <p>Any Convertible Bonds 2013/18, Convertible Capital Securities and Capital Securities 12/2007 (the "Eligible Exchanged Securities") that will be exchanged as consideration and accepted by the Bank for subscription to the issue of the CECS, will be cancelled and the Bank will cease to have any obligations in relation to the cancelled Eligible Exchanged Securities. The Bank will pay the accrued interest on the Eligible Exchanged Securities that will be accepted as consideration to this issue of CECS.</p>
<b>Status and Subordination</b>	<p>The CECS constitute direct, unsecured and subordinated securities of the Issuer and rank pari passu without any preference among themselves.</p> <p>The rights and claims of the holders of CECS of this issue:</p> <ul style="list-style-type: none"> <li>- are subordinated to the claims of the creditors of the Bank, who are: <ul style="list-style-type: none"> <li>• depositors or other unsubordinated creditors of the Bank</li> <li>• subordinated creditors, except those creditors whose claims rank pari passu with the claims of the holders of the CECS.</li> <li>• holders of subordinated Bonds of the Bank.</li> </ul> </li> <li>- rank pari passu with the rights and claims of holders of other junior capital subordinated issues qualifying as Tier 1 capital including but not limited to issues of Capital Securities and Convertible Capital Securities.</li> <li>- have priority over the shareholders of the Bank.</li> </ul> <p>The amount CECS Holders claim in the event a winding-up or administration of the Bank with the Bank being solvent is an amount equal to the principal amount plus accrued interest but no amount of cancelled coupon payments, will be payable.</p> <p>Cancellation of any payment does not constitute an event of default and does not entitle holders to petition for the insolvency of the Bank.</p>
<b>Duration</b>	The CECS are perpetual without a maturity date (refer to "Redemption" clause below).
<b>Coupon in Euros (€)</b>	The CECS will bear a fixed interest rate of 6,50% per annum for the first 10 Interest Payment Periods i.e. until 30 June 2016 and thereafter, a floating interest rate which will be set at the beginning of the each 6-monthly period and will be equal to the 6-month Euribor in force at the beginning of each Interest Payment Period, plus 3,00% per annum.
<b>Coupon in US Dollars</b>	The CECS will bear a fixed interest rate of 6,00% per annum for the first 10 Interest Payment Periods i.e. until 30 June 2016 and thereafter, a floating interest rate which will be set at the beginning of the each 6-monthly period and will be equal to the 6-month Libor in force at the beginning of each Interest Payment Period, plus 3,00% per annum

<b>Interest Payment and Interest Date</b>	<p>Interest will be paid semi-annually in arrear at the end of each Interest Period. The Interest Payment Dates are set as 30 June and 31 December of each year. The first Interest Payment Date will be 31 December 2011 and it will cover the period from the Issue Date until 31<sup>st</sup> December 2011.</p> <p>Each CECS will cease to accrue interest from the redemption/ purchase/ conversion date.</p>
<b>Conversion Right</b>	CECS may be converted at the option of the holder during any Conversion Period.
<b>Conversion Price</b>	€3,30 per ordinary share of the Bank of nominal value €1,00 and will be subject to customary adjustments as more fully described in the Prospectus.
<b>Conversion Period</b>	1-15 March, 15-31 May, 1-15 September and 15-30 November of each year with the Conversion Period commencing on the First Conversion Date and ending on the Last Conversion Date.
<b>First Conversion Date</b>	1 <sup>st</sup> September 2011
<b>Last Conversion Date</b>	31 <sup>st</sup> May 2016
<b>Redemption</b>	The Bank may, on its own initiative, elect to redeem all but not some of the CECS, at their principal amount together with accrued interest, on 30 June 2016 or any other Interest Payment Date thereafter, subject to the prior approval of the Central Bank of Cyprus and provided that the CECS will be replaced by Tier 1 Capital of equal or better quality.
<b>Change of Control Protection</b>	If a Public Offer for the Bank's Shares or any other change of control event occurs on any date from the Issue Date of the CECS, until Redemption, a Special Automatic Conversion Period is activated, during which the CECS' holders may convert their CECS.
<b>Optional Coupon Cancellation</b>	The Bank may, at its sole discretion, taking into account its specific financial and solvency condition, elect to cancel an interest payment on a non cumulative basis, subject to the restrictions described in clause "Dividend and Capital Restrictions" below. Any coupon not paid is no longer due and payable by the Bank. Cancellation of a coupon payment does not constitute an event of default of interest payment and does not entitle holders to petition for the insolvency of the Bank.
<b>Mandatory Coupon Cancellation</b>	Upon breach of applicable minimum solvency requirements, or insufficient Distributable Items, the Bank will be required to cancel interest payments on the CECS. The Central Bank of Cyprus may require, in its sole discretion, on the basis of the assessment of the financial and solvency situation of the Bank for the next three years, that the Bank should cancel interest payments on CECS. "Distributable Items" means, the net profit of the Bank for the financial year ending immediately prior to the relevant coupon payment date together with any net profits and retained earnings carried forward from any previous financial years and any net transfers from any reserve accounts in each case available for the payment of distributions to ordinary shareholders of the Bank.
<b>Dividend and Capital Restrictions</b>	If an interest payment is cancelled due to Optional Coupon Cancellation or Mandatory Coupon Cancellation then no dividend payment or any other payment (redemption, purchase) will be made on the ordinary share capital or other discretionary Tier 1 securities of the Bank, unless or until Coupon Payment on the CECS resumes.
<b>Mandatory Conversion</b>	If a Contingency Event or Viability Event occurs, the CECS shall be mandatorily converted into Ordinary Shares at a Mandatory Conversion Price as defined below.
<b>Contingency Event</b>	<p>Contingency Event means the Bank has given notice that either (i) its Core Tier 1 Ratio (prior to Basel III Regulation Date) or Common Equity Tier 1 Ratio (on or after Basel III Regulation Date) is below 5% or (ii) the Central Bank of Cyprus, determines that the Bank is in non-compliance with the required capital adequacy regulatory limits of Total Capital Ratio. In either case a Contingency Event Conversion should take place.</p> <p>Based on the assessment of the financial and solvency situation of the Bank and due to actual or expected losses, the Bank may determine in consultation with the Central Bank of Cyprus or the Central Bank of Cyprus may require in its sole discretion, that a breach of the minimum Core Tier 1 Ratio, Common Equity Tier 1 Ratio or Total Capital Ratio, as the case may be, is likely in the near future and thus a Contingency Event Conversion should take place.</p>
<b>Viability Event</b>	Viability Event occurs if (i) the Central Bank of Cyprus determines that the conversion of the CECS (together with other non viability instruments that pursuant to their terms or by other operation of law, are capable of being converted into equity) is required to improve the capital adequacy and financial position of the Bank to prevent insolvency and/or (ii) if the Central Bank of Cyprus determines that the Bank requires public sector support to prevent it from becoming insolvent, bankrupt or unable to pay a material amount of its debts or (iii) other similar circumstances.

<b>Mandatory Conversion Price</b>	<p>The CECS will be converted into a number of Ordinary Shares determined by dividing the principal amount of each CECS by the higher of the Floor Price and the Mandatory Conversion Price in effect on the relevant Mandatory Conversion Date.</p> <p>Mandatory Conversion Price means at any time when the Ordinary Shares are admitted to trading on a recognised Stock Exchange in respect of a Mandatory Conversion Date the lowest of (a) a ceiling price of €3,30 (subject to customary adjustments for corporate action events) and (b) 80% of the volume weighted average of the reference Market price of an Ordinary Share on the 5 Business Days prior to the Contingency Event or Viability Event notice</p> <p>The Floor Price means the nominal value of each Ordinary Share (being at the Issue Date €1,00).</p>
<b>Substitution, Variation, Redemption for Regulatory / Legal Purposes</b>	<p>In case of changes in the laws or the relevant regulations of the Republic of Cyprus or the Central Bank of Cyprus, the Bank may, with the prior consent of the Central Bank of Cyprus, redeem all the CECS together with any accrued interest outstanding. Alternatively, the CECS, with the consent of the Central Bank of Cyprus, may be exchanged or their terms may be varied so that they continue to qualify as Tier 1 securities in accordance with the Central Bank of Cyprus regulations in force, subject to certain conditions as more fully described in the prospectus.</p>
<b>Risk Factors</b>	<p>There are certain factors that may affect the Issuer's ability to fulfil its obligations under CECS. Certain of these factors include liquidity risks, market risks, credit risks, operational risks, legal and regulatory risks among others. In addition there are certain risks which are material for assessing the risks associated with CECS. These include the fact that CECS may not be a suitable investment for all investors, certain risks relating to the structure of the CECS including that they are mandatorily convertible into Ordinary Shares on the occurrence of a Contingency or Viability Event and certain market risks.</p>
<b>Use of Proceeds</b>	<p>The net proceeds of the Issue will be used to strengthen the Bank's Tier 1 capital, thus contributing to the maintenance of strong and competitive capital adequacy ratios.</p>
<b>Governing Law/ Jurisdiction</b>	<p>The Laws of the Republic of Cyprus.</p>
<b>Listing and Trading</b>	<p>The CECS will be listed and traded on the Cyprus Stock Exchange and the Athens Exchange, upon receiving all necessary approvals from the competent regulatory authorities.</p>
<b>Sole Lead Manager</b>	<p>The Cyprus Investment and Securities Corporation Limited (CISCO).</p>
<b>Joint Structuring Advisors</b>	<p>Barclays Capital      HSBC Bank plc</p>

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