

## Update on the Cypriot Economy in the light of the continuing financial crisis

Post our previous newsletter (dated 19th September '08) on the impact of the Cyprus economy following the Lehman bankruptcy, the biggest in history, we wanted to provide you with an update on the current local economic situation with some reports from the Cyprus Central Bank, the Bank of Cyprus, Financial Times as well as other reputable sources.

### Cyprus Central Bank reports on robustness of our banking system

(source Bloomberg News)

- On September 30th, Cyprus Central Bank issued a statement reiterating that the domestic banking system continues to be robust and secure, capital adequacy remains at high levels and liquidity remains satisfactory due to its lack of exposure to high risk products.
- On September 16th, Cyprus Central Bank stated that the economic relationship between Cypriot banks and Lehman Brothers is insignificant and thus the stability of domestic banks remains strong.

### All Cypriot Banks guaranteed by deposit protection scheme

(source Central Bank of Cyprus\*)

- Participation on the scheme is required by all licensed Cypriot banks and compensates 90% of deposits with limits of €20K in case banks falter

### Bank of Cyprus (BOCY) has one of the lowest loan/ deposit ratios in Europe and strong TR1 ratio

- Its balance sheet has one of the lowest loans to deposit ratios among European banks at 77% and has a strong capital base of Tr1 Capital 9.7%.
  - ♦ Please refer to the below chart\*\* for a comparison vs. other European Banks
- It has no exposure to US subprime mortgages and its low leveraged exposure to the property market is minimal both domestically and internationally
- Moody's, the rating agency, gives BOCY a long term bank deposits rating of A2 while Fitch gives it a LT Issuer Default rating of A- (Goldman Sachs's is AA-).

### Some insightful statistics on the Cypriot economy

- As of 2Q '08 YTD, Cyprus remains the leading Foreign Direct Investor into Russia comprising 23.4% (56,765MN USD) of total FDI.
- GDP growth year-on-year fell slightly between Q1 and Q2 of '08 in Cyprus from 4.1% to 3.9% vs. in the EU where it fell from 2.1% to 1.4%.
- Economic confidence, a measure of the assessment and expectations of business and consumers, rose in Cyprus by 3.5% between August and September '08, whereas in the Eurozone it fell by 0.9%.
- Unemployment in the EU rose from 7.4% to 7.5% between July and August 2008, while in Cyprus it fell from 3.7% to 3.6% over the same period.
- Cyprus had a budget surplus of 1.5% (€112.5MN) in '07 and is expected to have a surplus of 0.5% (€37.5MN) in '08, which is expected to grow to 0.7% (€ 52.5 MN) in '09.

\* [http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=2794&tt=article&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=2794&tt=article&lang=en)

**Chart depicting the strong positioning of BOCY vs. its European peers\*\***

- The higher the loans/ deposits ratio the more banks are relying on borrowed funds.
  - ♦ The chart below shows Cyprus has one of the lowest.
- Tier 1 ratio a bank's core equity to its total risk weighted assets ranks amongst the highest. (Tier 1 ratio is a term describing capital adequacy of a bank)

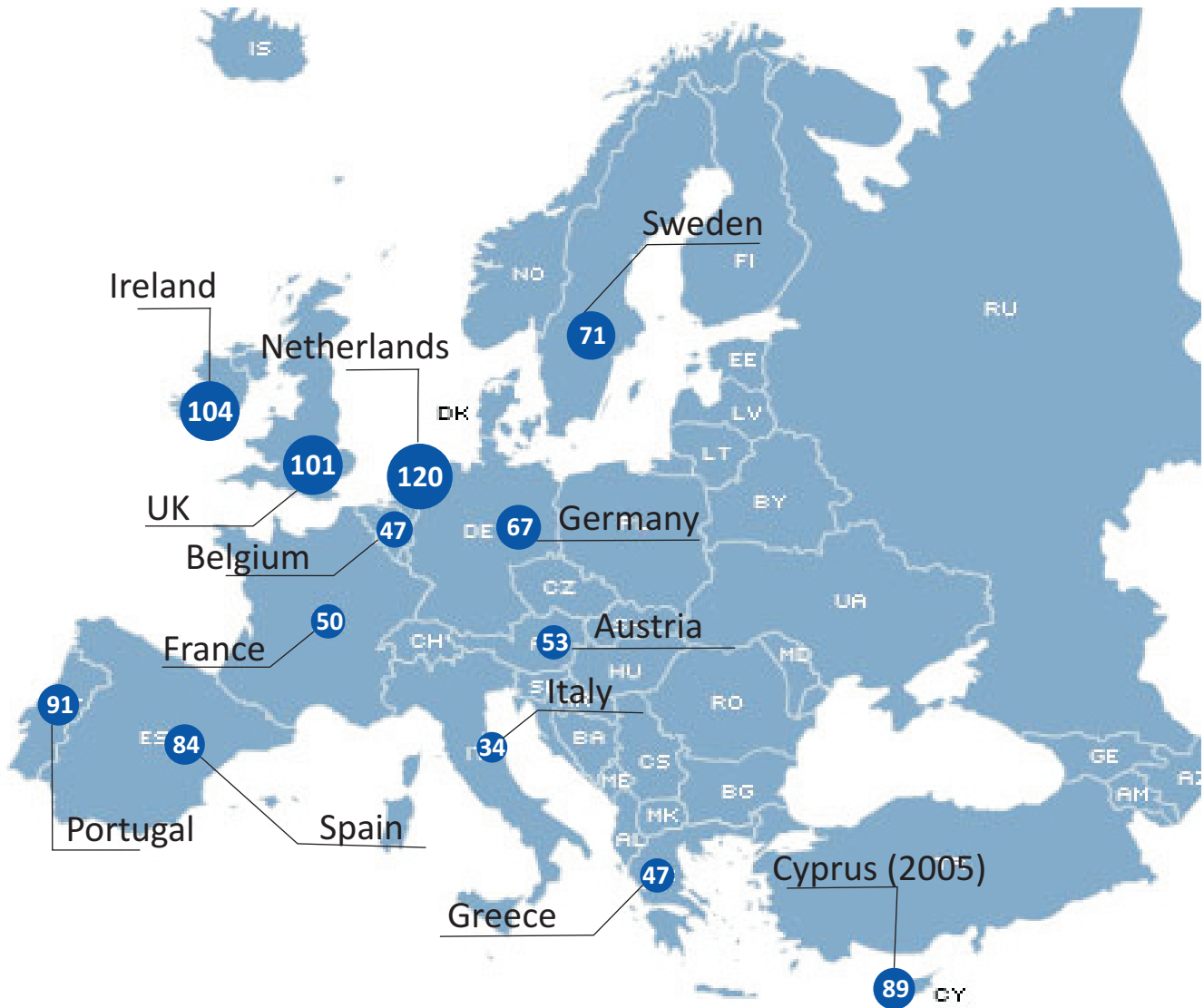
**European Banks**

Ranked by weakest Tier 1 ratios  
(2007 figures)

	Loan to deposits (%)	Tier 1 ratio (%)		Loan to deposits (%)	Tier 1 ratio (%)
<b>Belgium/ Luxembourg</b>			<b>Ireland</b>		
Fortis	118	7.4	Allied Irish	158	7.5
KBC	108	8.6	BoI	158	8.1
<b>Cyprus</b>			<b>Netherlands</b>		
Bank of Cyprus	77	9.7	ING	100	7.4
<b>France</b>			<b>Portugal</b>		
Soc Generale	122	7.0	Millenium BCP	178	5.5
BNP Paribas	122	7.6	BPI	132	6.2
<b>Germany</b>			<b>Spain</b>		
D. Postbank	83	5.7	Bankinter	168	6.3
Commerzbank	182	6.9	BBVA	133	6.8
<b>Greece</b>			<b>UK</b>		
NBG	93	9.2	RBS	129	7.0
EFG Eurobank	155	9.2	Barclays	118	7.6
<b>Iceland</b>			<b>Sweden</b>		
Kaupthing	226	9.6	Swedbank	248	6.2
Landsbank	142	10.1	Handelsbanken	252	6.5
<b>Italy</b>			<b>Switzerland</b>		
Banca Popolare	102	5.2	UBS	53	8.8
MPS	87	6.4	Credit Suisse	72	11.1

\*\* Financial Times, "Shokwaves that took Europe by surprise", 4-5 October. 2008

● Households liabilities (loans)  
As % of GDP (2007 figures)



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