



CENTRAL BANK OF CYPRUS
EUROSYSTEM

THE GOVERNOR

20 June 2012

Mr Ed Parker
Sovereign Group
Fitch Ratings Limited
30 North Colonnade
London E14 5GN
UK

Dear Mr Parker,

Further to our telephone conversation yesterday, I write to reiterate the reasons as to why your review of the Cyprus sovereign rating would be more objective and timely if it were to be carried out a week later than you are currently planning. Specifically, we believe that by carrying out your review on Friday 29 June, instead of Friday 22 June, you will have access to the following additional information:

Government Financing

We anticipate that **by the beginning of next week** the Government will be in a position to announce the conclusion of a bilateral loan agreement with the Russian Federation. Although the Central Bank of Cyprus is not privy to the details of the negotiations between the two parties, we understand that the amount of the loan would be at least 3.0 billion Euro with a rate of interest that is no more than 4.0 percent. We also understand that this loan will more than cover all the financial needs of the government, including refinancing of all maturing debt, until the end of 2013. We understand also that no conditions will be attached to this loan.

Cyprus Popular Bank Recapitalization

We have had an update from the CEO of the Cyprus Popular Bank after our telephone conversation, which warrants a somewhat greater degree of optimism for finding private investors. The election results in Greece have created an improved climate for investors and the CPB will benefit from this. **We expect the picture will be much clearer by the middle of next week.**

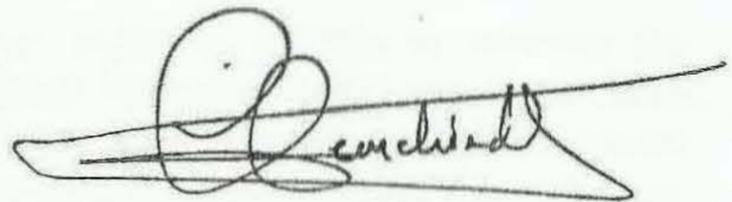
Please note that any remaining needs for the recapitalization will be covered through the EFSF and/or the Russian loan.

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Please also note that we have made considerable progress in relation to the steps necessary for ring fencing the operations of Cypriot banks in Greece. In order to limit future contagion from Greece to Cyprus, we have decided to ask the three Cypriot banks which operate branches in Greece to turn their operations into subsidiaries. To that effect we have obtained the consent of the Bank of Greece and we are in advanced discussions with Black Rock for the purpose of carrying out a diagnostic valuation of the banks' loan portfolios in Greece. We are aiming for this exercise to be completed by the end of August.

In light of the above imminent developments, we are of the opinion that one week's delay will help to ensure that your ratings are both objective and timely.

Sincerely,

A handwritten signature in black ink, appearing to read 'Panicos Demetriades', with a long horizontal flourish extending to the right.

Panicos Demetriades

cc: Minister of Finance