

# Republic of Cyprus



**Investor Presentation**  
**September 2018**

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# The Republic of Cyprus

## Key facts

- **Political system:** Presidential Democracy
- **Legislature:** House of Representatives
- **Population:** 947.000 (est. 2016)
- **Geographical size:** 9.251 km<sup>2</sup>
- **Currency:** Euro
- **GDP per capita in PPS<sup>1</sup>:** 84% of EU-28 (2017)
- **Human Development Index:** 33<sup>rd</sup> out of 188 (HDR<sup>2</sup>, 2016)
- **Main economic sectors:**
  - Services (85% of GVA<sup>3</sup> in 2017): business and financial services, tourism, shipping, real estate, retail trade
  - Industry (13% of GVA in 2017): manufacturing of pharmaceutical and food products, construction
- **International memberships:** EU, Eurozone, Commonwealth, United Nations, Council of Europe, IMF, World Bank, World Trade Organisation et al.



Source: Cyprus Statistical Service, Eurostat, United Nations

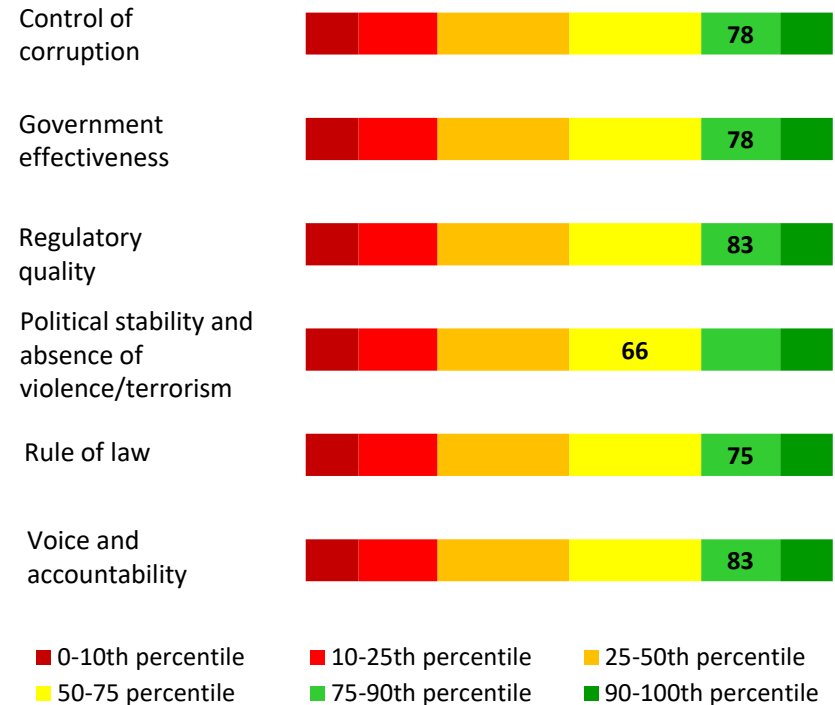
Notes: 1. Purchasing Power Standards ; 2. Human Development Report ; 3. Gross Value Added



# Strong institutional framework and effectiveness

- Cyprus is in upper range of Worldwide Governance Indicators of the World Bank.
- Next scheduled elections: Parliamentary (2021), Local (2021), Presidential (2023)
- Government effectiveness shown by track record of correction of imbalances with swift improvement of public finances in the years 2006-2008 and 2013-2015.
- Cyprus' legal system is modelled on the English legal system and European Law; also practises Common Law.

## Worldwide Governance Indicators for Cyprus (2017)



Source: The World Bank



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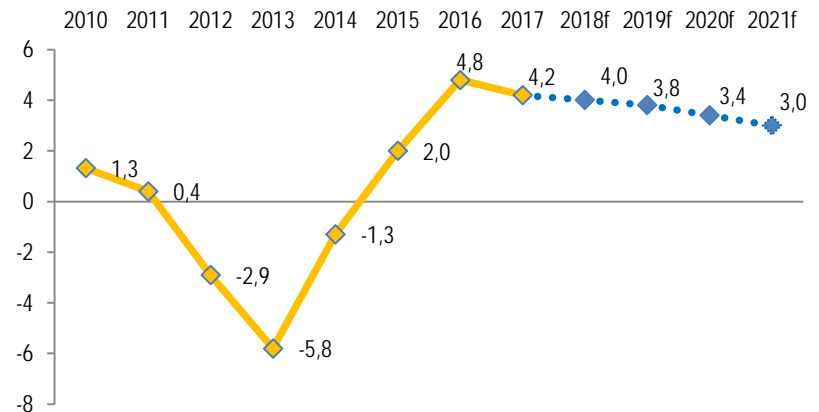
# Cyprus growth rate accelerates

- Growth in seasonally adjusted terms reached 4,2% during 2017, pointing to the second strongest growth rate recorded since 2008. Growth in 2018 is expected to remain robust hovering around 4.0%.
- Growth is broad-based and derives from higher demand in the sectors of tourism, business services and retail trade. The positive developments are partly due to the gains in price competitiveness recorded in recent years. The only sector recording negative growth rate in 2017 is financial services.
- On the expenditure side, consumption has been the main driver in the upswing which can be attributed to higher employment level and disposable income as well as spill over effects from a stronger external demand.

Source: Cyprus Statistical Service, Ministry of Finance

Note: "f" denotes forecasts by the Ministry of Finance. All forecasts are based on assumptions and there can be no assurance they will be realised.

## Real GDP growth (% change)



- Investment has recorded a positive rate of growth since 2015. High value added projects in the tourism, transport, education and health sectors are in progress.
- Over the medium term growth is projected to moderate whilst achieve healthy growth rates ranging from 3.8% in 2019 to 3.0% in 2021.



# Inflation and unemployment improve

## Inflation has entered positive territory

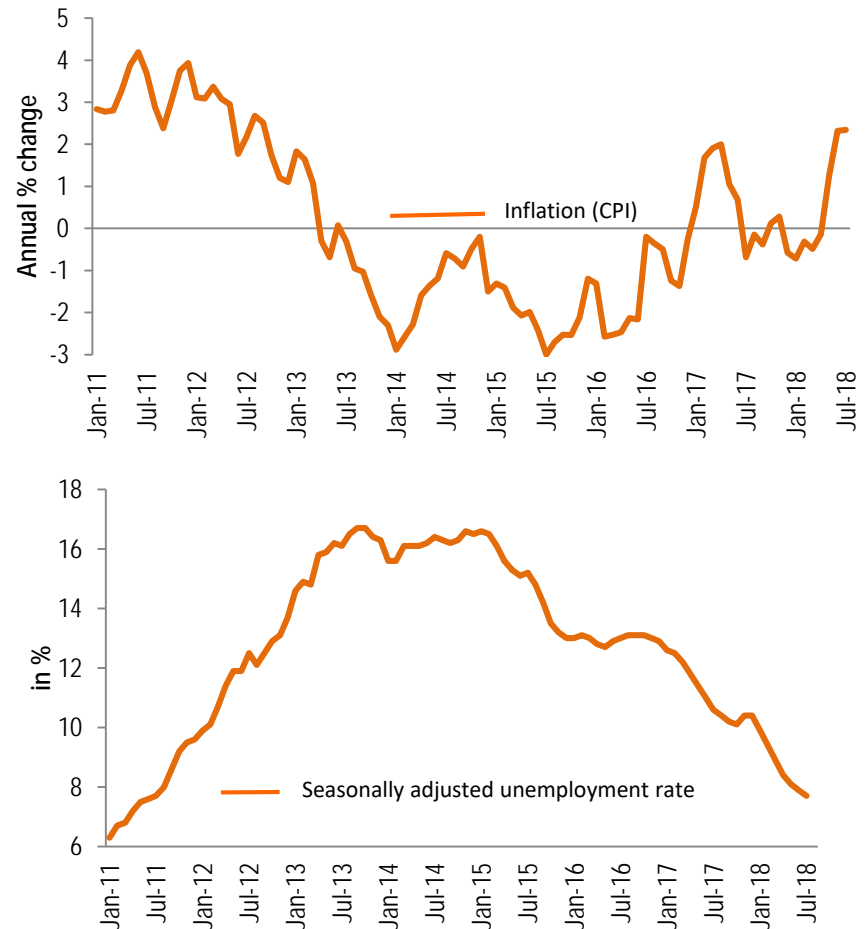
- CPI inflation and core CPI at 2,3% and 0,3% respectively in July 2018.
- The recent decline in prices reflects the wage flexibility of the labour market which led to an internal devaluation and improvement in price competitiveness.

## Unemployment at a 5-year low

- Labour Force Survey unemployment, in monthly seasonally adjusted terms, decreased to 7,7% in July 2018 compared to 13,0% in July 2016.
- The most affected segment of the population is youth unemployment, falling to 17,9% in Q2-2018 from the peak of 40% in Q2-2013. The segment of long term unemployed recorded a decline from peak 7,7% in 2014 to 2,5 % in Q2-2018.

## Employment developments (persons)

- Employment increased by 4.3% in 2018H1 compared to the 2017H1. Increases was recorded mainly in the sectors of construction, accommodation and food service activities, wholesale and retail trade, manufacturing and professional, scientific and technical activities.



Source: Cyprus Statistical Service, Eurostat

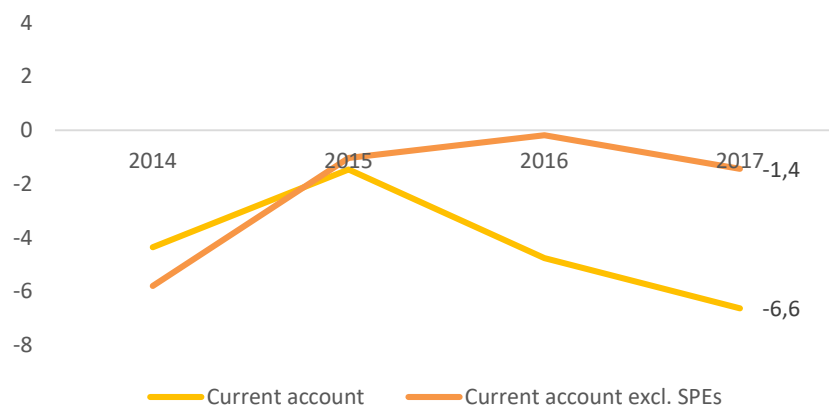




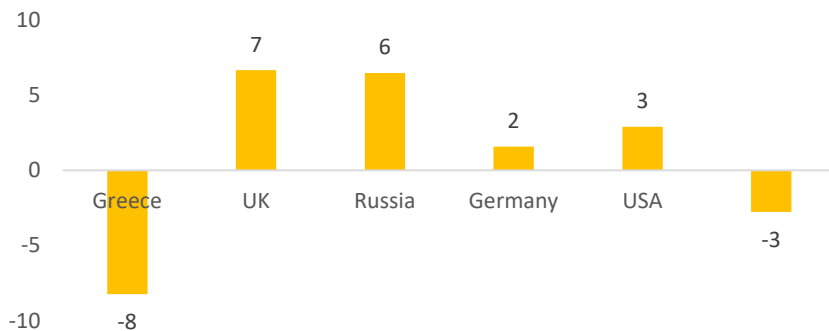
# Moderate current account deficits

- Cyprus presents small to moderate current account deficits, which turn into surpluses after exclusion of oil products.
- The trade balance improved in the Q1-2018, recording a surplus of €154mn (0.7% of GDP), compared with a deficit of €587 mn (-3% of GDP) in the Q1-2017.
- Companies statistically registered as Special Purpose Entities (SPEs) in Cyprus, have strong balance sheets relative to the size of the economy but minor real economic activity in the domestic economy. Exclusion of SPEs provides a more accurate picture of the external position
- The current account balance in 2017 was in deficit reaching 6.6% of GDP while excluding SPEs activities the deficit is contained to 1.4% of GDP.
- The International Investment position in Q1-2018 shows a net liability position at €22,9 bn (110% of GDP) while excluding SPEs reduces to €7,9 bn (38% of GDP).

## Current account balance (% of GDP)



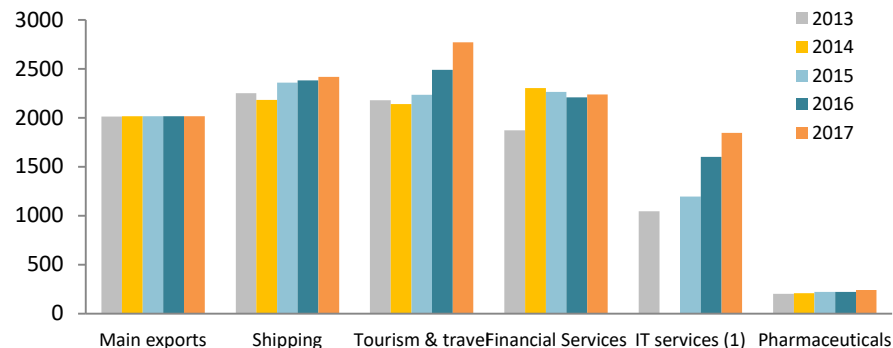
## Important trade partners (% of GDP)



Source: Central Bank of Cyprus, Cyprus Statistical Service, Eurostat

Notes: <sup>(1)</sup> Data on IT services for 2014 and 2016 not available

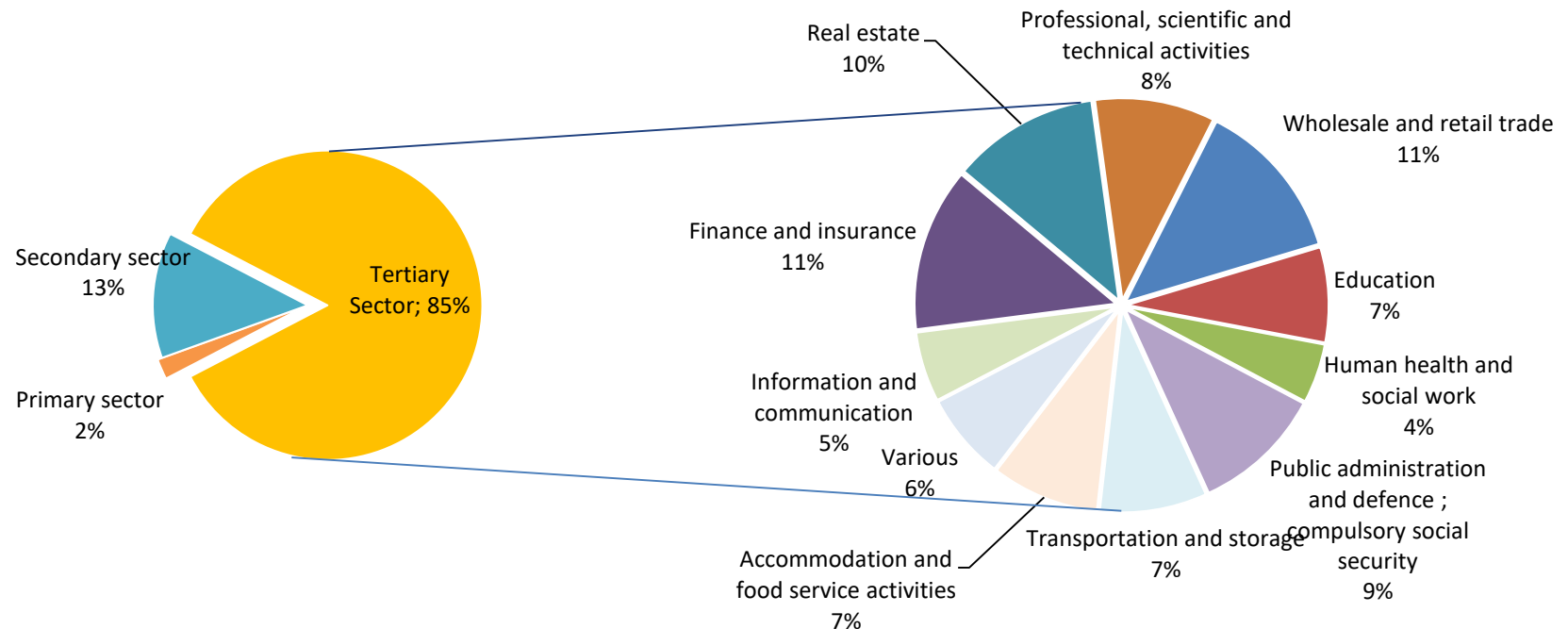
## Main exports, EUR mn



# A diversifying service-based economy

Whilst financial services, tourism and business services have been traditionally the main sectors of Cyprus, the economic activity is diversified in areas such as shipping and light manufacturing

Structure of Economy in 2017 (Current prices, % of GVA)



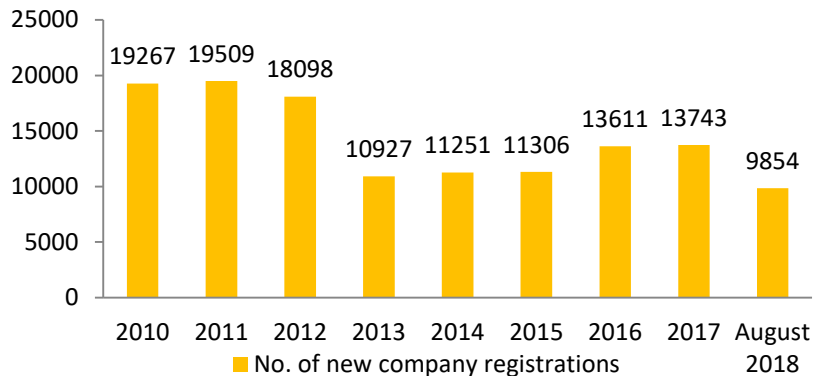
Source: Cyprus Statistical Service



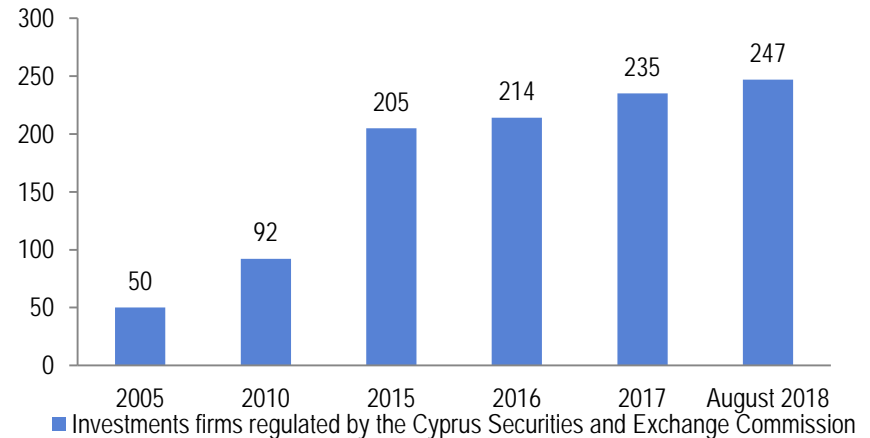
# Significant international business activity

## Competitive advantages in business and financial services

### Registration of new companies



### Cyprus Investment Firms under the European passport



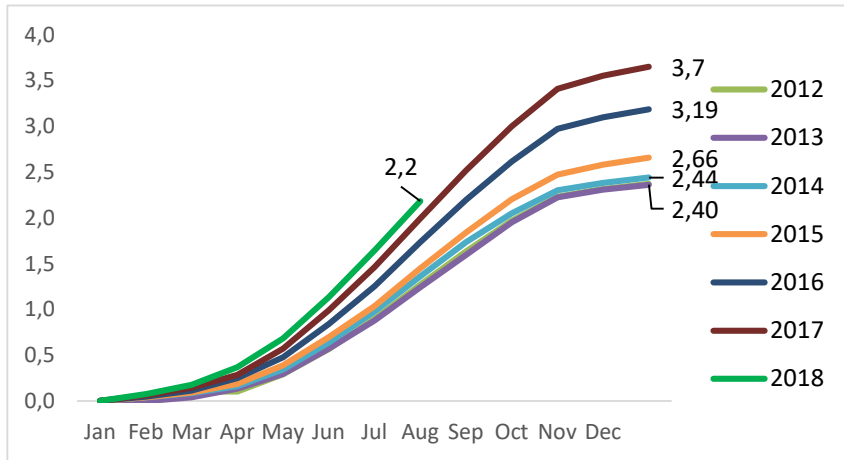
- Registration of new companies increased by 13,7% in the first 8 months of 2018 compared to the corresponding period in 2017, reaching 9854 registrations.
- Cyprus is a regional Business and Financial Services Centre with strong regulation and supervision and a reliance on a well balanced portfolio of services.
- Cyprus maintains a modern, consistent and simple **tax system** with a broad tax base, limited exceptions or credits, and low tax rates and a significant network of Agreements for Avoidance of Double Taxation (62 as of today). Cyprus is a **Common Law** country and has a well-developed professional services industry with more than 20 years presence in the international financial markets and over 500 organisations supporting international business.

Source: Department of Registrar of Companies and Official Receiver, Cyprus Securities and Exchange Commission

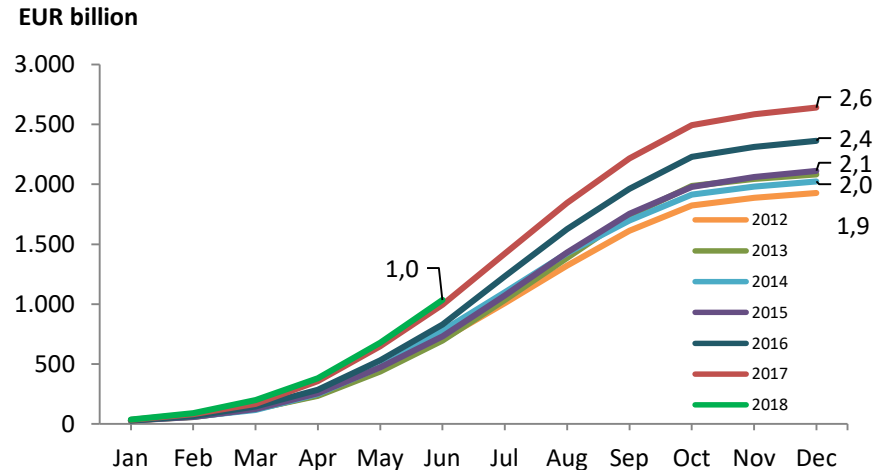


# Tourism: a long-standing contributor in economy

Tourist arrivals, million



Revenues from tourism, EUR billion



- Arrivals in Jan-July 2018 increasing by 9,6% compared to the corresponding period the year before
- The origin of tourists has diversified over time with tourists from the UK representing 34% of arrivals in Jan-July 2018 (34% in 2017) down from 56% of arrivals in 2005. The second largest origin market was Russia with 20% of arrivals in Jan-July 2018 (23% in 2017).
- Efforts to enhance the tourism sector such as extension of season and better flight connectivity contributed to the increase in arrivals and extending its seasonality.
- Revenues have increased at a lower rate (4,3%) than the increase in arrivals due to travel characteristics such as length of stay and forms of travel eg. all-inclusive packages.

Source: Cyprus Statistical Service



# An internationally renowned shipping centre

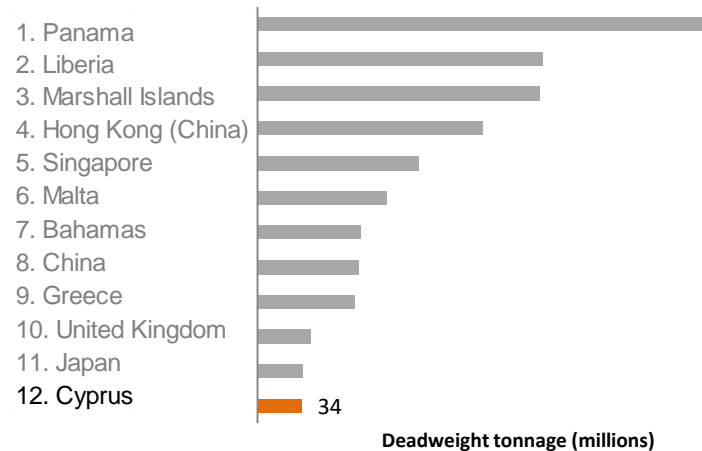
- Cyprus' shipping sector has combined strong geographical, institutional and commercial advantages to become:

• The largest third party ship management centre in the EU, and

- ❖ Home to a total of around 60 ship management companies operating from Cyprus, including leading names in the global shipping industry.

- Cyprus has an EU-approved “Open Registry” regime, one of the only two ‘Open Registries’ in the EU, with a very wide and legally endorsed Tonnage Tax System which covers the three main maritime transport activities: ship owning, ship management (crew and technical management), and chartering.
- The size of the ship management sector in terms of turnover represented 5% of GDP in 2016.

## World merchant fleet size by flag, 2016



Source: Department of Merchant Shipping, Central Bank of Cyprus, UNCTAD

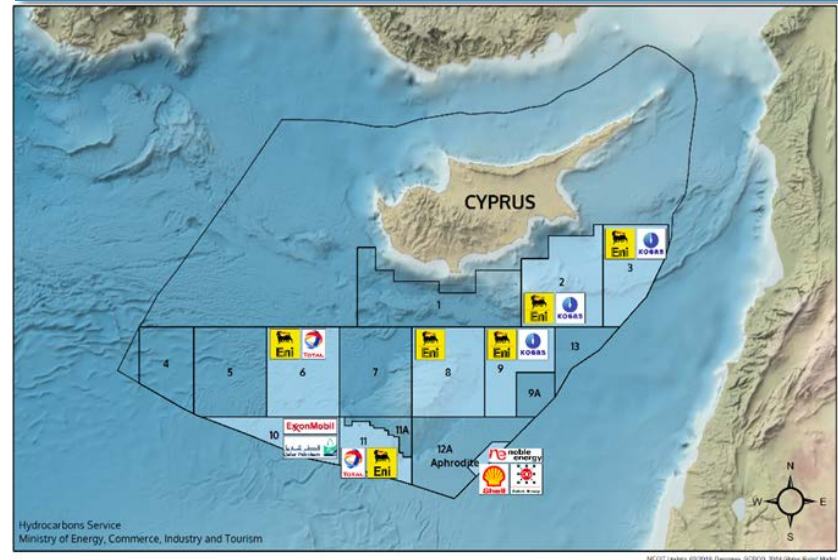


# Natural Gas Exploration and Exploitation

## Prospects for Cyprus as an energy producer and exporter

- Noble Energy International Ltd announced **the first natural gas discovery (“Aphrodite”)** in Block 12 in January 2012, **which was declared commercial** in 2015. Current estimated natural gas resources are in the order of 4.5 trillion cubic feet (best estimate). In relation to the monetization of the “Aphrodite” gas field, several possible options were identified and analysed: onshore Liquefied Natural Gas (LNG) terminal, Compressed Natural Gas (CNG), Floating LNG (FLNG) and regional pipelines. The analysis (technical and economic) indicated that the regional pipelines option seems to be the optimum monetization option, under the current economic and commercial conditions.
- The “Aphrodite” field project opens up **new investment opportunities** related to the production and transportation infrastructure of natural gas in the area, **including subsea pipelines connecting Cyprus and Egypt**.
- In April 2017, three new exploration licences were awarded for Blocks 6, 8 and 10 in the Exclusive Economic Zone (EEZ) of the Republic of Cyprus. One licence was awarded to ENI / TOTAL for Block 6, one to ENI for Block 8 and one licence to ExxonMobil / Qatar Petroleum for Block 10.
- There are also other active exploration licences within Cyprus EEZ which are held by ENI/KOGAS for Blocks 2, 3 and 9 and by TOTAL / ENI for Block 11. Moreover, the Noble Energy International Ltd / BG Cyprus Limited / Delek Drilling LP consortium is working on the development of the “Aphrodite” gas field.

## Offshore exploration licenses of Republic of Cyprus



- Recent **gas discoveries** of “Onesiphoros West 1” in **Block 11** by TOTAL/ENI and “Calypso-1” in **Block 6** by ENI/TOTAL confirms the existence of a petroleum system and carbonate reservoirs within Cyprus’ EEZ, rather similar to Egypt’s giant “Zohr” gas field.
- Excellent relations with neighbouring countries in the eastern Mediterranean region are maintained and evolved through trilateral and quadrilateral meetings, constituting an important factor of confidence and growth for the area.



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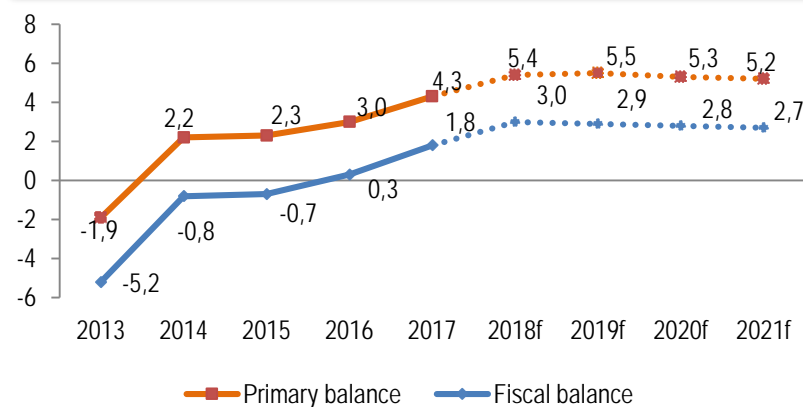
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# Public finances in a surplus position

- In June 2016 the European Council abrogated the excessive deficit procedure for Cyprus.
- General government budget balance turned positive in 2016 and widened further by 1.5 pp of GDP in 2017 reaching a surplus of 1.8% vis-à-vis 0.3% surplus in 2016. .
- During 2017, revenue exhibited an increase of 8.7% (y-o-y), attributed mainly to higher VAT receipts as well as higher social security contributions, reflecting the continuous improvement of the economic activity and of the labour market. At the same time, expenditure growth reached 4.7%, mainly associated with increased outlays for security and defence purposes.
- General government budget balance is estimated to reach a surplus close to 3% of GDP in 2018. Over the medium term the budget balance is forecast to remain in surplus and average 2.8% of GDP. Primary balance is expected to rise to 5.4% of GDP in 2018 and average 5.3% of GDP over the medium term.

Evolution of main fiscal indicators, % of GDP



Source: Ministry of Finance

Note: The budget outcomes of 2014-15 and exclude the equity injection to restore the capital base of the Cooperative Central Bank

Note: "f" denotes forecasts by the Ministry of Finance. All forecasts are based on assumptions and there can be no assurance they will be realised.

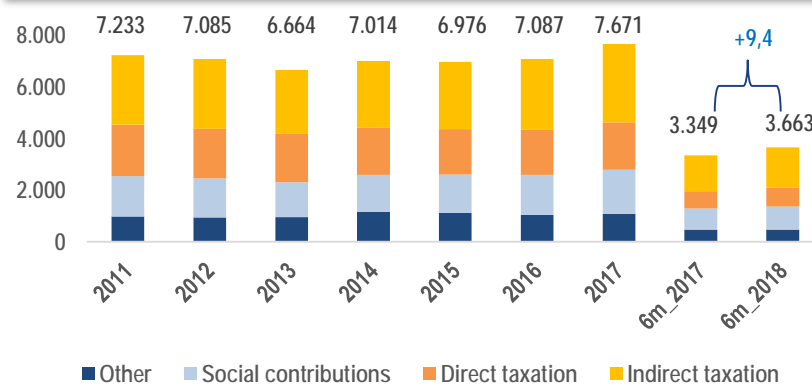




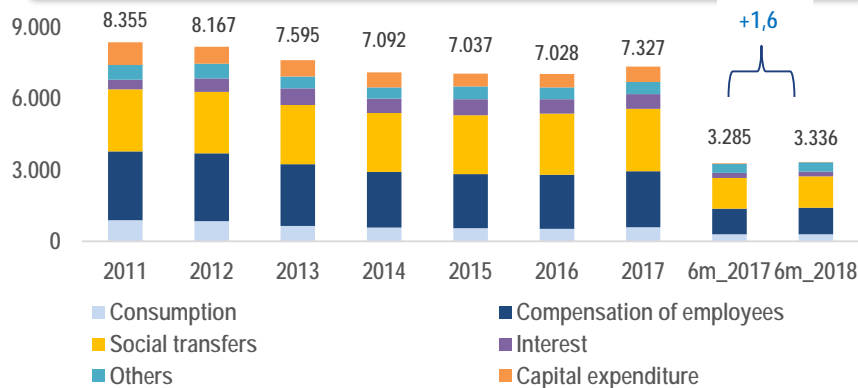
# Prudent fiscal policy delivers strong results

- During the first six months of 2018 the fiscal balance showed a surplus of 1,6% of GDP compared to a surplus of 0,3% of GDP in the same period of 2017.
- The revenue side increased by 9,4% vis-à-vis the corresponding period of 2017. This improvement can be attributed to higher VAT receipts and income tax receipts both from natural persons and corporations, as well as higher social security contributions reflecting the improved labour market conditions.
- The expenditure side increased at a rate of 1,6% vis-à-vis the corresponding period of 2017. An increase was recorded in compensation of employees, partly attributed to the additional personnel for security forces. Social payments increased due to higher pension outlays, whilst growth was contained from declines in expenditure of the unemployed and redundant employees.

**Budget revenue breakdown, € million**



**Budget expenditure breakdown, € million**



Source: Cyprus Statistical Service, Ministry of Finance

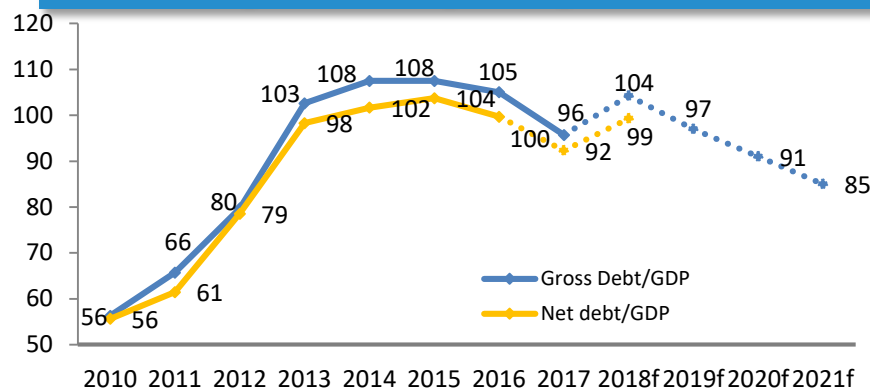
Notes: (1) The budget outcomes of 2014-15 exclude the equity injection to restore the capital base of the Cooperative Central Bank.



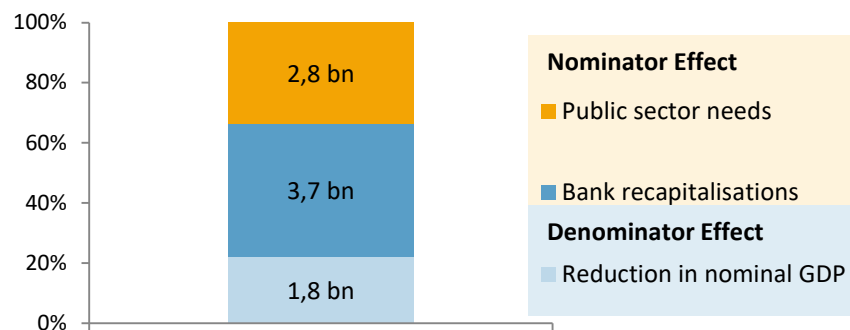
# Public debt starting a downward trend

- Following a peak in gross debt to GDP ratio in 2015-2016 at 107,5%, public debt to GDP declined below the 100%-threshold at the end of 2017. Succeeding the 2018 one-off increase of public debt to GDP ratio due to the issuance of government bonds to facilitate the HB-CCB transaction, the debt trajectory is forecast to follow a downward trend and decline steadily to about 90% by 2020 and to about 85% by 2021.
- Net debt is by about 5 p.p. of GDP lower than gross debt due to the comfortable liquidity position of the government resulting from the solid performance in public finances as well as the policy adopted for liquid assets to cover the financing requirements for the next 9 month period.
- Debt dynamics are currently favourable due to growth, strong performance in public finances and low interest burden.

Evolution of gross and net general government debt, %



Contributions to change in debt ratio 2011-16, € billion



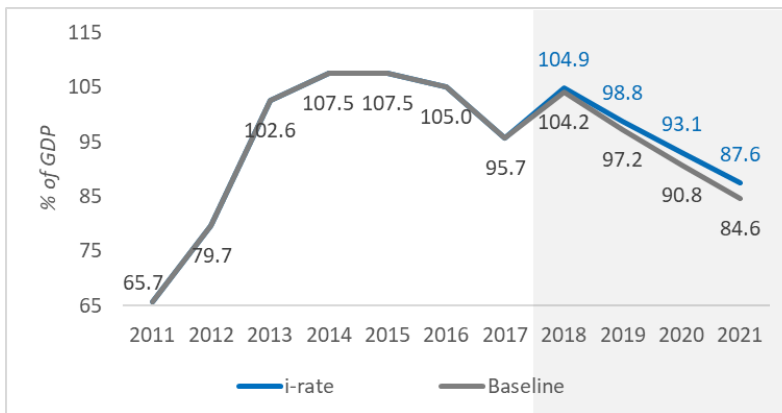
Source: Cyprus Statistical Service, Ministry of Finance

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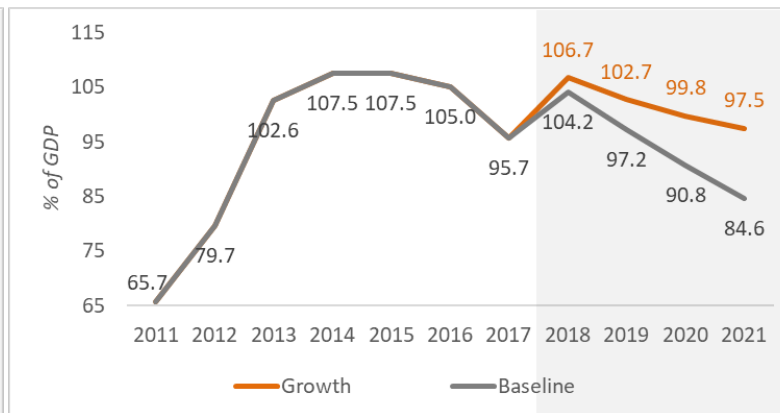


# Debt sustainability analysis

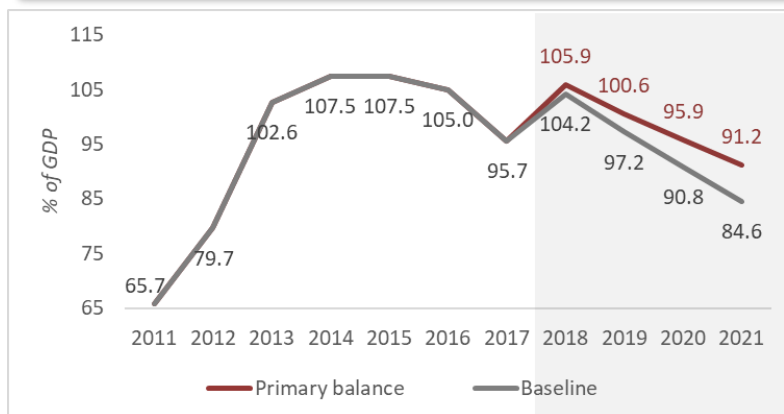
## Higher interest rate by 50 basis points annually



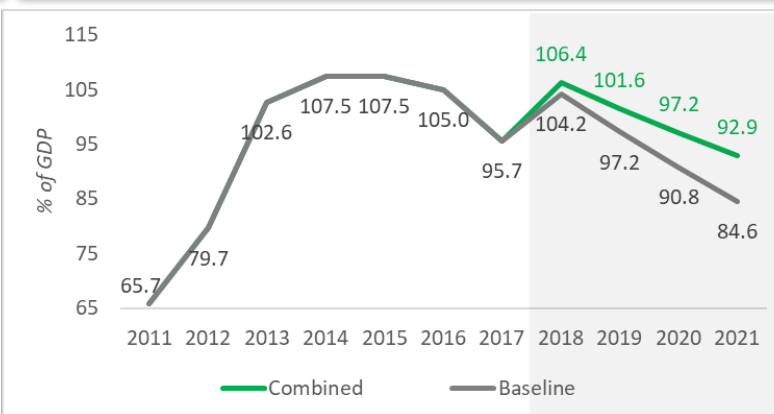
## Lower real GDP growth ½ of the 10-y historical std



## Lower primary balance by ½ of the 10-y historical std



## Combination scenario



Source: Cyprus Statistical Service, Ministry of Finance

Note: "f" denotes forecasts by the Ministry of Finance. All forecasts are based on assumptions and there can be no assurance they will be realised.



# Structural fiscal measures

- **Pension system reform:** according to the results of a recent actuarial study <sup>(1)</sup>, the reform has adequately addressed the high projected increase in pension spending and is of the view that the long-term financial viability of the pension system through 2060 is secured. The study was peer reviewed in the EU Ageing Working Group of the Economic Policy Committee <sup>(2)</sup>.
- **Welfare system reform** introduced in 2014 centralising administration and replacing various public assistance benefits with a single Guaranteed Minimum Income scheme and linked to active labour market policies.
- **Health care reform** with the Cypriot National Health System to be introduced between 2019 to 2020 for outpatient and inpatient care respectively, after unanimous voting by the Parliament in June 2017.
- **Upgrade of public financial management system** providing for medium-term budgetary planning, by the introduction of expenditure ceilings per sector and increase in the accountability of ministries. Additionally it provides for a system for project evaluation and the monitoring and management of fiscal risks.
- **The establishment of a Sovereign Wealth Fund**, based on the Santiago Principles, is currently before Parliament. The government intention is the utilisation of energy revenues partly for the reduction of public debt and mainly for the creation of a fund reserve.
- Underway **Local Administration reform** addressing the weaknesses inherent within the current fragmented model of local administration as well as **Public Administration reform** aiming at introducing a more transparent and effective Human Resource Management Framework

(1): Social Protection Department, International Labour Organisation 2014

(2): Ageing Report 2015, European Commission



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# A consolidated, recapitalised and more liquid banking system

The banking sector has refocused its operations and improved its corporate governance. The regulatory and supervisory framework has been revamped. Decisive actions for addressing the NPE challenge in 2018

- Asset size of banking sector shrinks by half (800% in 2010) to 4 times the GDP and reaches EU average
- International investors obtain majority of Hellenic Bank

- Capital controls lifted
- International investors including EBRD obtain majority stake in Bank of Cyprus
- ECB assumes supervision of four systemic banks
- Legislation on Foreclosures, Insolvency and Sale of Loans enter into force

- Deposits on upward path
- Declining trend in interest rates
- Provision of new credit resumes despite overall bank balance sheet deleveraging
- Non performing exposures (NPEs) mark reduction
- Bank of Cyprus listed in London Stock Exchange
- Hellenic Bank (HB) outsource management of NPEs
- Sale of specific assets and liabilities of CCB to HB – carving out of CCB's NPEs into a new entity
- Amendment of NPE related legal framework to improve its effectiveness
- Announcement of the ESTIA scheme targeting NPLs with the primary residence as collateral
- Mergers and acquisitions are gathering pace. HB acquired CCB, and Astrobank acquired USB.
- Bank of Cyprus has agreed to sell €2.7bn NPEs to Apollo Fund
- Asset size of the banking sector declines to 280% of GDP

2013

2014-2015

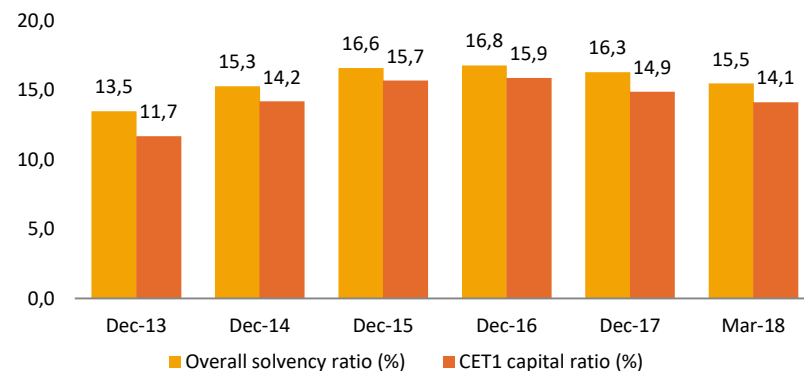
2016-2018



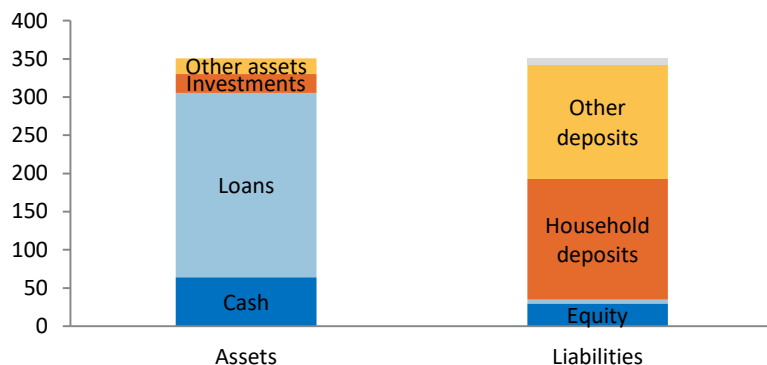
# Solid capital base

- Since 2013 the banks' capital position has been consistently strengthening, due to increase in common equity and deleveraging, resulting in key ratios of systemic banks to be above the thresholds specified by the regulator.
- Capital requirements due to IFRS 9 around EUR 700 mn spread over 5 years.

## Aggregate banking sector capital position, %

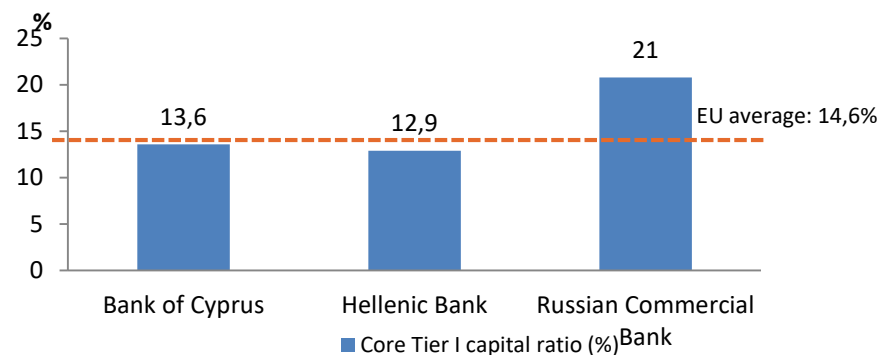


## Banking system balance sheet (% GDP), Q3-2017



Source: EBA, Central Bank of Cyprus, systemic banks publications.

## Systemic Banks CET1 capital ratio in %



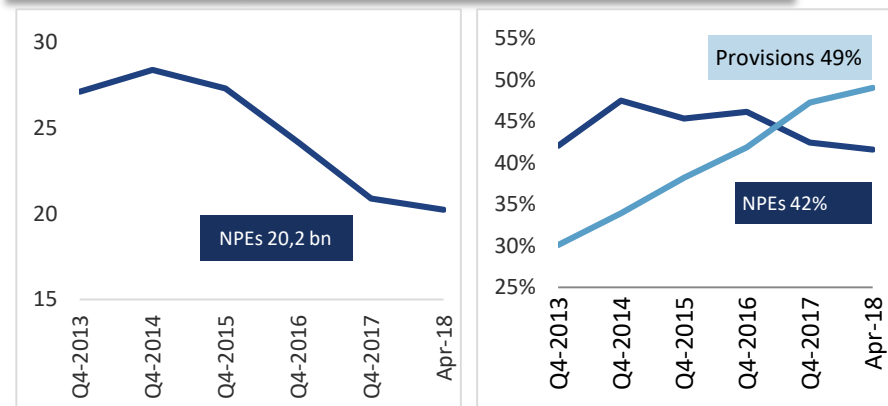
Data as at: HB Q1-2018; BOC Q2-2018; EU average 2017; RCB Q4-2017



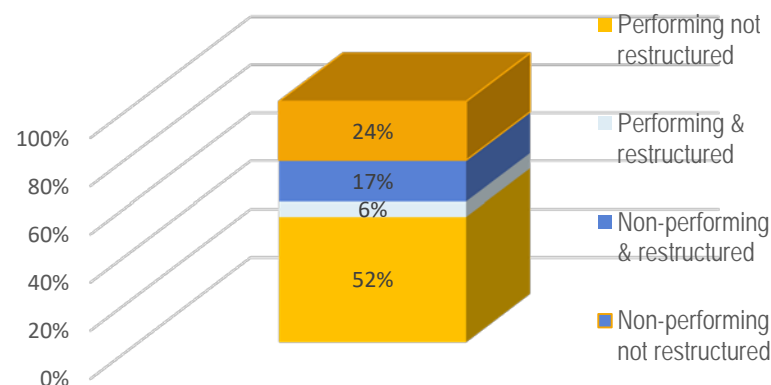
# Non performing exposure management

- Growth supportive
- The banks' governance, and the regulatory and supervisory framework have been reformed :
  - Enhancement of banks' capacity: Centralized arrears management systems and dedicated recovery units have been established throughout the banking sector. Some banks have outsourced NPEs' management;
  - Legislative measures: Legislation has been introduced and recently amended to enable a more streamlined and less time consuming asset recovery process: property foreclosure, insolvency, sale of loans and loan securitisation;
  - Supervisory measures: the Central Bank has set quantitative targets for the management of NPEs including early arrears.
- By 2021, a new Credit Scoring tool will be made available to banks through the data information system 'Artemis'. It will predict a borrower's ability to repay for the next 12 months and likelihood of becoming a bad debtor, depending on their economic behavior in the past 3 years.

## Non performing exposures and provisions



## Gross loans breakdown, April 2018



Source: Central Bank of Cyprus, Ministry of Finance

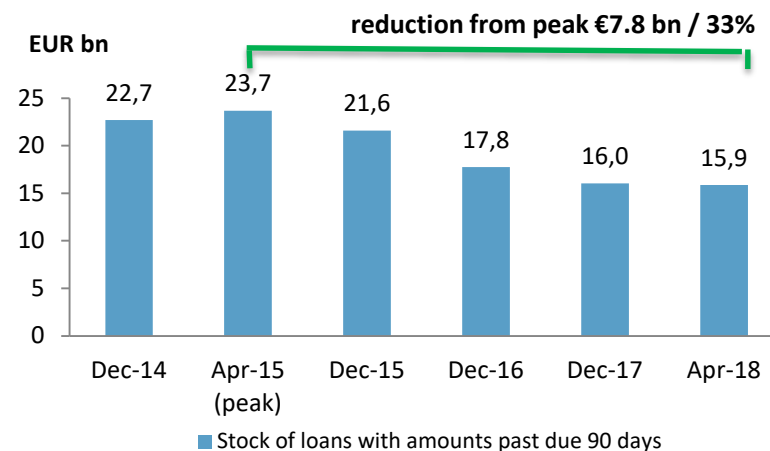




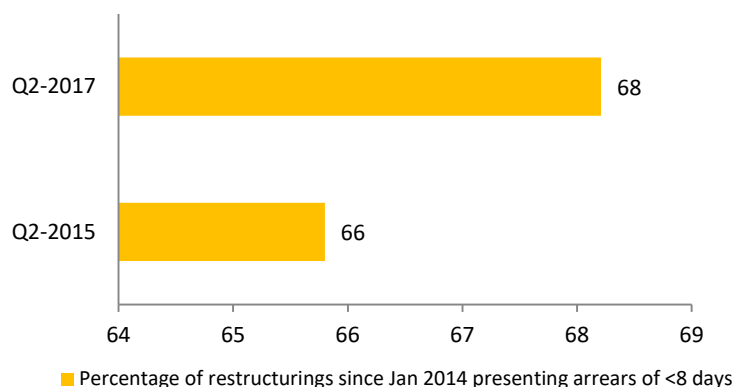
# Downward trend in non performing loans continues

- The downward trend of NPEs and exposures with amounts past due for 90 days or more (NPLs) that started in mid 2015 continues.
- Difference between NPEs and “core” NPLs attributed to methodological aspects:
  - Core data excludes those performing loans included in NPEs because they belong to the same debtor;
  - Core data excludes performing loans included in NPEs during the 12-month probation period.
- The downward trend in NPEs can be attributed to (i) cash repayments, (ii) successful restructurings completing the observance period and reclassified as performing facilities, (iii) write-offs as well as (iv) settlement of debt through swaps of immovable property with the ultimate aim the property sale.
- The reduction of NPEs from peak by €7.8 bn results mainly from corporates (67%).
- During 2018 decisive actions to address the NPE challenge – further reduction of NPE in the banking sector by closed 10 bln or 50%

## Loans with delays of >90 days, EUR bn



## Cumulative cure rate of restructured loans, %



Source: Central Bank of Cyprus

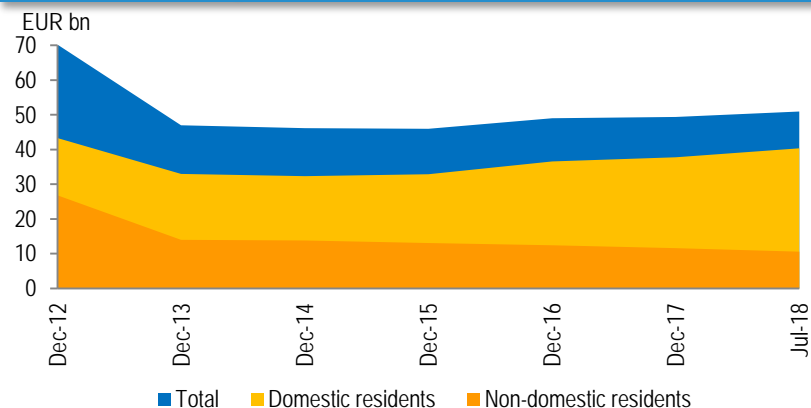


# Liquidity and funding position continues to improve

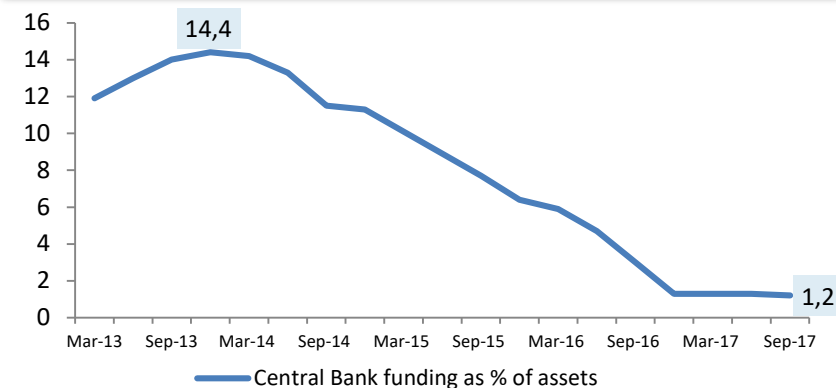
Deposit base continues to grow; ELA exceeding EUR 11 billion repaid and Eurosystem funding declines

- The annual growth rate of total deposits in positive territory since Oct 2015 reflecting strengthened confidence and a stronger domestic economy.
- The loan to deposit ratio narrowed to 90,6% in July 2018 down from peak 135% in Q1-2015.
- ELA exceeding EUR 11 billion or two thirds of the GDP has been repaid within 3 years using various funding sources such as domestic deposit increases, foreign divestments and securities liquidation.
- Following the significant reduction in ELA requirements, the State cancelled EUR 1 billion in government-guaranteed bank bonds. As a result the outstanding stock of government guarantees decreased by one third to 10% of GDP in 2016 and remain

Evolution in deposits, EUR bn



Eurosystem funding, % of assets



Source: Central Bank of Cyprus, ECB, Treasury of the Republic of Cyprus



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# Policy framework for tackling NPEs

## Three main pillars

- I. Strengthening the effectiveness of the legal framework related to the management of NPEs
- II. Addressing the most challenging portfolio of NPEs (mortgage or SME loans having the primary residence as collateral) through burden sharing scheme between stakeholders and state support (ESTIA scheme)
- III. Partial sale of CCB to strategic investor – carve out of NPEs to a new entity



# Effect on the outstanding stock of NPEs

The three pillar strategy is expected to lead to a significant reduction in the banking sector NPEs stock, currently estimated at €20.2 bn. The reduction is expected to come from:

- A reduction of €6.5bn resulting from a carve out of CCB's NPEs.
- Sale of NPEs portfolios - Bank of Cyprus sold a portfolio of €2.7bn in August 2018.
- Additional reductions through the implementation of the strategic plans in cooperation with specialized service providers including from the implementation of the ESTIA scheme.

**Based on the above it is feasible to achieve a reduction of NPEs stock in the banking sector by about 50%.**



# Pillar I. Strengthening of the legal and regulatory framework

- Pillar I focuses on the legal framework applicable to the management of NPEs.
- The legal framework was introduced in 2015 following the advice by international experts
- It was widely acknowledged that there were certain weaknesses in the framework.
- Extensive consultations took place among stakeholders as well as the IMF and the European Commission in order to identify the legal provisions as well as processes of the framework that impair its effectiveness.
- A comprehensive list of legal amendments has been enacted, thus making the legal framework more efficient, effective and transparent.



# Pillar I. Strengthening of the legal and regulatory framework (cont.)

## Objectives of the proposed changes

- Encourage restructuring of loans through the Arrears Management Directive of the CBC & the insolvency framework.
- Establish an efficient secondary loan market to the benefit of banks and debtors. The former will directly strengthen their liquidity, while the latter will be able to settle their debts at more favourable terms. The improved framework already utilized by Bank of Cyprus
- Create an effective, efficient, and transparent foreclosure framework to act as a credible threat especially to strategic defaulters.
- Improve the efficiency and effectiveness of the operations of the Insolvency Service of Cyprus.
- Introduce a provision allowing electronic auctions of properties.
- Reform of the judicial process to increase the efficiency of handling of NPE cases by the judicial system (backlog/case management/simplification/e-justice/appointment & training of financial judges ).



## **Pillar II. Project ESTIA - Supporting scheme for the resolution of the NPEs with the primary residence as a collateral**

- Pillar II of the Government's strategy attempts to address the most challenging segment among NPE, that of mortgage NPEs collateralized with the primary residence.
- Through burden sharing, it would incentivize eligible households or SMEs to repay their loans, thus contributing to the stabilization of the banking sector.
- The State will provide financial assistance to the participating borrowers, covering one third of borrowers' restructured loan repayment obligations.
- Eligible loans will have to fulfil a number of criteria, including:
  - Linkage to the borrower's primary residence with a current open market value of no more than EUR 350.000.
  - Borrowers will have to fulfil a set of income and asset criteria.





## Pillar III. Partial sale of CCB

- Under Pillar III, the Government, as the main shareholder of the CCB has proceeded with the sale of part of the bank's assets and liabilities.
- The remaining assets (NPEs and other non-core assets), the Government Deposit and some other liabilities remained with the residual entity in order to be managed with the view to claw back the state's support.
- The residual entity will surrender its banking license at Closing of the Transaction and exit the market, while its subsidiary, that will be established under the Company's Law, will be licensed by the CBC as a credit acquiring company for the sole purpose of managing the assets that remain in its perimeter, with a view to maximising their value.
- The residual entity's governance will be based on best practices and professional management and the daily management of the assets will be undertaken by a private specialised servicing company with no links to the State.



# Pillar III. Partial sale of CCB (cont.)

## Terms of the sale to Hellenic Bank

- The perimeter of the transaction comprised a balance sheet of €10,3 bn, as follows:
  - Deposits: €9,7 bn, excluding the government deposits of €3,54 bn (bond proceeds of €3,19bn and cash placement of €351 mn as explained below).
  - Other liabilities: €66 mn
  - Loans totalling net book value of €4,593 bn
  - Cyprus Government bonds totalling €4,082 bn (including €3,19 bn government bonds)
  - Cash €1,616 bn.
  - Other assets €25 mn.
  - HB assumes the employment of at most 1.200 CCB's personnel.
- With the acquired perimeter on its balance sheet, Hellenic became the second largest bank by total assets in Cyprus, with 22% market share by loans and 32% by deposits in Cyprus. The acquired business is complementary to the Buyer's existing business model.



## Pillar III. Partial sale of CCB (cont.)

- Hellenic has submitted to the ECB a business plan for the combined entity on 27 June 2018. HB plans to rely on three main pillars after the transaction, to achieve a sustainable profitability profile in the medium term:
  - i. Sustainable interest and fee income growth through cross-selling of products to the newly acquired retail
  - ii. Reduction of the historical funding cost of CCB to match the levels of Hellenic Bank and further decrease of the deposits cost for specific segments;
  - iii. Costs synergies achievement on staff and administrative expenses.
- The transaction is expected to lay the foundation for a sustainable entity with a more conservative risk profile.
- A capital injection is needed for the combined entity to continue to comply with capital requirements. In light of this, HB has committed to raise EUR 150 million, at EUR 0.70 per share, via a pre-emptive rights issue of EUR 100 million and a private placement of EUR 50 million, to be subscribed by a PIMCO vehicle. The EGM, which took place on 22 August 2018 voted favourably on the capital increase.



## Pillar III. Partial sale of CCB

- Against the State's deposit of €3,54 bn (€3.190 plus cash deposits €351 mn) with CCB, CCB pledged the following assets which will be retained and managed by the residual entity:
  - All immovable property of the bank including branches valued at €625 mn,
  - Performing loans valued at €512 mn including loans to local authorities amounting to €270 mn,
  - Non-performing loans valued at €6,97 bn at gross book value, and
  - Other liquid assets and participation to other entities €230 mn.
- The state deposit also remains in the residual entity.



# Pillar III. Partial sale of CCB (cont.)

## Impact on Hellenic Bank

The acquisition of CCB, will have positive effect on Hellenic Bank as follows:

- Complementarity of business model
- Increase of loan market share to 22%, and of deposits to 31%.
- NPE decrease from about 53%, to below 25% of total loans
- Net loans to deposits ratio of 55% from 48% on March 2018.
- The planned capital raise will allow the Company to maintain a CET1 ratio and total capital in excess of 13.7% and 16.0% respectively.



# Pillar III. Partial sale of CCB (cont.)

## Impact on the banking sector

- After the legal transfer of €8,34 billion of CCB's assets to the residual entity, the banking sector in terms of asset size is estimated to fall from 321% to 280% of GDP, at end 2018.
- Following the removal of €5,68 billion of CCB's NPEs from the partial sale of CCB (the remaining CCB's NPEs of €1,26 billion are already off-balance sheet) and €0,5 billion CCB's PEs from the banking system, the NPE to gross loans ratio is estimated to decrease from 49% at end April 2018, to 42% (a decrease of 7pp).
- The aggregate banking system provision coverage at end April 2018 increased to 49% from 47% at the end of 2017.
- A bigger decline by year end to NPEs levels is expected, given the improved legal framework as well as the effects of the implementation of the ESTIA scheme & and the sale by Bank of Cyprus of a portfolio of €2.7bn in August 2018 to Apollon Fund (approvals from the regulatory and supervisory authorities are currently pending).



# Impact on public finances and on public debt risk indicators

- The transaction as described above will result in a one-off increase of public debt by about €3,19 billion representing an increase of the debt-to-GDP ratio reaching 104% of GDP by year end.
- The debt trajectory is expected to resume its downward trend and decline to below 95% of GDP by end-2020.
- The annual budget balance will be negatively impacted by a number of factors - inter alia increased costs of debt servicing (annual estimated impact at 0,4%) and the application of the ESTIA Scheme (annual estimated impact at 0,1%).
- The above is expected to be partly compensated by the income generated by the residual entity.
- Based on the projected cash flows of the residual entity, the average annual net operating income of the residual entity is estimated at €250 million representing about 1,23% of GDP.
- The anticipated proceeds of the residual entity are not factored in our calculations and are viewed as an upside risk to our baseline scenario.



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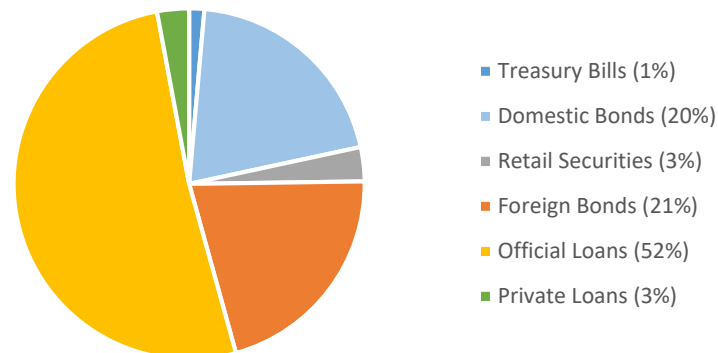
# Public debt overview

## Public debt structure, July 2018 <sup>(P)</sup>

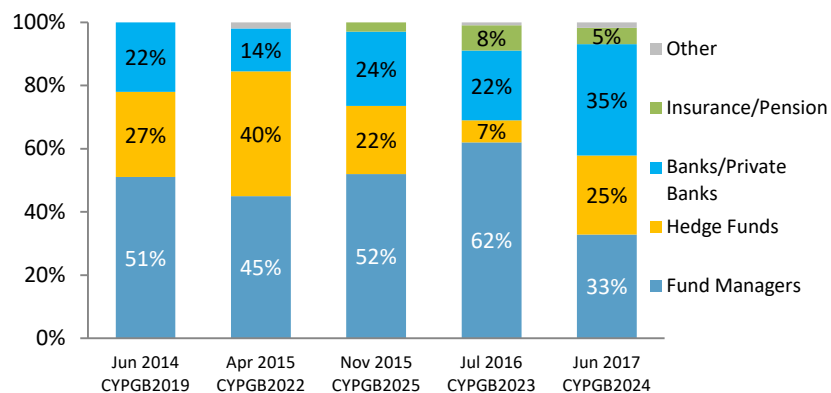
**General Government Debt** €21.6 bn  
**General Government Debt/GDP** 104.8%  
**Of which liquid assets/GDP** 4%

• Short term debt	1%
• Resident holders (estimate at issuance)	20%
• Domestic currency	97%
• Fixed interest rate	60%
• Private sector holdings (at issuance)	39%

## Public debt by instrument, July 2018 <sup>(P)</sup>



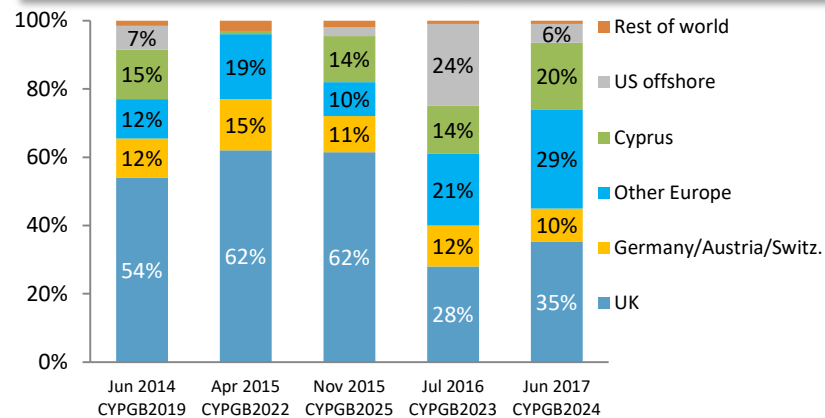
## Evolution of investor base by type



Source: Public Debt Management Office

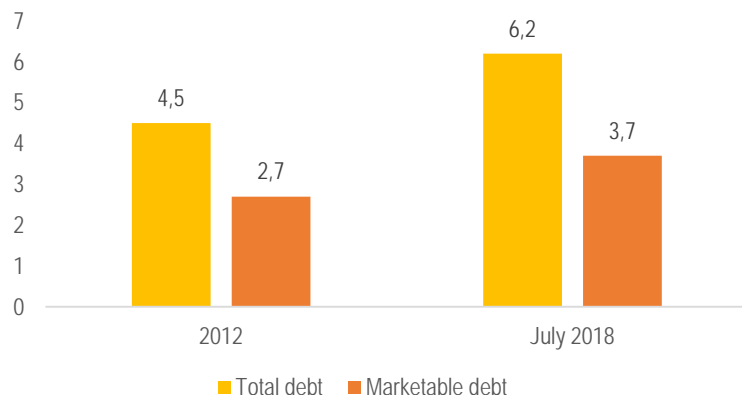
Note: Provisional figures

## Evolution of investor base by geography

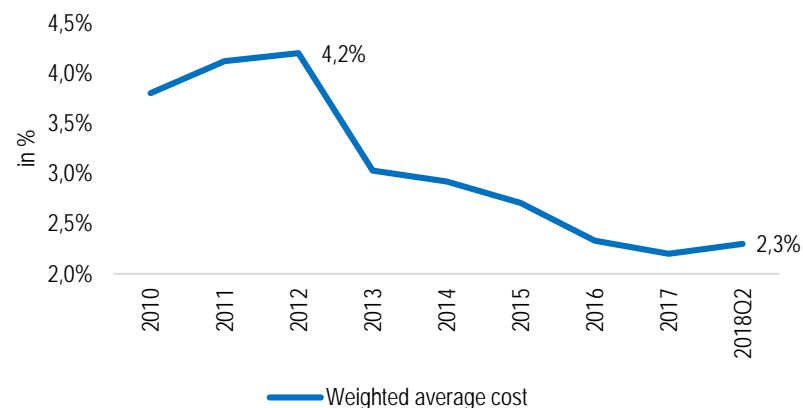


# Debt portfolio cost-risk indicators improving

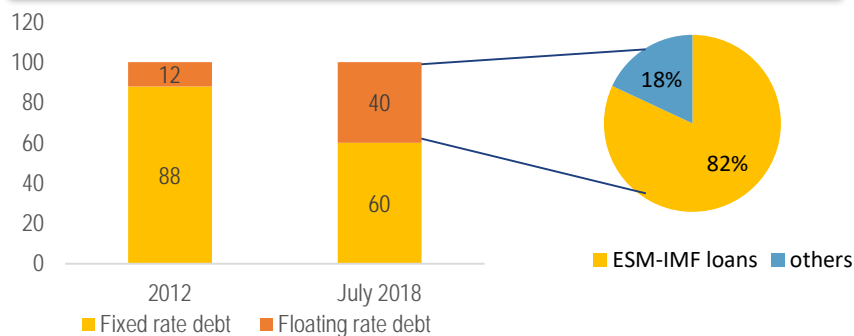
## Weighted average maturity of debt, years



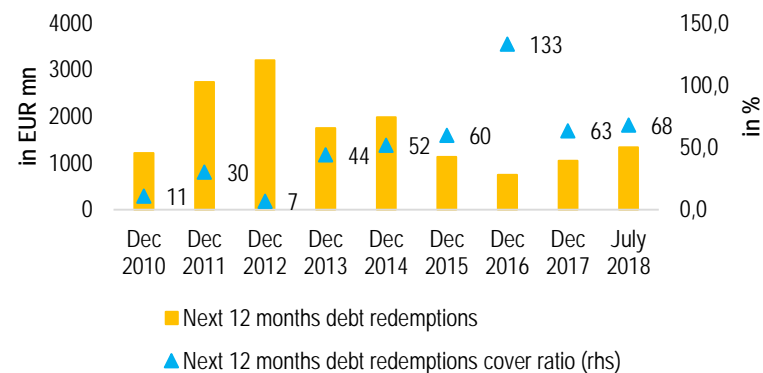
## Cost of public debt, %



## Interest rate distribution of debt, %



## Evolution of government liquidity buffer, EUR million



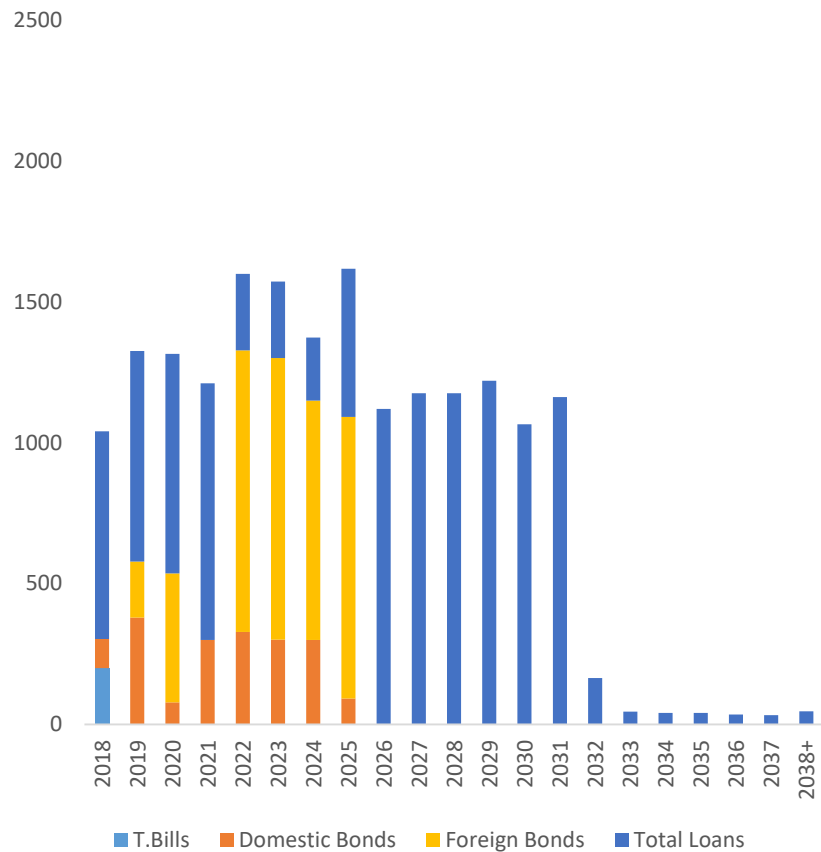
Source: Public Debt Management Office



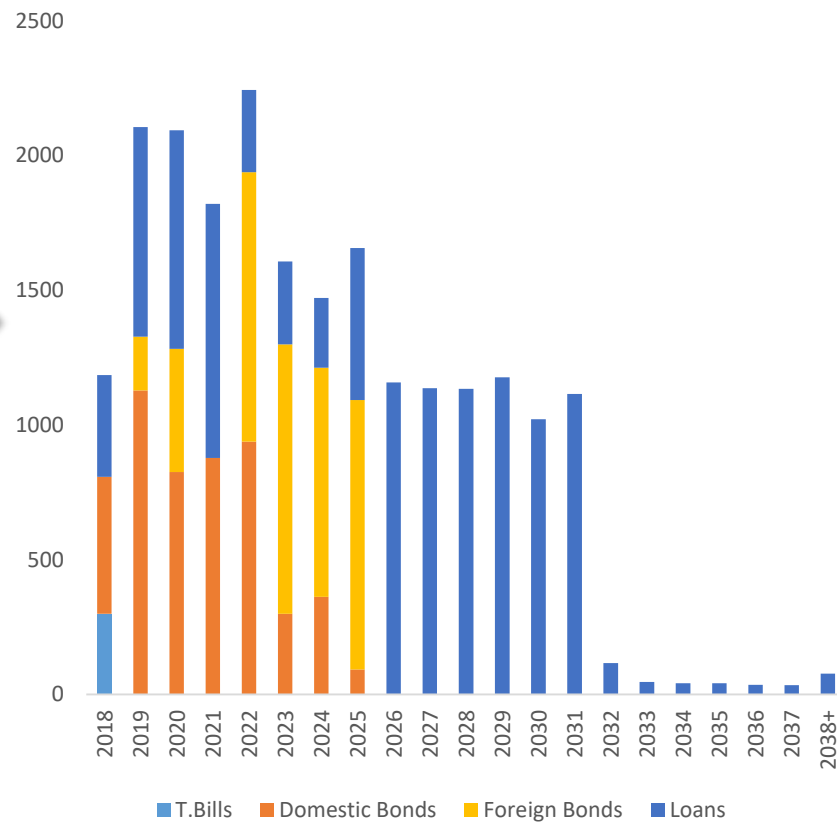
# Public debt maturity structure

Active management of debt profile has resulted in smoothening out of debt maturities

Debt maturity profile (end 2017 ), EUR mn



Current debt maturity profile (end July 2018 ), EUR



Source: Public Debt Management Office



# Liquidity covers the budgeted financing needs up to Q2-2019

Annual Funding Plan 2018	
	EUR bn
<b>Financing needs</b>	<b>4,4</b>
Short-term Treasury Bills	0,2
Long term bonds and loans	0,9
Liability management (loans only)	0,3
Fiscal needs (cash basis)	-0,2
Management of CCB	3,19
<b>Financing Sources</b>	<b>5,2</b>
Treasury Bills rollover	0,3
EMTN	1,5
EIB-CEDB loans	0,1
Domestic bonds	3,19
Retail bond	0,1

- Liquidity is available for prefunding of Q2-2019 needs.
- The main financing in 2018 was through the issuance of domestic bonds.
- The overfinancing in 2018 will be used to maintain a cash buffer sufficient to prefund a substantial part of 2019 as per the current policy.
- Yields at the local Treasury Bills market have been in negative territory throughout 2018.
- Strategically, the international bonds, with the exception of the current year, will continue to be the main financing instrument to achieve the medium-term objectives such as the extension of international bond yield curve and increase in debt maturity. The domestic market will continue to serve as a complimentary financing source.

Source: Public Debt Management Office



# Public Debt Management Strategy

- The current Debt Management Strategy covers the period 2016-2020 focusing on longer-term, fixed-rate, euro denominated issuances to assume low new risk into portfolio. Progress to date is evident in all targets.
- Cyprus returned to international markets in 2014, just one year after EU-ECB-IMF Programme commencement. It has since then issued five benchmark international bonds between 5 and 10 year tenors.
- The outstanding amount of government guarantees for loans was reduced by 1pp of GDP at the end of June 2018 compared to the end of 2017, reaching 9% of GDP. Government policy is to reduce further the outstanding amount of government guarantees for loans (Guarantees given under Asset Protection Scheme are excluded)

## Cornerstones in Public Debt Management Strategy 2016-20

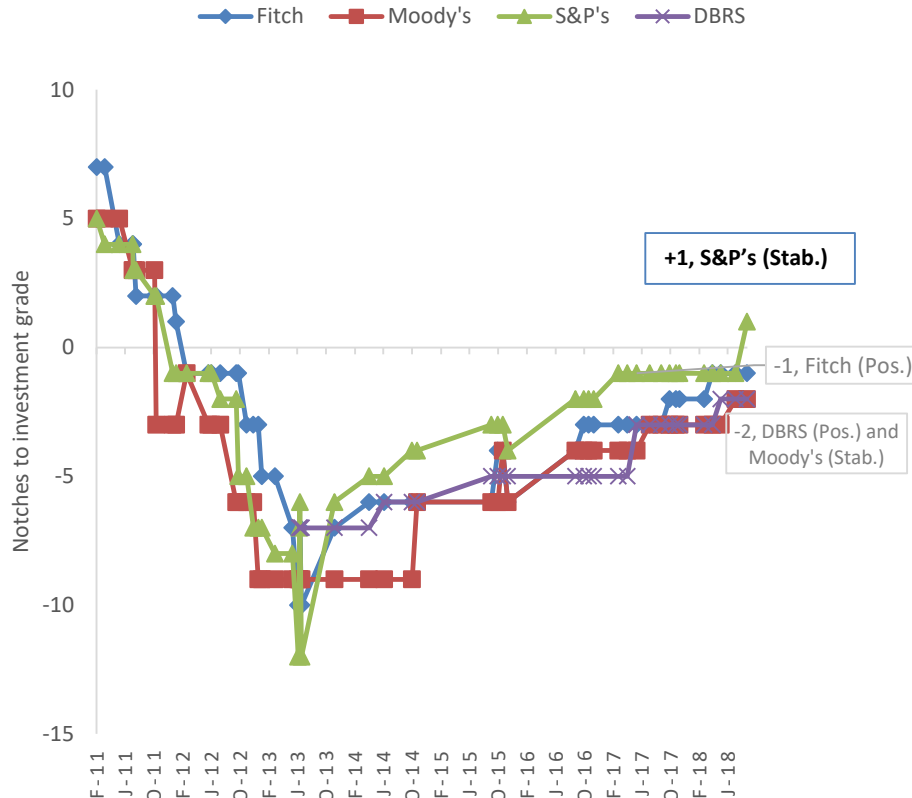
Target	Progress
Smoothening of debt maturity profile and increase of marketable debt maturity	<b>On course:</b> Average maturity of marketable and total debt extended
Maintaining liquid funds for at least the next 9-month period	<b>Currently on course</b>
Risk mitigation via reduced exposure to foreign currency and interest rate risks	<b>On course:</b> new issuance completed in EUR, fixed rate format only
Building of international bond yield curve	<b>On course:</b> at least one benchmark issuance per annum achieved; five new points added in curve
Enhancement of investor relations and expansion of investor base	<b>On course:</b> Increased marketing activities including the US market over 2016-17



# Steady improvement of the sovereign credit rating

Since 2013 on an upgrading path of up to 11 notches

## Credit rating history and outlook



## Ratings' summary \*

### Rating strengths

- High income per capita, strong institutions and governance
- Low tax base allows space for fiscal policy
- Highly skilled labour force

### Concerns

- High levels of public and private debt
- Banking sector asset weakness

### Progress

- Continuous fiscal overperformance
- Faster than expected economic rebound
- Government market access and financing buffer

\* Non-exclusive list , as indicated in publicly available opinions of the Credit Rating Agencies reports. Please see full reports for more detail.



# Steady improvement of the sovereign credit rating (cont.)

## Credit rating history and outlook

CRA	Long-term rating	Short-term rating	Outlook	Latest rating action
DBRS	BB	R-4	Positive	25/5/2018
Fitch	BB+	B	Positive	20/4/2018
Moody's	Ba2	NP	Stable	28/7/2018
Standard & Poor's	BBB-	A-3	Stable	14/9/2018



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# Looking Ahead

Main indicators		2016	2017	2018 f	2019 f	2020 f	2021 f
Real GDP (%)	↑	4,8%	4,2%	4,0%	3,8%	3,4%	3,0%
Unemployment rate (LFS)	↓	12,9%	11,1%	8,5%	7,0%	6,3%	5,5%
Public debt (% of GDP)	↓	105%	96%	104%	97%	91%	85%
Fiscal Balance (% of GDP)	↑	0,3%	1,8%	3,0%	2,9%	2,8%	2,7%

Source: Ministry of Finance

Note: "f" denotes forecasts by the Ministry of Finance. Forecasts are based on assumptions and there can be no assurance that any such forecasts will be realised. Forecasts are subject to revisions from time to time.



# Key credit highlights

Prudent fiscal policy

Robust and sustainable  
economic growth

Consolidation of the  
banking sector,  
significant reduction in  
NPEs

Improved debt risk  
indicators

Strong institutions,  
governance and legal  
system

Upside risks in services  
and energy sector

Continuous access to  
debt capital markets

Political stability

Economic resilience



# Contacts

## Public Debt Management Office

Ministry of Finance, Republic of Cyprus

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E-mail: [pdm@mof.gov.cy](mailto:pdm@mof.gov.cy)  
Fax.: 0035722602749

## Other sources of information

- Ministry of Finance [www.mof.gov.cy](http://www.mof.gov.cy)
- Ministry of Foreign Affairs [www.mfa.gov.cy](http://www.mfa.gov.cy)
- Ministry of Energy, Commerce, Industry and Tourism [www.mcit.gov.cy](http://www.mcit.gov.cy)
- Central Bank of Cyprus [www.centralbank.gov.cy](http://www.centralbank.gov.cy)
- Cyprus Statistical Service [www.mof.gov.cy/cystat](http://www.mof.gov.cy/cystat)
- Cyprus Investment Promotion Agency [www.investcyprus.org.cy](http://www.investcyprus.org.cy)

