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# Project Estia

*Overview of the scheme*

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# *Introduction*

# Introduction to the provisions of Estia Scheme



*The primary objective of the Estia Scheme (the “Scheme”) is to achieve a socially acceptable solution by facilitating fiscal assistance from the Cypriot State to borrowers with non-performing loans secured by Eligible Primary Residence with Open Market Value (“OMV”) of less than €350.000 (“EPR”).*

## **Scheme overview**

- The purpose of the Scheme is to:
  - (a) facilitate fiscal assistance from the Cypriot State to borrowers with non-performing loans secured by an EPR; and
  - (b) contribute to the deleverage of the non-performing loans (“NPLs”) of Cypriot banks.
- This is an one-off scheme open to all Cypriot banks / and other financial institutions (including Credit Acquiring Companies) (hereinafter the "Banks") that will choose to participate.
- Non-performing borrowers that meet certain eligibility criteria will be restructured and granted a state subsidy of 1/3 (the “Subsidy”) of the total restructured loan instalments.
- Participating banks will have to agree to offer to all of their eligible borrowers the restructuring terms of the Scheme in order for their borrowers to be entitled to the Subsidy

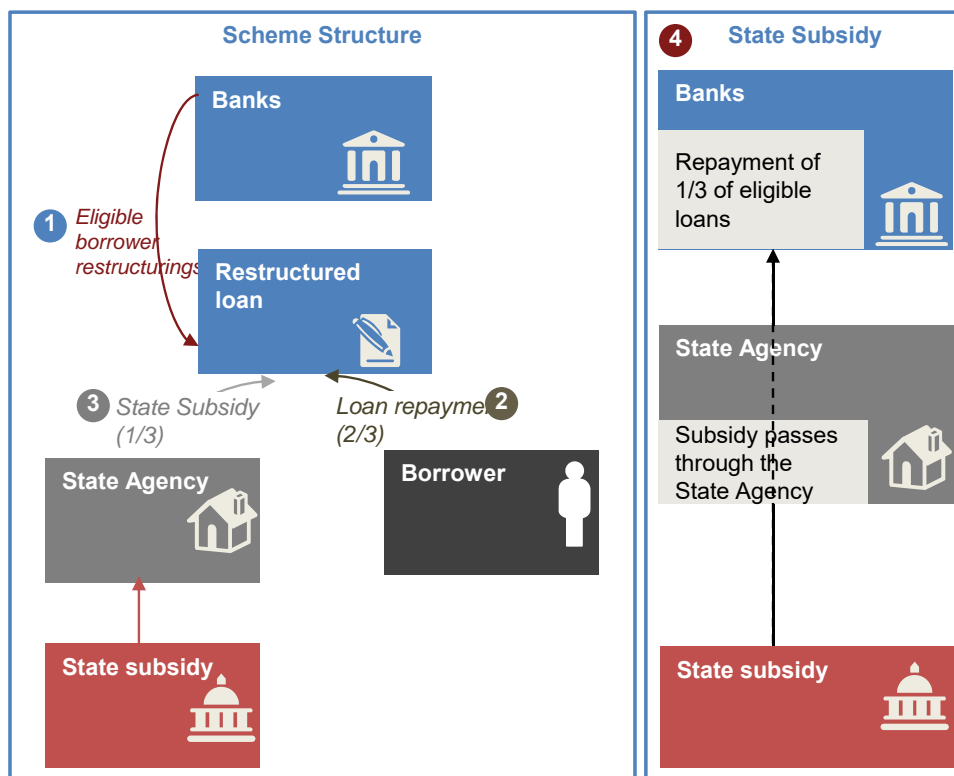
## **Scheme perimeter**

- The Scheme regards non-performing loans that will be determined in accordance with certain criteria and borrowers that meet specific eligibility criteria as at 30 September 2017.
- The Banks should each determine the potentially eligible perimeter of loans secured by EPR in accordance with certain criteria (“Determination Criteria”).
- Final approval of eligibility will be granted by a State Agency.



## *Estia Scheme details*

# Scheme Structure



## Notes:

1. Banks to offer the predetermined restructuring solution to all eligible borrowers at the lower of: (i) the contractual amount owed that is secured by an EPR, or (ii) the OMV of the EPR (further details on restructurings can be found in slide 17).
2. The State Agency that will manage the Plan ("the State Agency") will assess borrowers' application in line with the eligibility criteria and will accordingly inform the Bank and the borrower for the approval or refusal of their application for the Scheme.
3. Eligible borrowers repay to the Bank the 2/3 of interest and principal repayment according to the terms of the restructured loan.
4. Cypriot State subsidises the 1/3 of the borrowers' interest and principal, with the State Agency acting as a 100% pass through entity administrating the subsidy payment from the State to the restructured borrowers.



## *Eligibility criteria*

# Scheme Eligibility Criteria

- 1 Borrower is considered non-performing (more than 90 days past due ("DPD") with a 20% contagion effect across all obligations of the borrower)
- 2 Loans are secured by a primary residence with OMV of less than €350.000
- 3 The aggregate gross annual family income of the borrower shall not exceed:  
(a) € 60,000 for a pair with at least 4 dependents,  
(b) € 55,000 for a couple with 3 dependents,  
(c) 50,000 for a couple with two dependents,  
(d) € 45,000 for a couple with 1 dependent person,  
(e) € 35,000 for a couple without dependents and  
(f) € 20,000 for single households.  
It is noted that the same applies to single parent families.
- 4 Household net wealth excluding primary residence and borrowing linked to primary residence should not exceed, in market prices, 80% of the value of the EPR. This total value may not in any case exceed € 250,000. The term "household" includes the members of the borrower's family.
- 5 Borrower is a citizen of the European Union who has legally and continuously been residing in the E.U since 2013.

*Eligibility criteria\* to be assessed by the State Agency to establish whether the borrower is eligible to the Subsidy.*

*In addition any cash or deposits in excess of either €10,000 or 20% of the remaining household's net wealth are used to reduce the applicant's liabilities to the participating bank.*





*Data Analysis*  
*Methodology*

# Suggested data analysis methodology

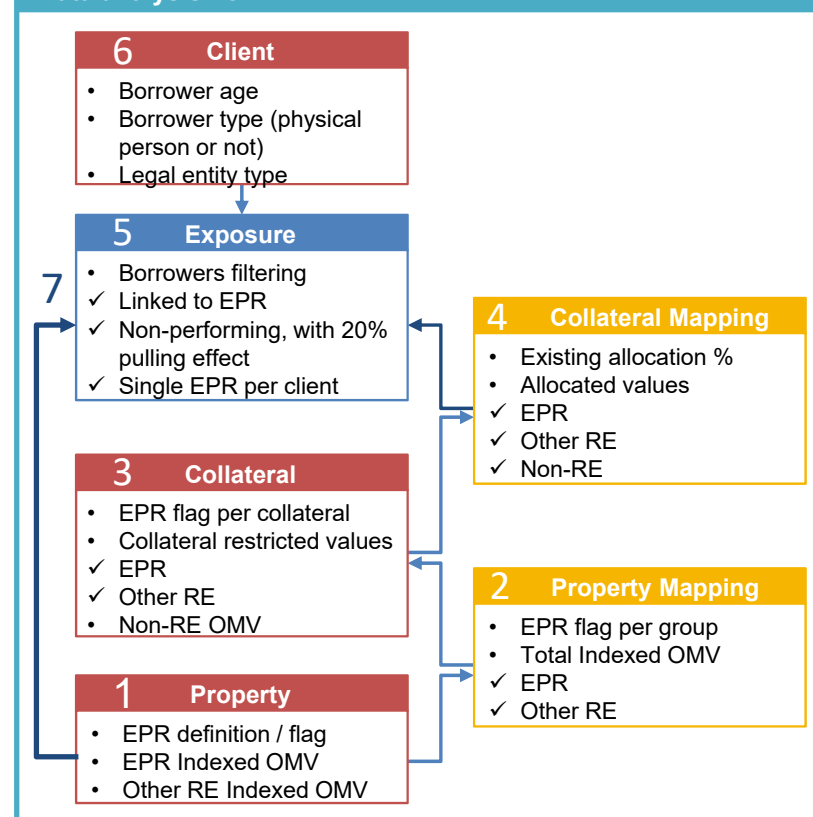


## Overview of the suggested data analysis methodology

The data analysis methodology can be summarised in the below steps.

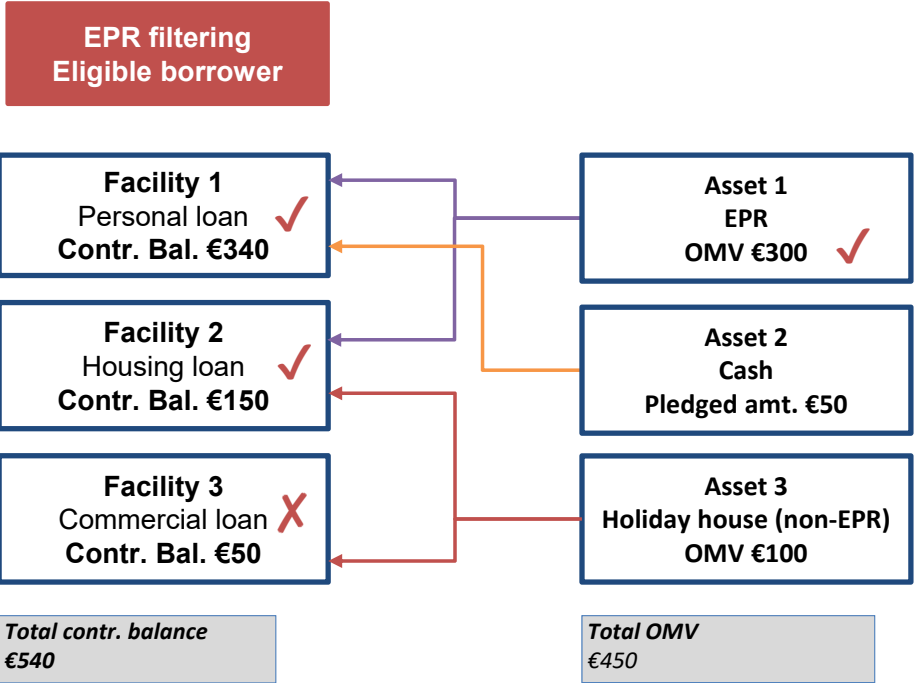
- **Step (1) & (2): Property tape**
  - Identification of EPR and of property groups with EPR;
  - Calculation of indexed OMV for EPR and non-EPR assets per property group;
- **Step (3): Collateral tape**
  - Identification of collaterals with assignments to EPR;
  - Calculation of restricted values per collateral for EPR and other real estate (“RE”) assets, taking into account collateral priorities;
  - Calculation of OMV for non-RE collaterals;
- **Step (4): Collateral Mapping**
  - Identification of exposures with assignments to EPR;
  - Calculation of allocated values for EPR, other RE assets and non-RE collaterals;
- **Step (5) & (6): Exposure**
  - Identification of the initial eligible population (non-performing accounts directly linked to EPR);
- **Step (7): Exposures by properties**
  - Application of final filters (e.g. single EPR per client) to identify the final potentially eligible portfolio parameter.

## Data analysis flow



# Borrowers filtering

## Illustrative Example 1: Facilities not directly linked to EPR

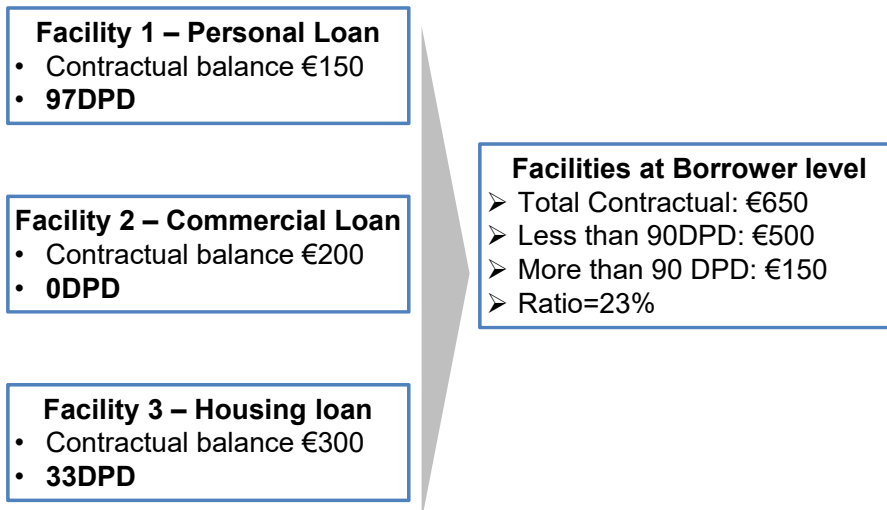


### Filtering of facilities not directly linked to an EPR

- Facility 1 and Facility 2 are eligible for the Scheme as they are directly linked to the EPR.
- Facility 3 is not eligible for the Scheme given that it is not directly related to the eligible EPR.

# Borrowers filtering

## Illustrative Example 2: Performance flag



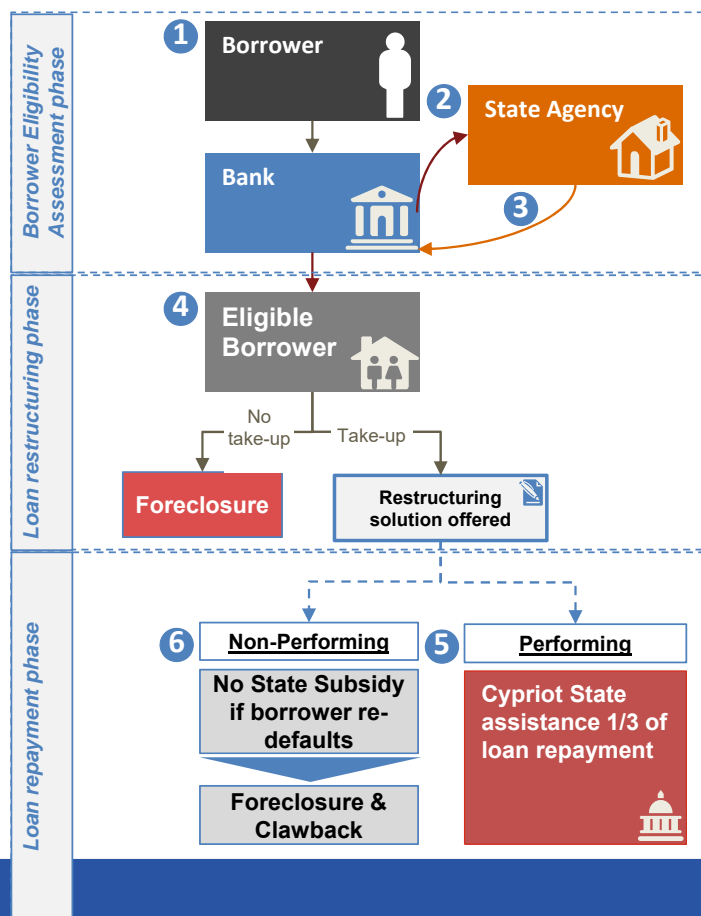
### Filtering of non-performing borrowers

- As 23% of the total contractual amount of the borrower is more than 90 DPD, all of the facilities of the borrower are flagged as 90 DPD.



## *Loans restructuring*

# Πλάνο Λειτουργίας



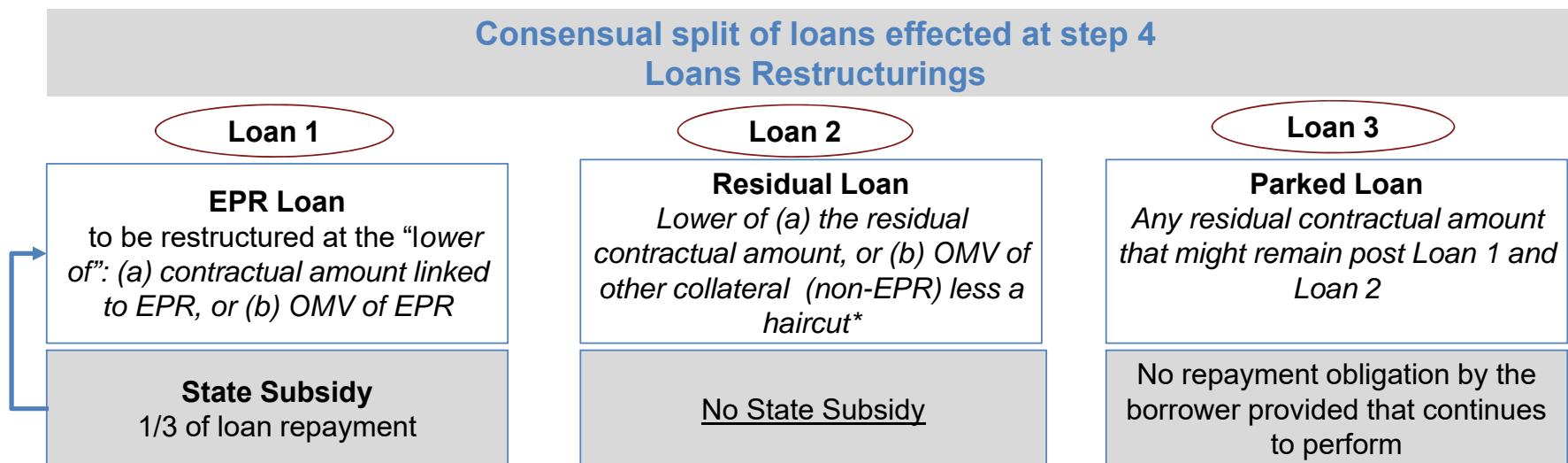
## Operational plan

1. Borrower completes and submits to its Bank an application form along with all the required documentation. The Bank reviews the application and forwards all documents to the State Agency with a recommendation as to the eligibility of the borrower.
2. The State Agency assesses the application and recommendation of the Bank and grants the final approval or rejection.
3. Following the above assessment, the State Agency notifies the Bank for the outcome and the Bank is thereby responsible to communicate the outcome to the borrower. If the borrower is assessed as eligible for the Scheme, the Bank should invite the borrower to offer the restructuring.
4. Eligible borrowers will be offered the standardised restructuring solution, as explained on slide 17.
5. The eligible borrowers (i.e. borrowers that pass the eligibility assessment) who will take-up the restructuring loan offered by the Bank will receive the Subsidy against the restructured loan relating to the EPR subject to the continuous performance of the borrower against the contractual obligations of the restructuring.
6. For those borrowers that default during the repayment period, the Subsidy stops and the Bank will initiate the foreclosure procedure. The Cypriot State will be entitled to a clawback of the subsidised amount, that will arise from the disposal of the foreclosed assets.

# Standardised restructuring solution (step 4)

## Restructuring offer

- The restructured solution to be offered will depend on the collaterals and the contractual amount of the exposures secured by the EPR.
- Borrowers that have exposures that are **only** secured by their EPR, will be offered an EPR Loan (Loan 1).
- Borrowers that have exposures that are **also secured** by other collateral will **also** be offered a Residual Loan (Loan 2), in addition to the EPR Loan.
- For under-collateralised borrowers, an amount is considered to be 'parked' and remains with the Bank as a contingent debt (Loan 3). This can only be claimed by the Bank if the borrower defaults after the restructuring, otherwise it is written off with the full repayment of the remaining obligations.
- For numerical illustration of the consensual split of loans refer to Illustrative Examples 3, 4 and 5 in slides 18-20.

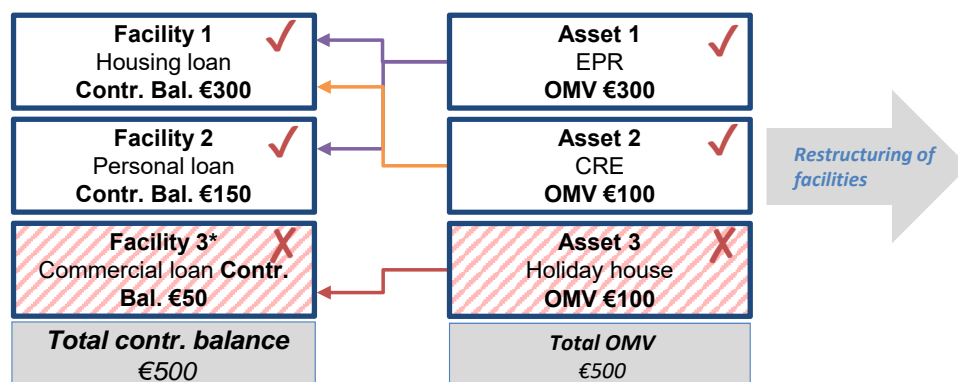


\*Haircut to the discretion of each Bank

# Restructuring of facilities

## Illustrative Example 3: Collateral filtering – Under-collateralised borrower

Example 3: Under-collateralised borrower



<b>Restructured facilities</b>	€	€
EPR Loan		
Lower of:		
(a) Contractual amount	450	
(b) OMV EPR	300	
<b>EPR Loan amount</b>		<b>300</b>
Residual Loan		
Lower of:		
(a) Residual loan (450-300)	150	
(b) OMV non-EPR x (1-HC*)	80	80
<b>Residual Loan amount</b>		<b>80</b>
<b>Parked loan (not to be claimed if the borrower performs on EPR &amp; Residual Loans)</b>		<b>70</b>

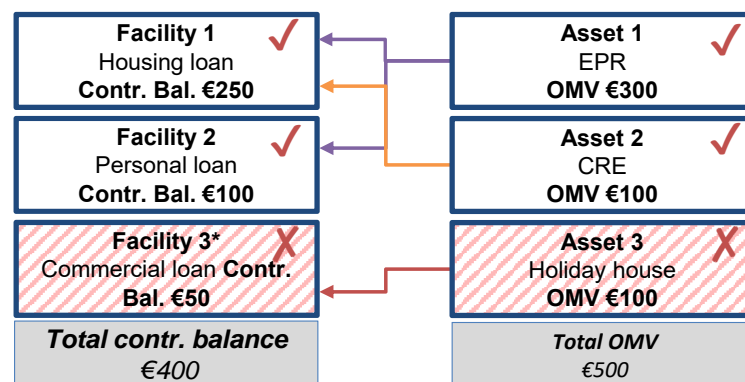
\*Haircut assumed is 20%. Haircut to the discretion of each Bank.



# Restructuring of facilities

## Illustrative Example 4: Collateral filtering – Over-collateralised borrower

Example 4: Over-collateralised borrower



<b>Restructured facilities</b>	€	€
EPR Loan		
Lower of:		
(a) Contractual amount	350	
(b) OMV EPR	300	
<b>EPR Loan amount</b>		<b>300</b>
Residual Loan		
Lower of:		
(a) Residual loan (350-300)	50	
(b) OMV non-EPR x (1-HC*)	80	50
<b>Residual Loan amount</b>		<b>50</b>
<b>Parked loan (not to be claimed if the borrower performs on EPR &amp; Residual Loans)</b>		<b>NA</b>

\*Haircut assumed is 20%. Haircut to the discretion of each Bank.

# Cash Flow model description

## Illustrative example 5: Amount to be offered for restructuring (EPR Loan and Residual Loan)

Table 1 – EPR Loan	€
Lower of:	
(a) Contractual balance	100
(b) Indexed OMV of the EPR (€72)	72
<b>(c) Resulting lower of (a) and (b)</b>	<b>72</b>
Residual amount ((a) – (c))	28

Table 2 – Residual Loan and Parked Loan	€
Lower of:	
(a) Residual loan (€100-€72)	28
(b) Indexed OMV of the non-EPR (€20) adjusted for the predetermined haircut (e.g. 20%)	16
<b>(c) Resulting lower of (a) and (b)</b>	<b>16</b>
<b>Parked amount (Contingent debt) ((a) – (c))</b>	<b>12</b>

### Loan amounts to be offered for restructuring

- Table 1 and 2 depict the mechanics applied to derive the amount of EPR Loan, Residual Loan and Parked Loan.
- **EPR Loan:** The loan amount to be offered for restructuring is derived as the lower of:
  - the contractual balance; and
  - the primary property indexed OMV.
- **Residual Loan:** The loan balance to be offered for facilities that are secured by other collateral (non-EPR) as well is the lower of:
  - the residual contractual amount, post Restructured Loan 1 if any; and
  - the OMV of non-EPR collateral less a haircut.
- **Parked amount:** For under-collateralised borrowers, an amount is considered to be ‘parked’ and remains as a contingent debt. This can be only claimed if the borrower defaults after the restructuring, otherwise it is written off with the full repayment of the remaining obligations.
- **Subsidy** will be used towards the repayment of EPR Loan of eligible borrowers only subject to the continuous performance of borrowers against the contractual obligations of the restructuring.