



The Evolution of Non-Performing Exposures in the Cypriot Banking Sector

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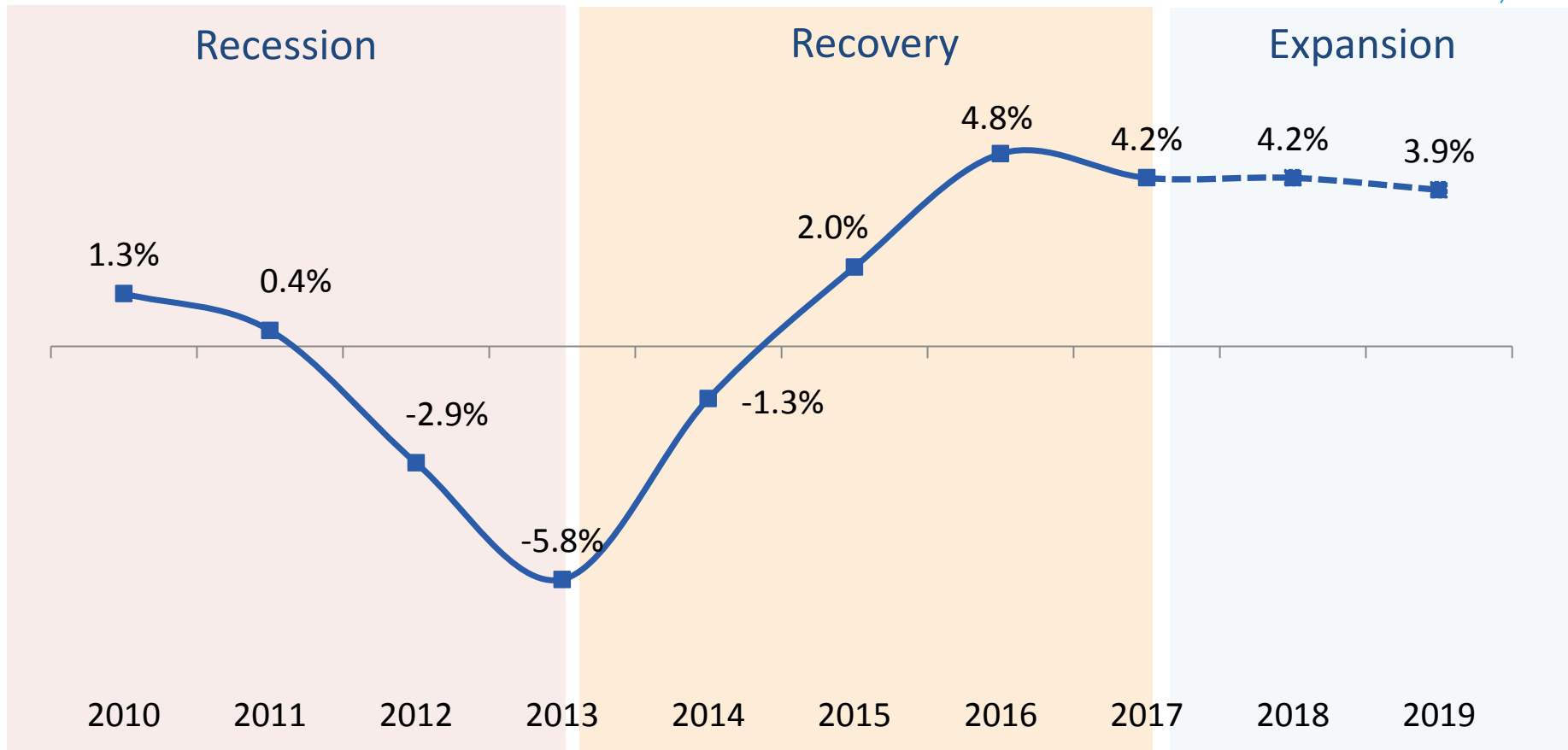
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The journey towards recovery



- Fiscal deterioration
- Banking crisis
- Economic Adjustment Program (“EAP”) agreed with Troika

- Strong ownership of EAP
- Consolidation of **public finances**
- Downsized, recapitalized and restructured **banking sector**

- Growth rate accelerates
- Economy operating on a **fiscal surplus**
- Reformed **banking sector**

Turning the crisis into an opportunity

Challenge

Policy Response

Opportunity

High NPEs



Infrastructure to
resolve NPEs in place



Lower NPEs implies
stronger growth

High Public debt



Prudent fiscal policy



Sustainable public debt
implies more fiscal space

Structural reforms



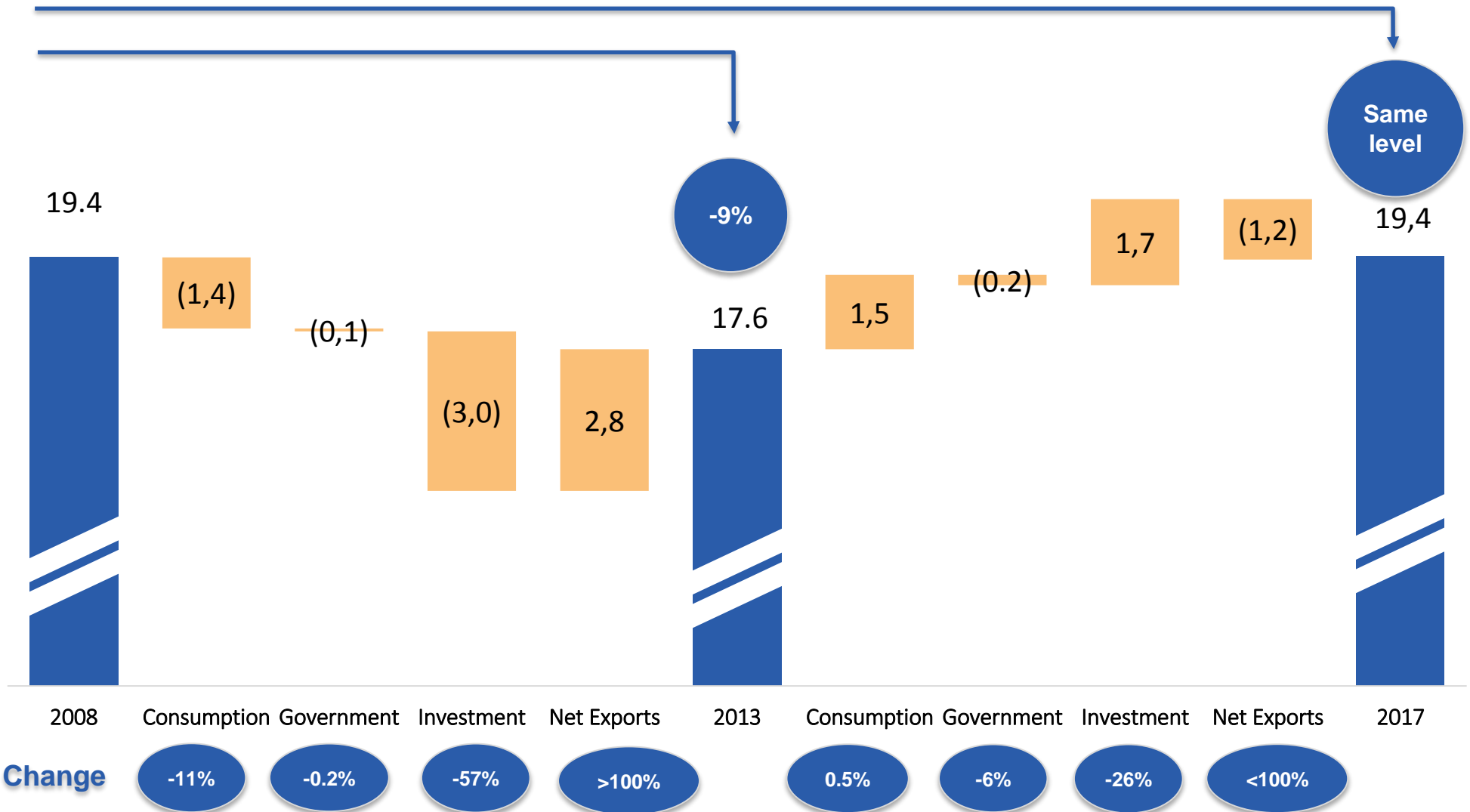
Reform agenda is
being implemented



More business friendly
environment implies more
investment

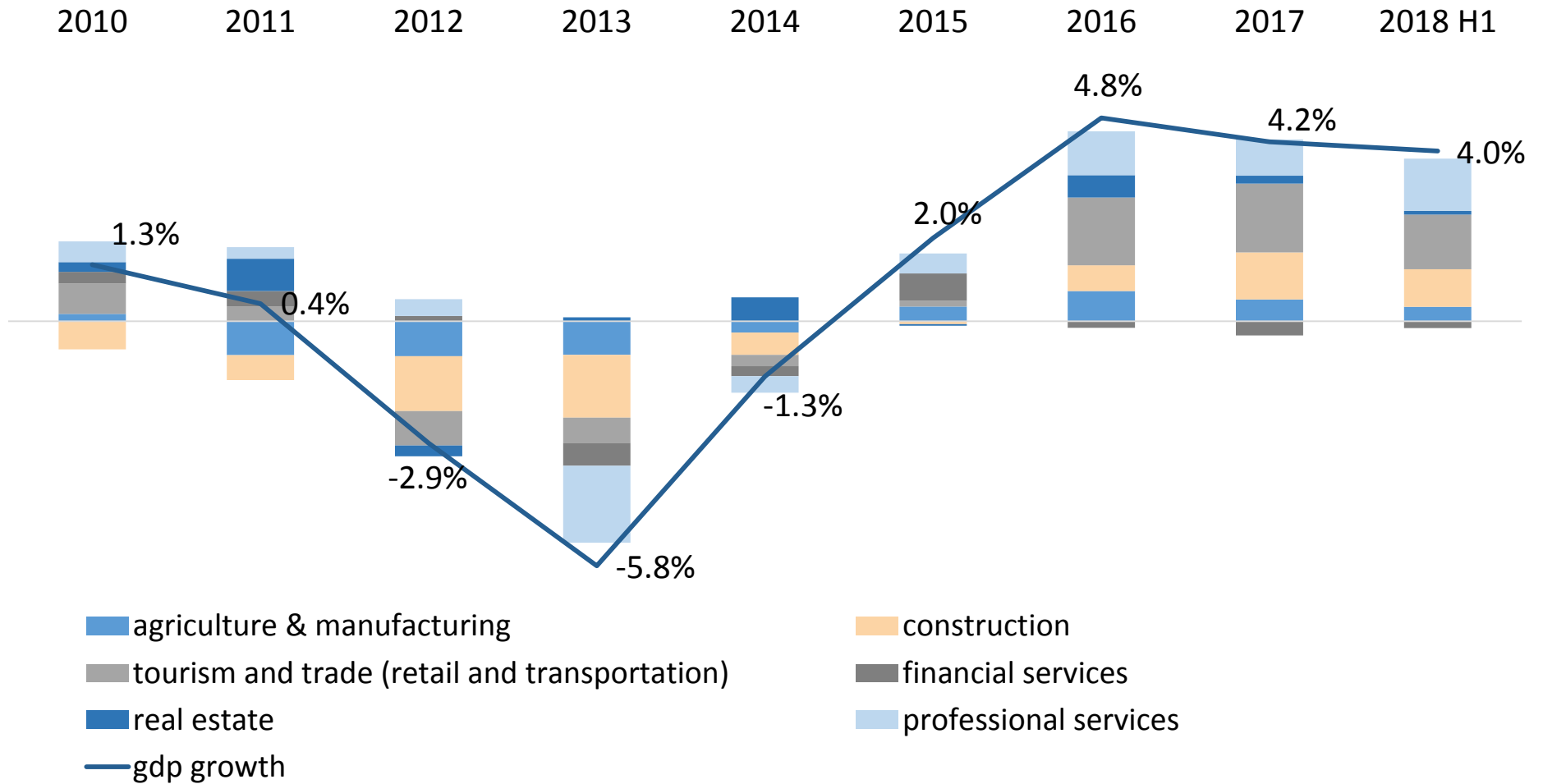
The economy is returning to 2008 following a dramatic reduction in investment

Real GDP in EUR billion, 2008 – 2017



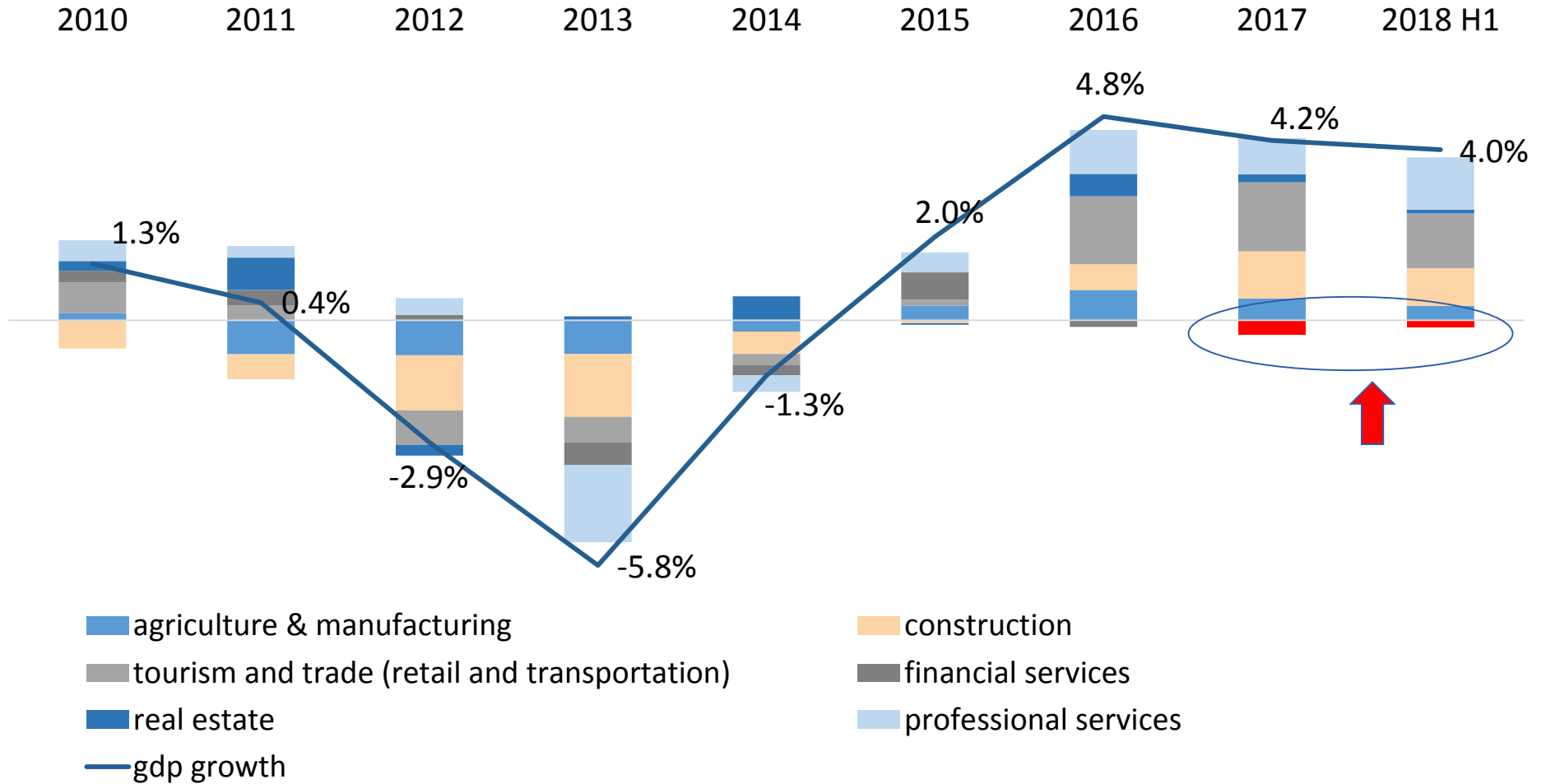
Contributors to economic growth

A broad-based economic recovery



Contributors to economic growth

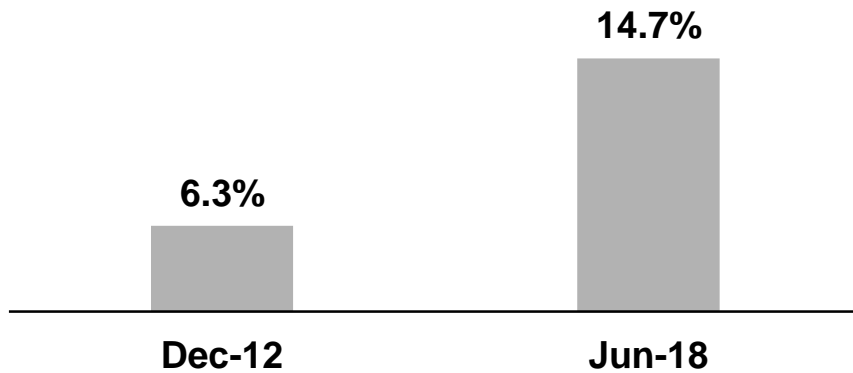
A broad-based economic recovery



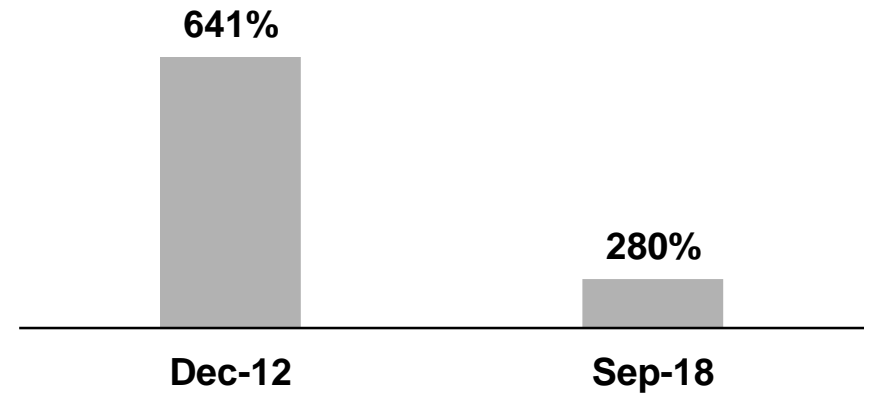
The Cyprus Banking System – Recent developments

... consolidated, recapitalized, stronger

Tier 1 capital ratio (%)



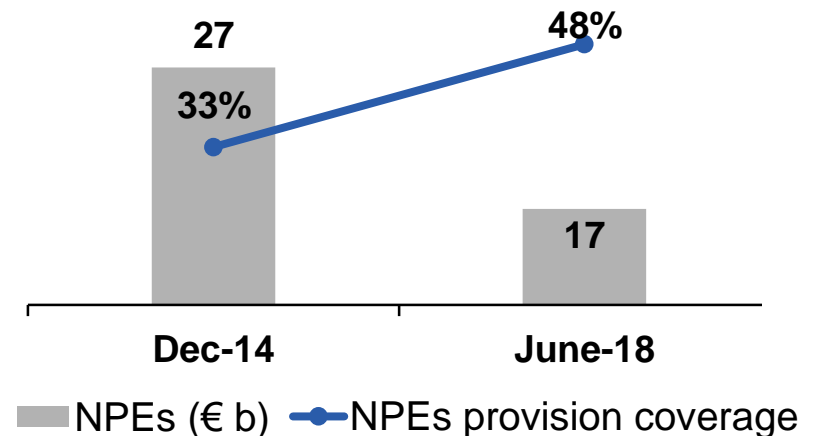
Banking sector size % GDP



System's deposits (Domestic HHs and NFCs)



Loan portfolio quality



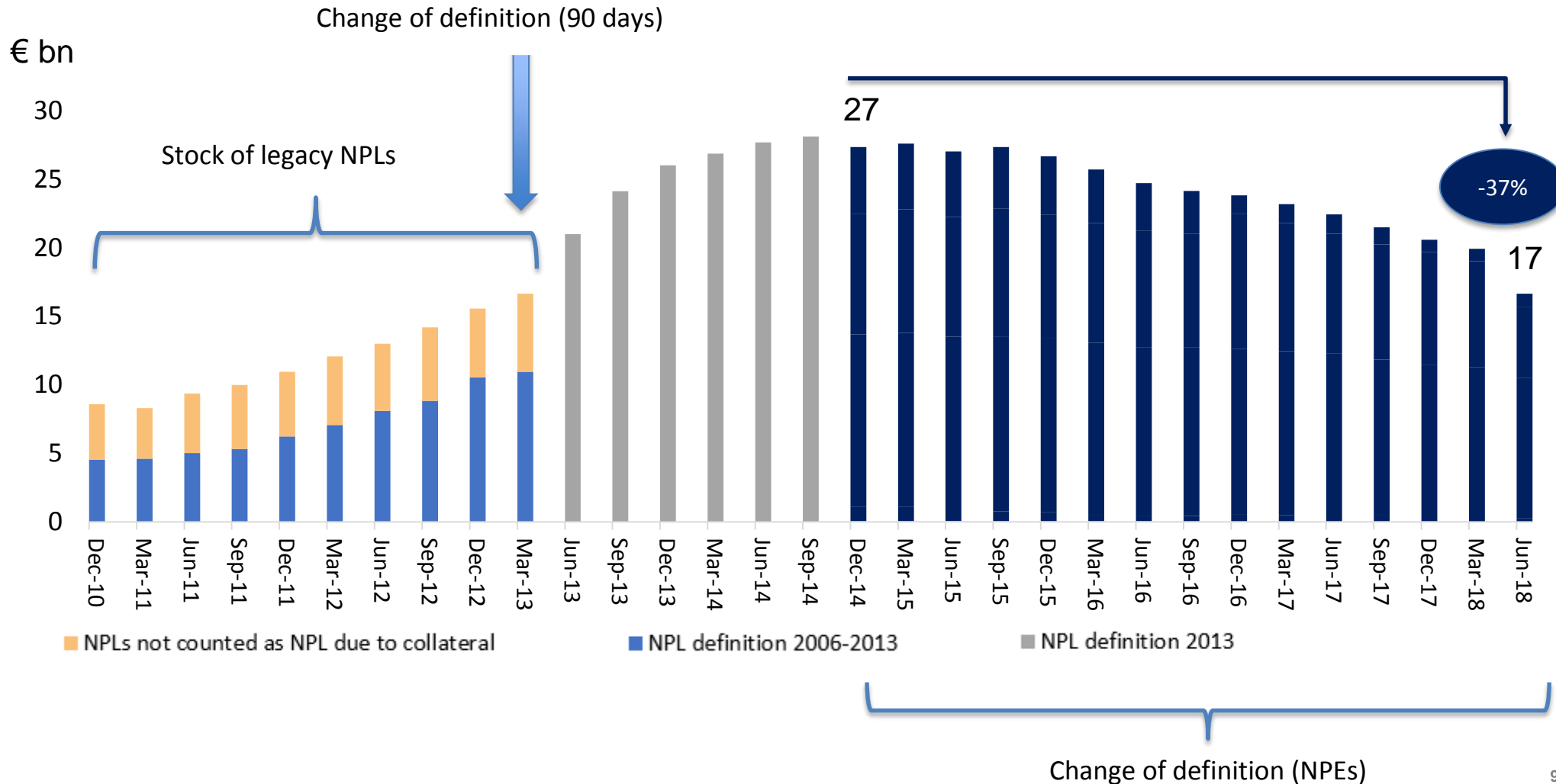
The Cyprus Banking System – Recent developments

... *consolidated, recapitalized, stronger*

Recent bold moves to clean up banks' balance sheets have reduced uncertainty in the financial sector

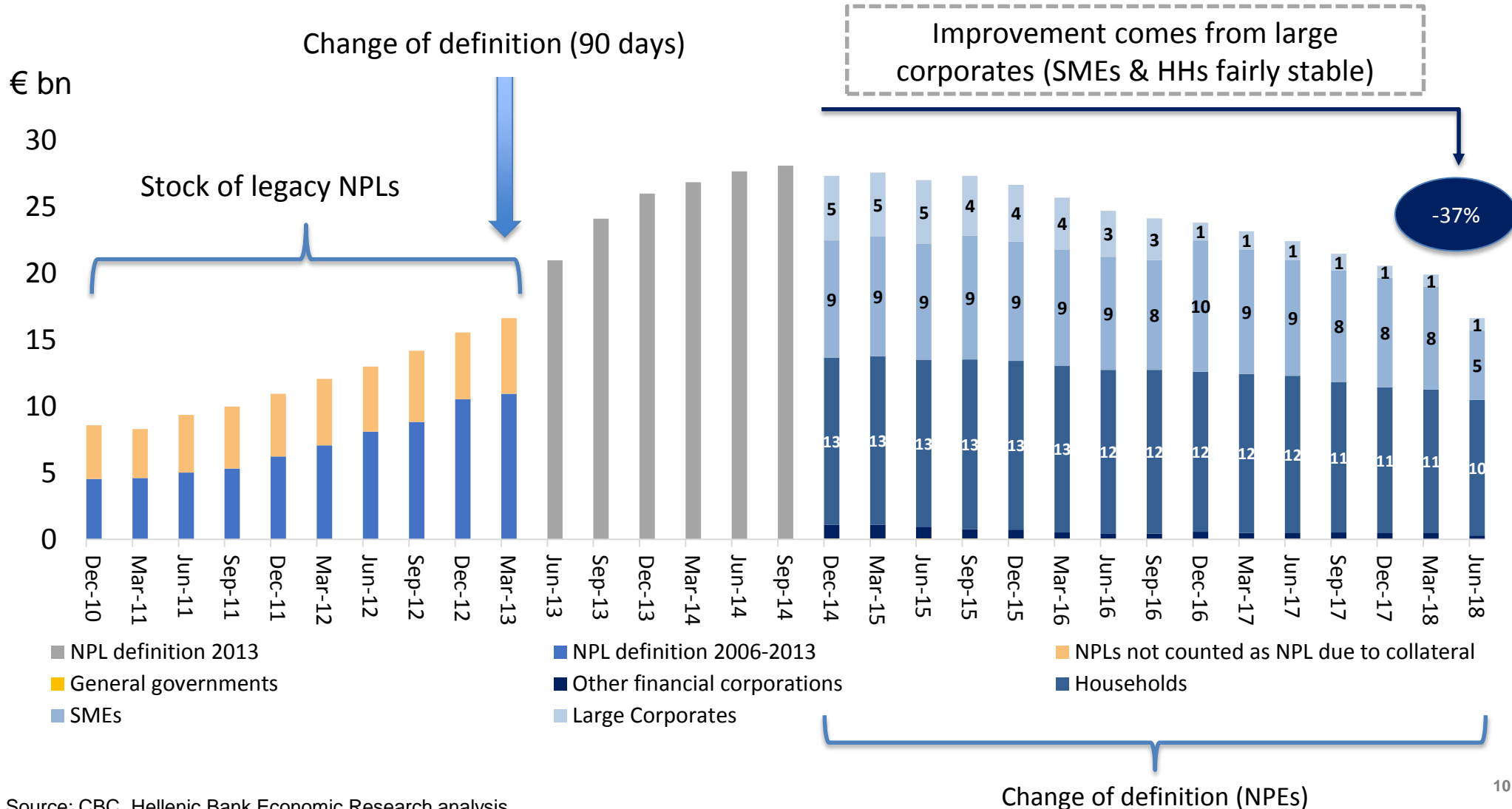
- A** The carve-out of CCB's non-performing exposures (ca EUR 5.7bn);
- B** The sale of loan portfolios by Hellenic Bank and Bank of Cyprus;
- C** The disposal of non-performing exposures by Alpha Bank Cyprus on an SPE
- D** The recent adoption of legislative amendments aimed at facilitating further sales of loans and strengthening the foreclosure and insolvency toolkits; and
- E** The design of a social policy programme ("Estia") by the Government aimed at providing financial assistance to "vulnerable" distressed borrowers (subject to income and wealth criteria) to start servicing their debt

Evolution of Non Performing Loans (NPLs) *...private sector deleveraging affects NPL metrics*



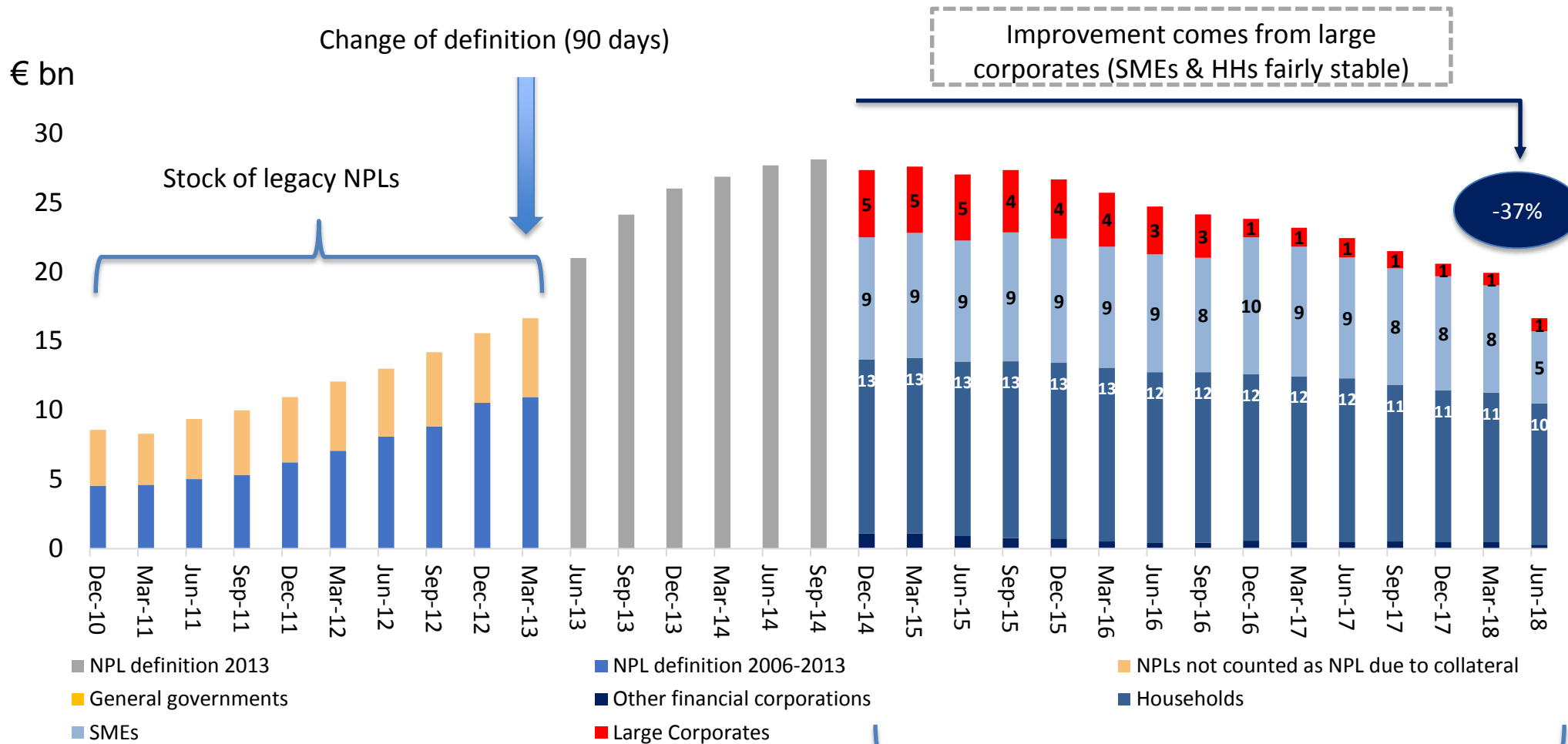
Evolution of Non Performing Loans (NPLs)

...private sector deleveraging affects NPL metrics



Evolution of Non Performing Loans (NPLs)

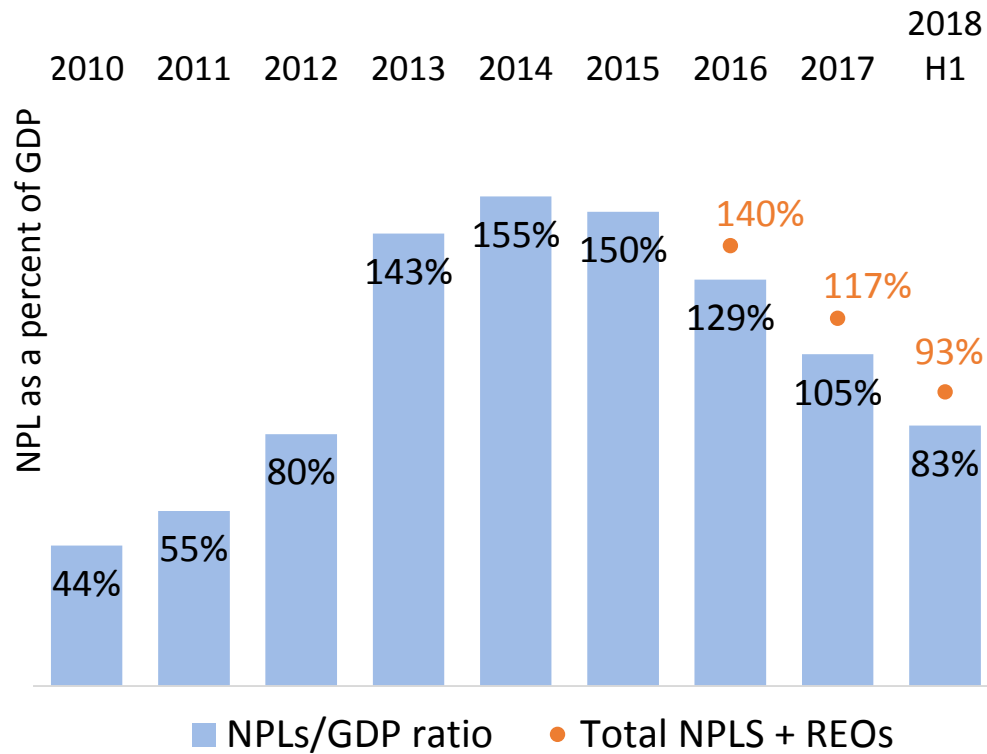
...private sector deleveraging affects NPL metrics



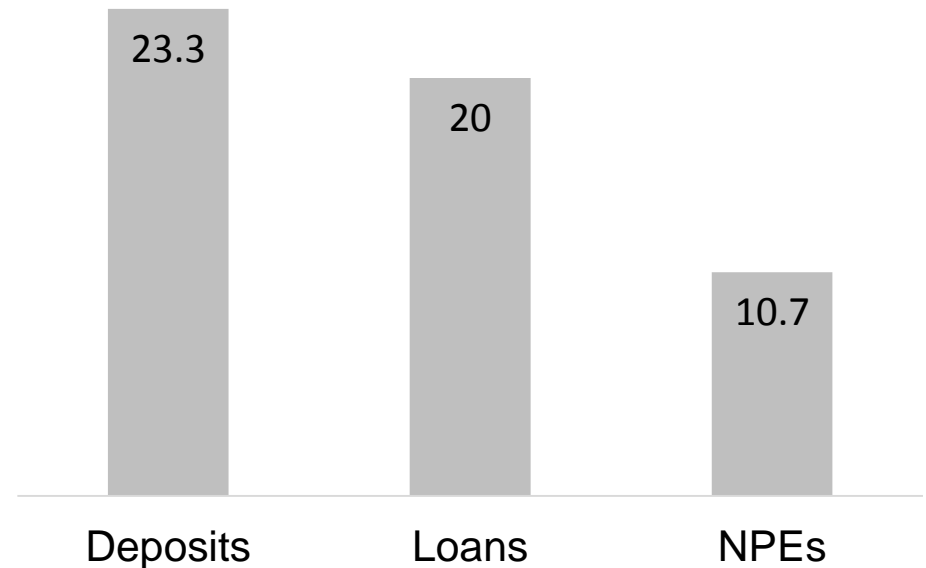
Change of definition (NPEs)

Evolution of Non Performing Exposures (NPEs)

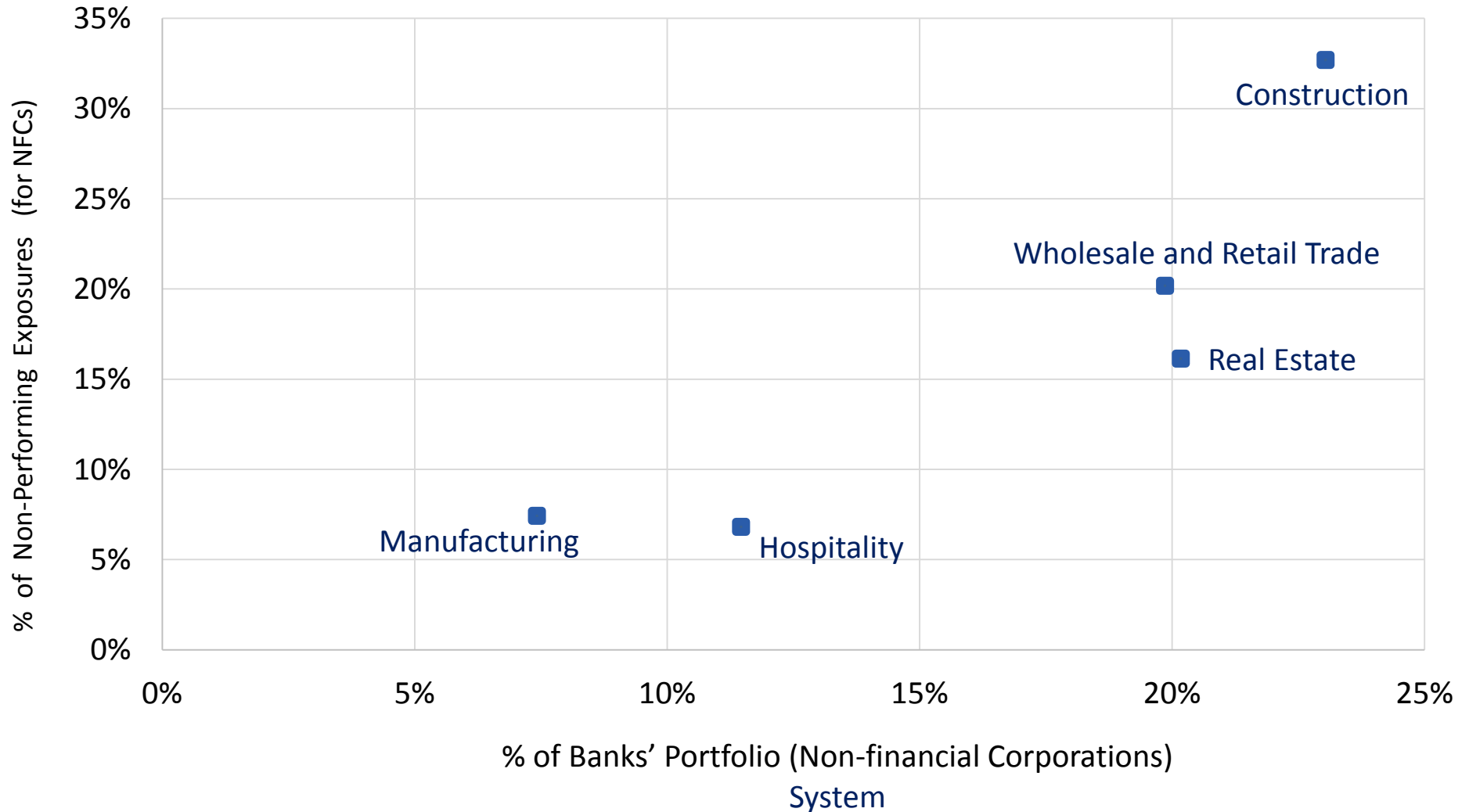
Historical Evolution of NPLs to GDP Ratio



Households' financial position (€ bn)



Non Performing Exposures (NPEs) for NFCs



The Cypriot Banking Sector

The way forward

Economic Growth is key. All efforts should be put forward on maintaining (and even improving) the current operating environment

More consensual tools to reduce problem loans, including restructuring, provisioning, write-offs and debt-to-asset swaps

The banking sector is ripe for further consolidation

Deleveraging will continue

More NPE sales

The last resort: Foreclosure Law – A Credible threat?

Thank you

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