

Current Banking Challenges



A BANKER'S / ECONOMIST'S PERSPECTIVE

Bank Challenges



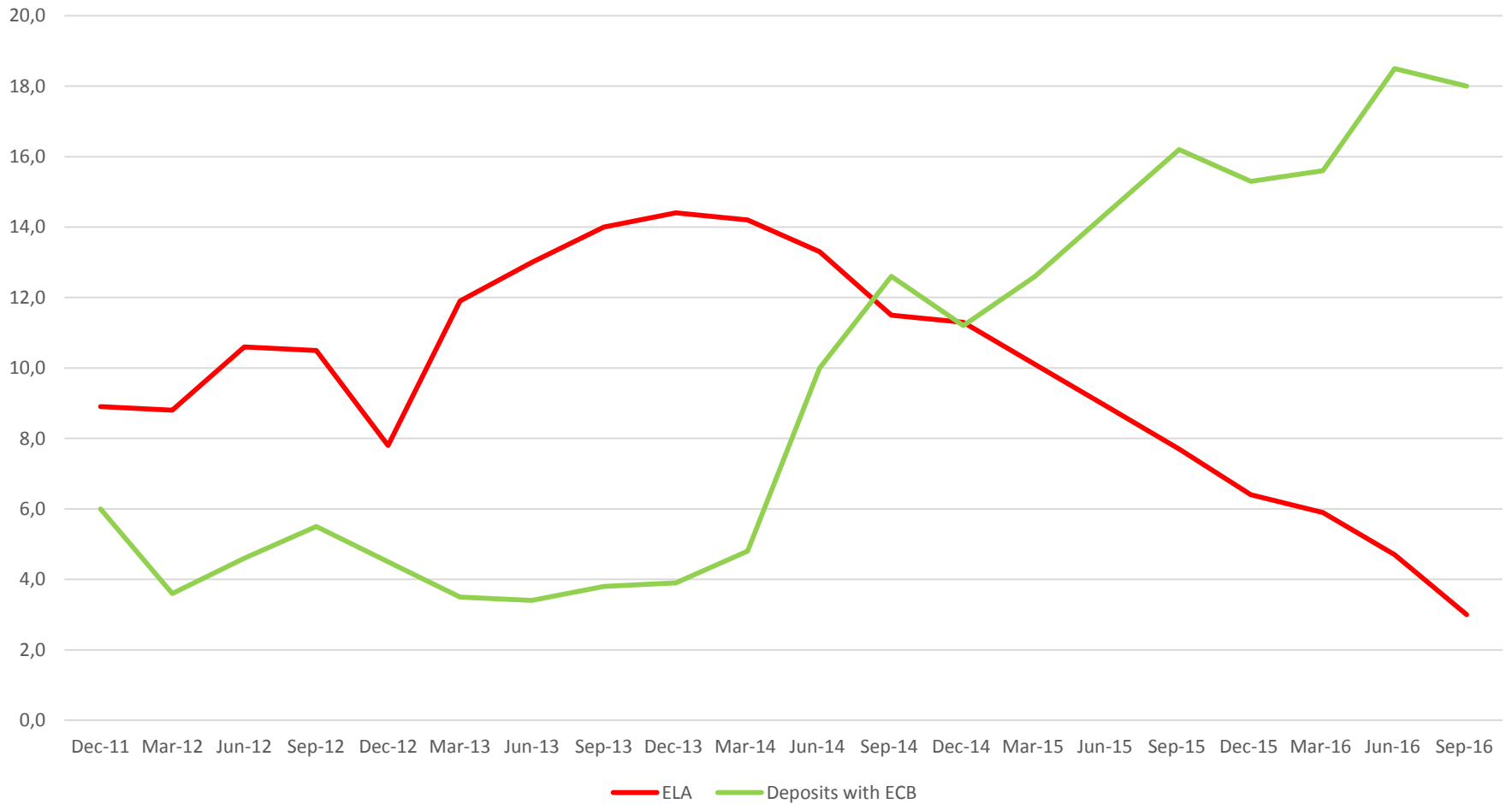
Covered

- ✓ Deposit Outflows
- ✓ NPL's management
- ✓ New Lending
- ✓ Interest Rates
- ✓ Profitability
- ✓ Regulatory
- ✓ Political

Not Covered

- ✗ Local Mergers & Asset Sales
- ✗ Industrial Relations/Unions
- ✗ Changing Views on Tax Avoidance & Laundering

Liquidity



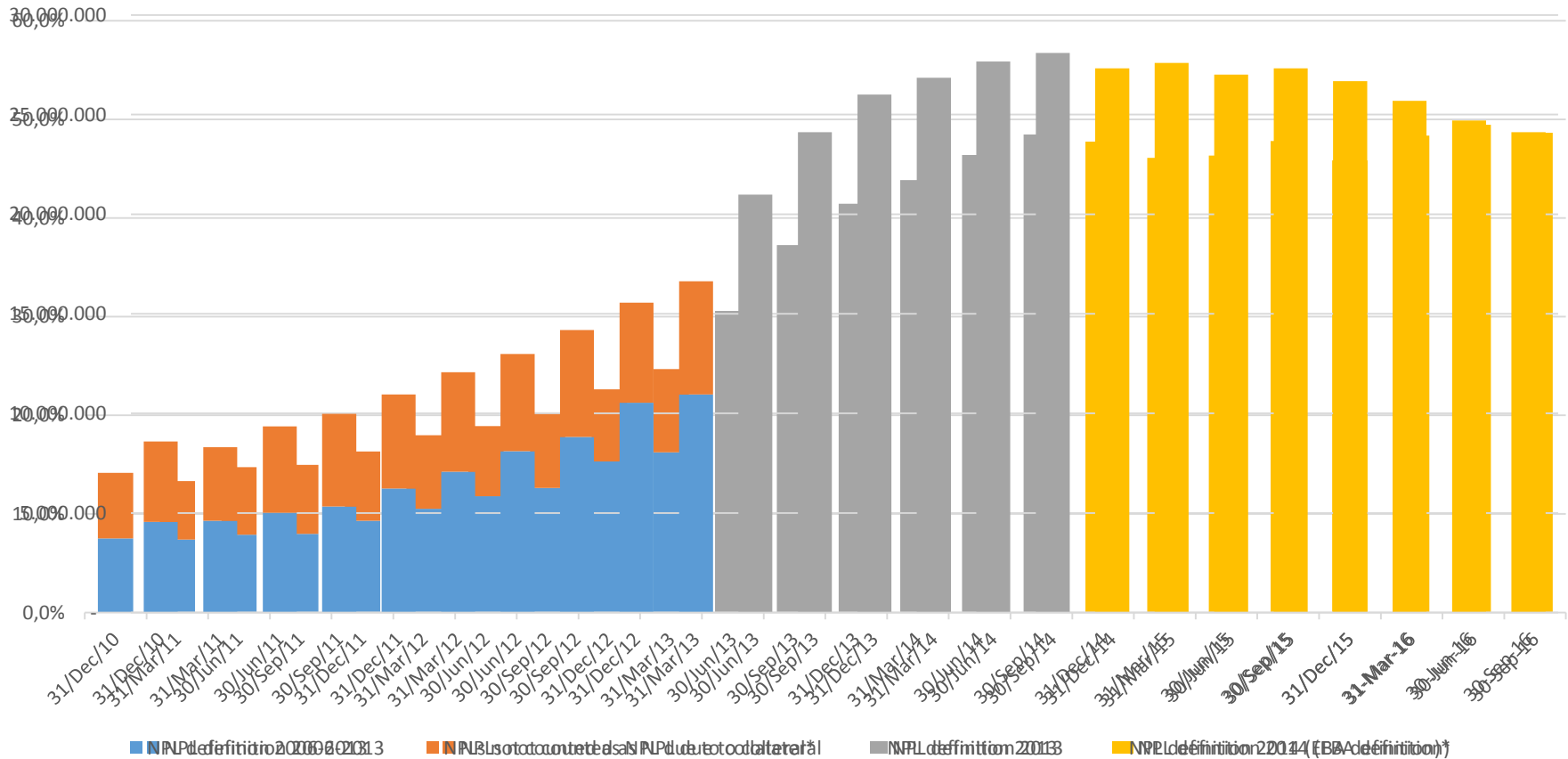
Liquidity Situation has improved

NPL Evolution

CY Operations only

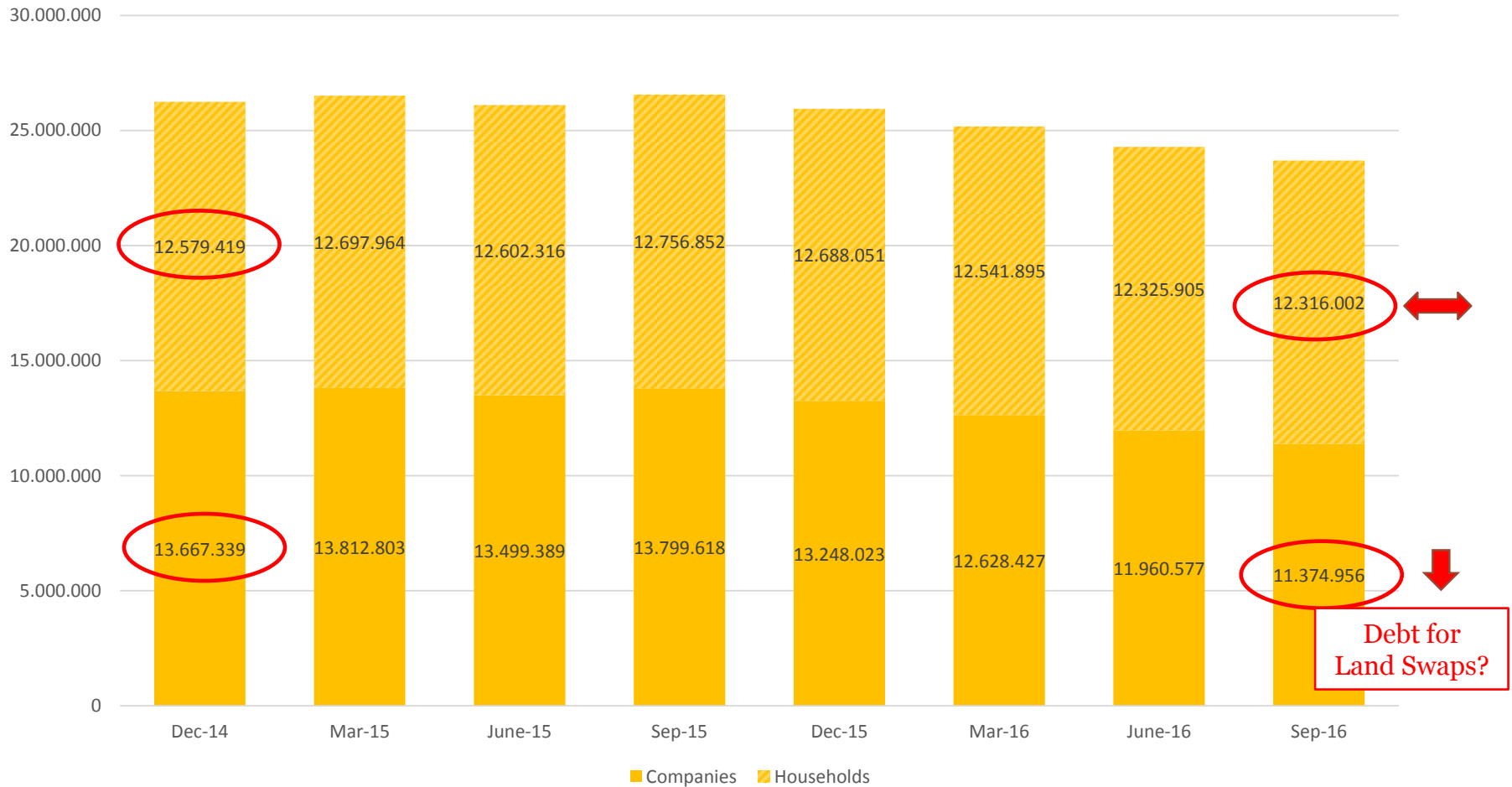


NPL evolution (€000s)



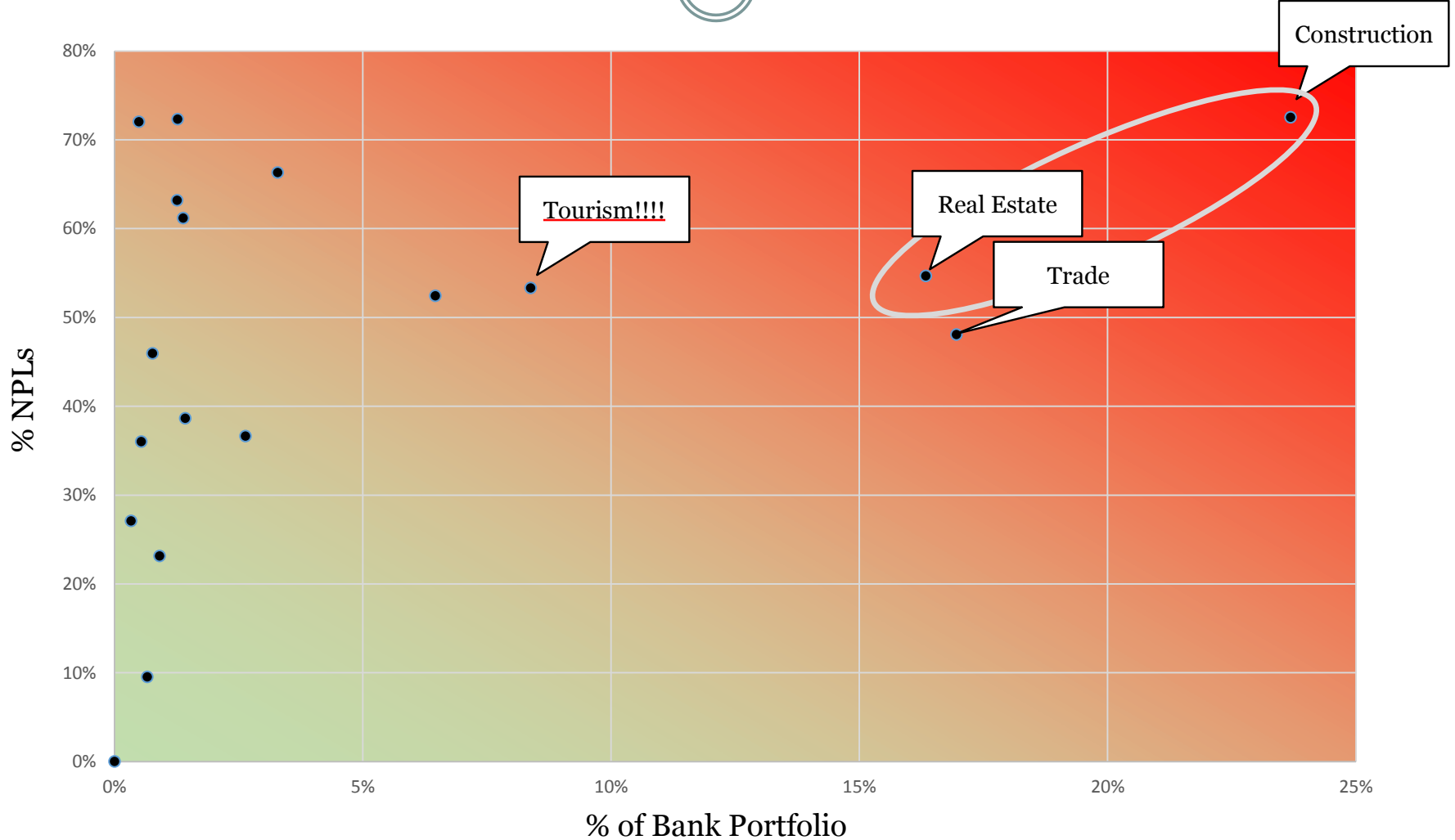
About 50% of NPLs are “terminated” and, hence, not restructurable

NPLs by Type



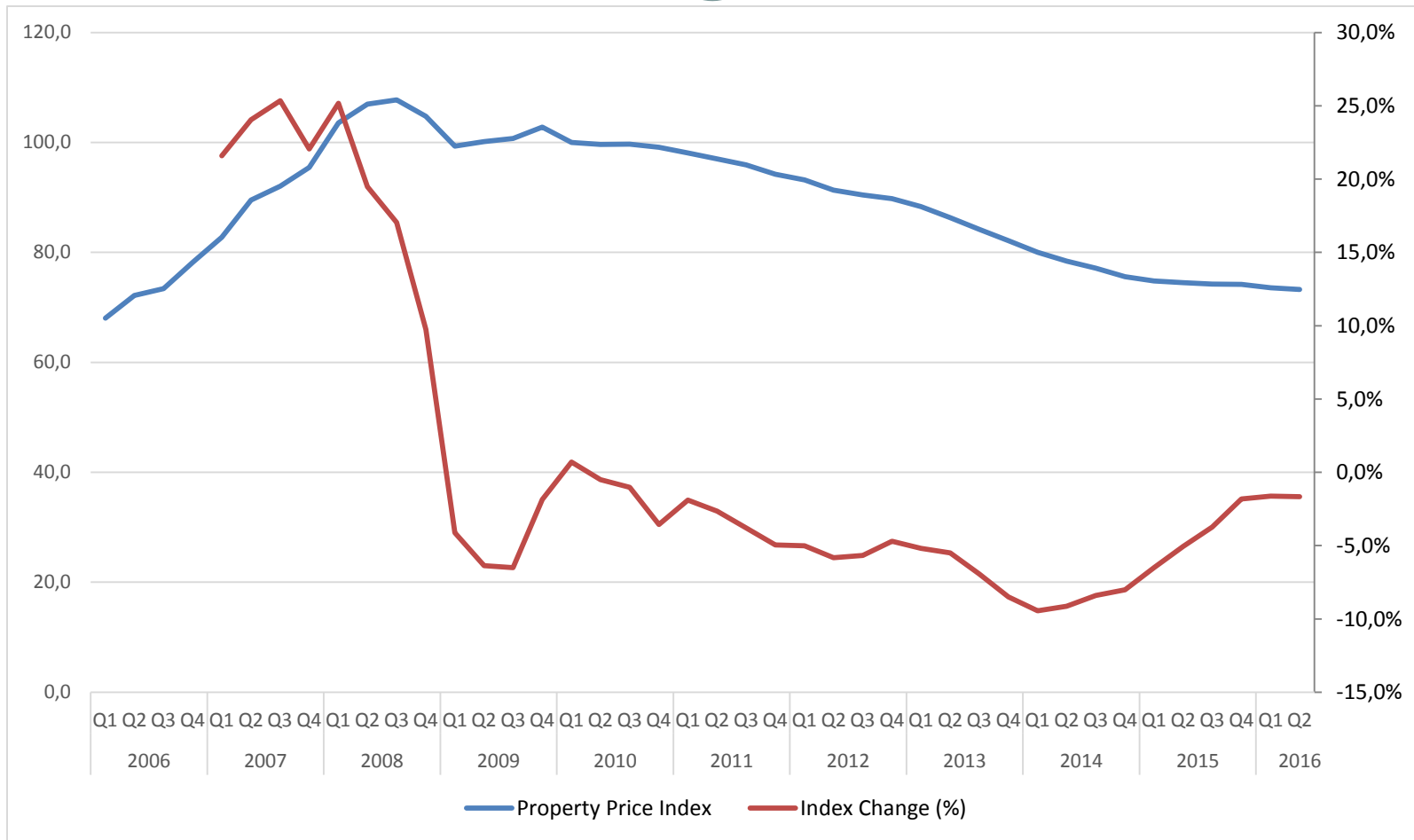
NPLs a NPL reduction is mainly Company driven holds

NPLs by Sector



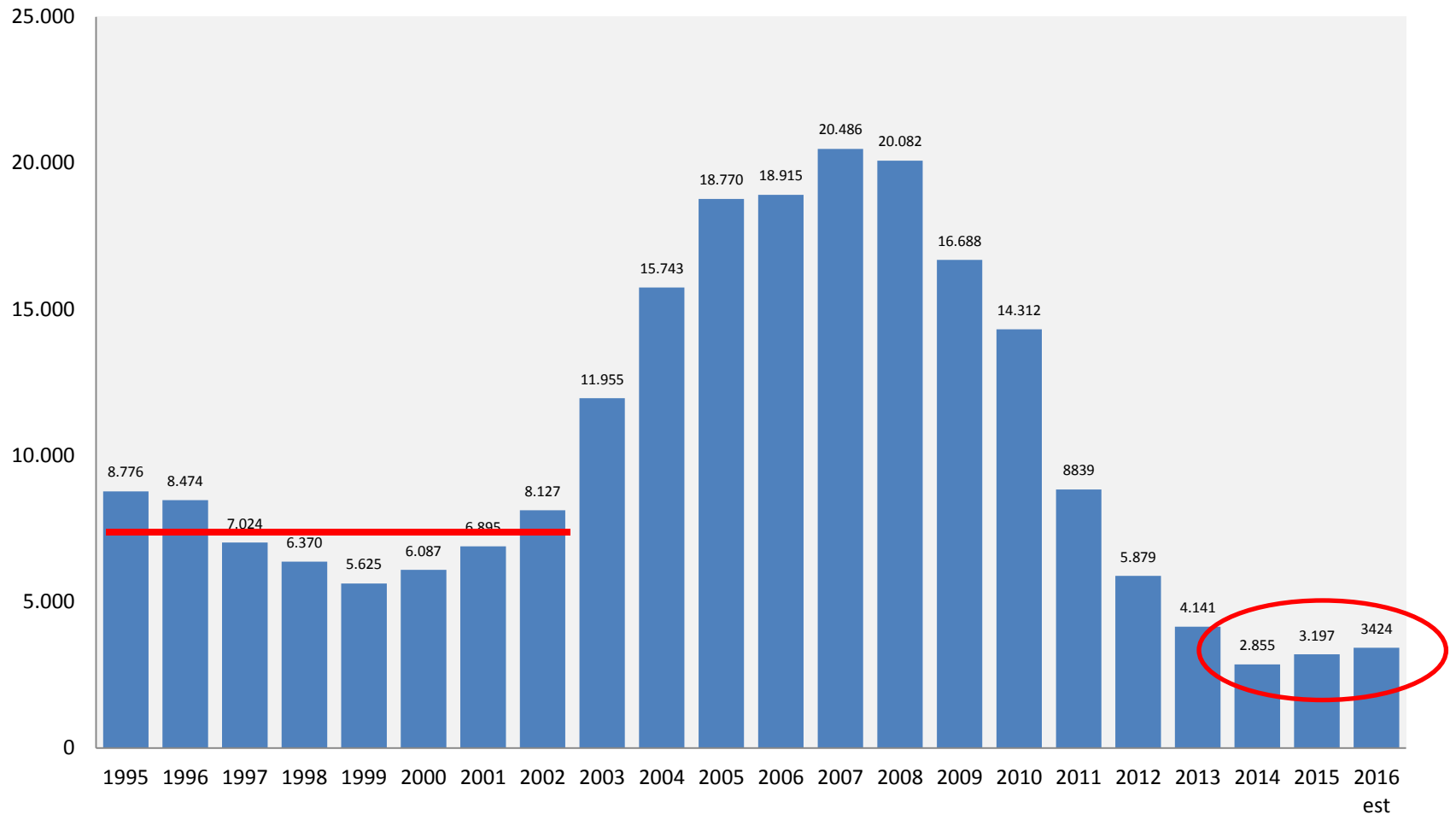
Property Market is Important in NPL resolution

NPLs: Property Price Index



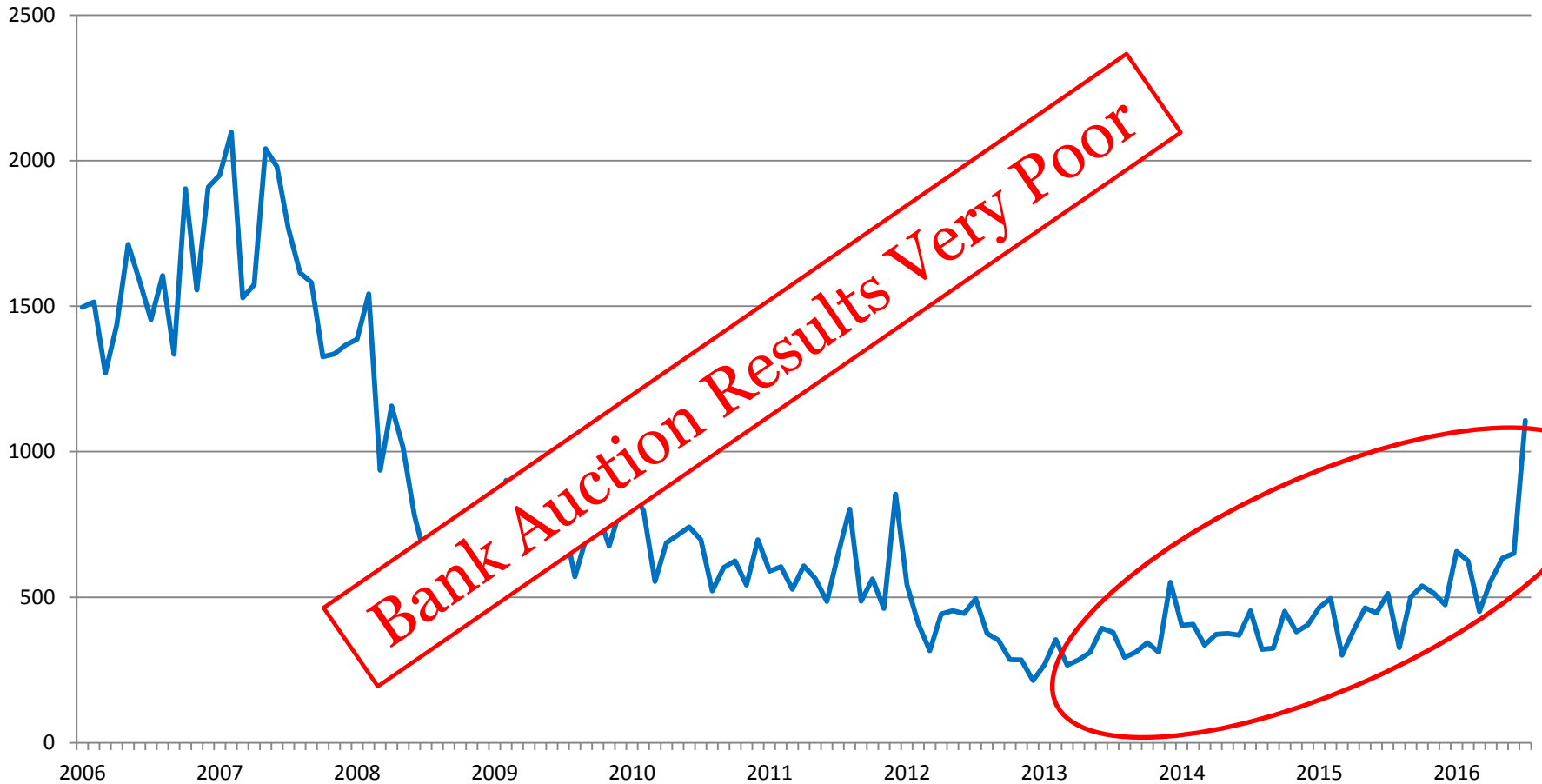
Property Prices seems to be stabilizing

NPLs: Construction – Housing Permits



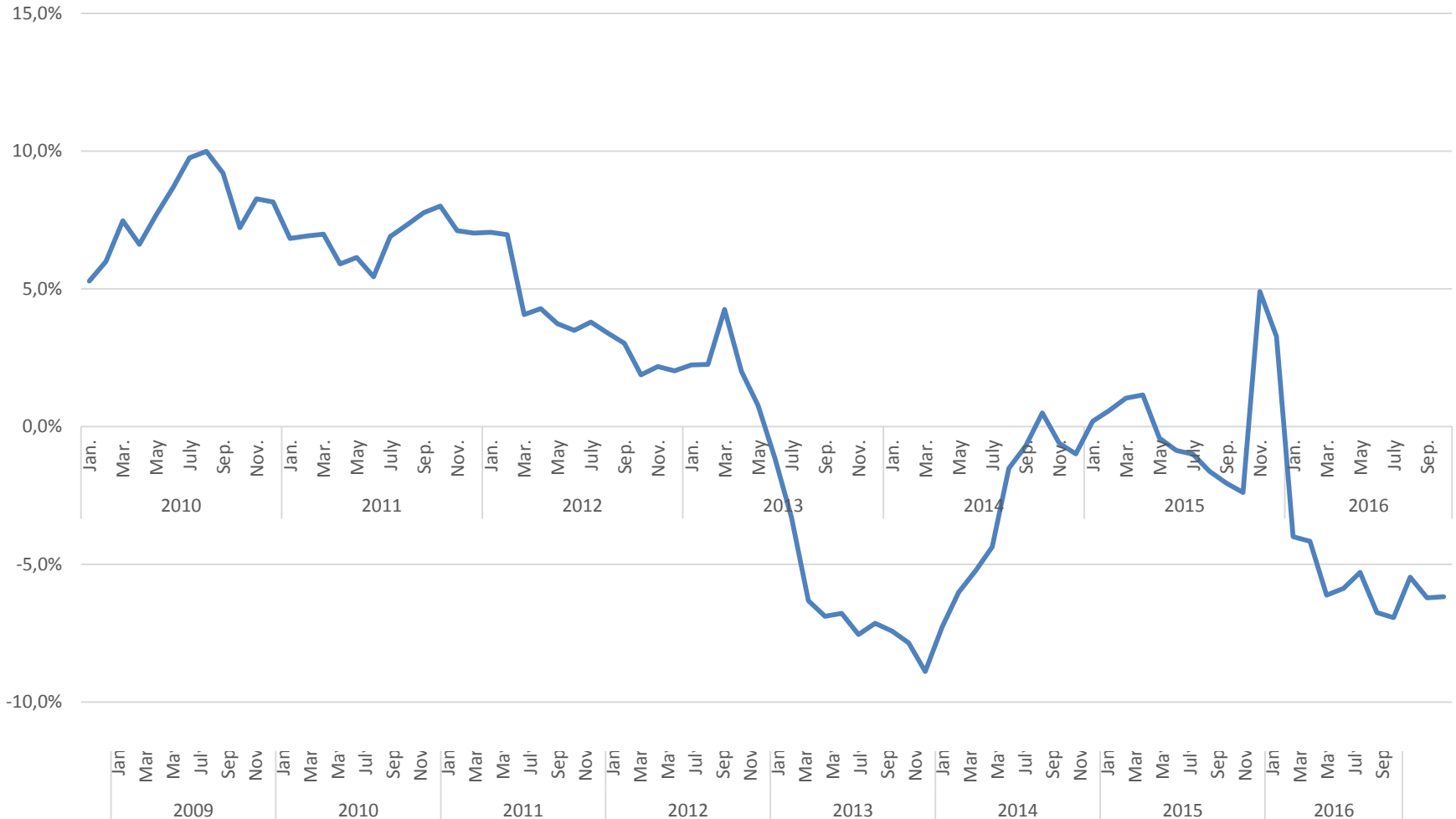
Reduction in New Building Permits improves prospects of disposing existing stock

NPLs: “Immovable Property” Sales/Purchases



Buying Passports

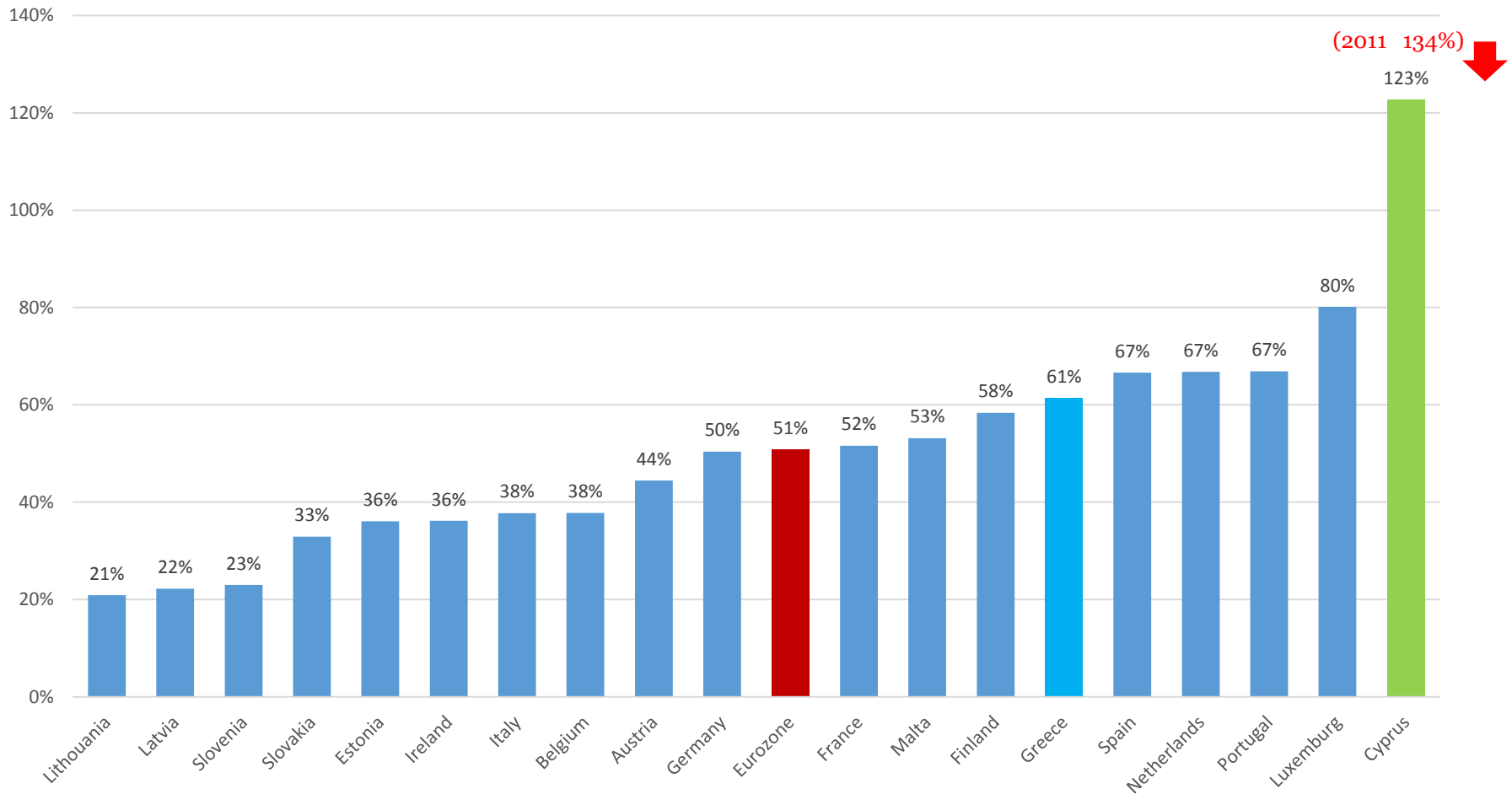
New Loans - Deleveraging



Overall Deleveraging continues - Banks risk turning to “Bad” Banks

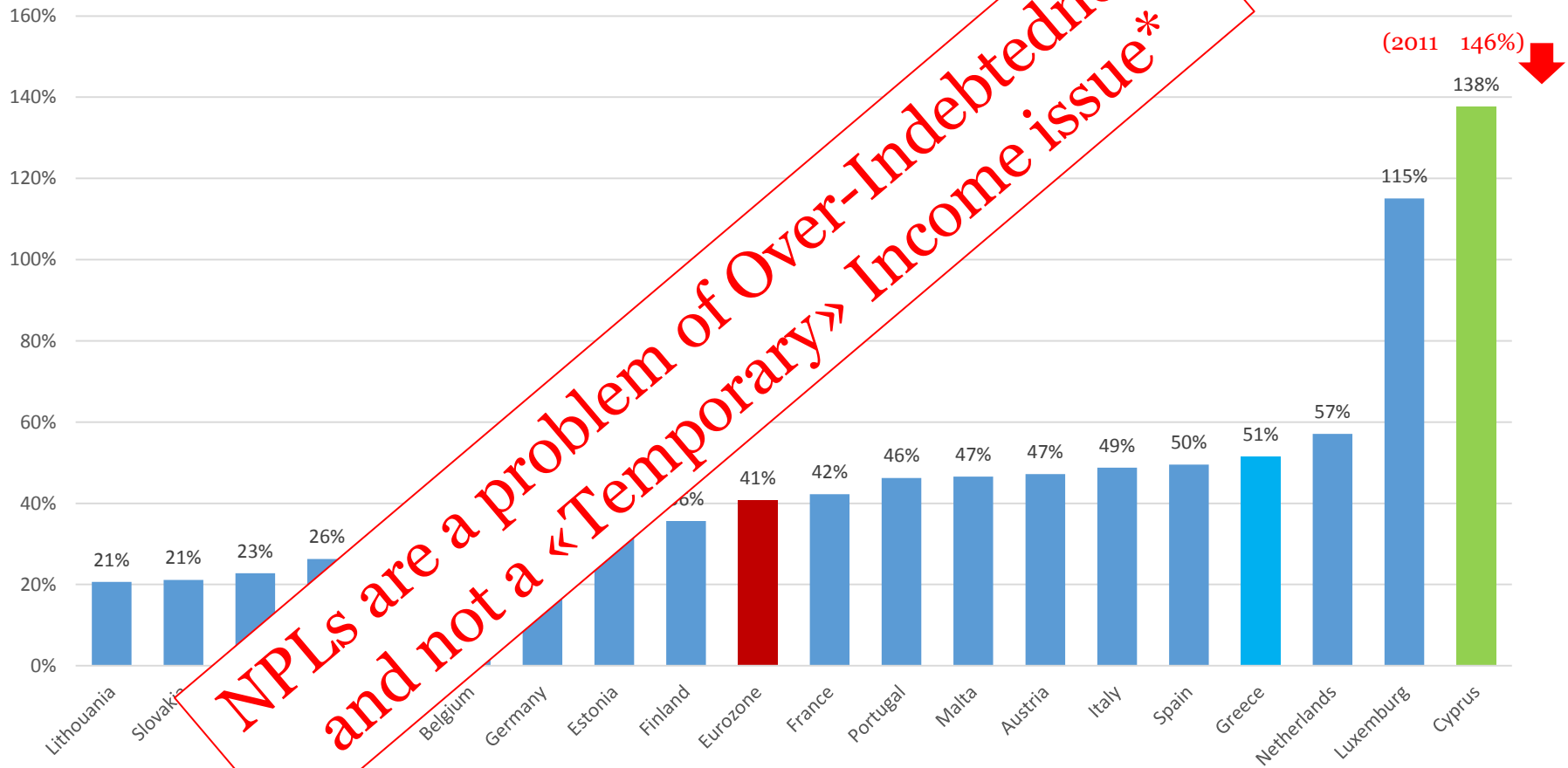
Over leveraged Private Sector

Household Loans/GDP (2015)



Over leveraged Private Sector

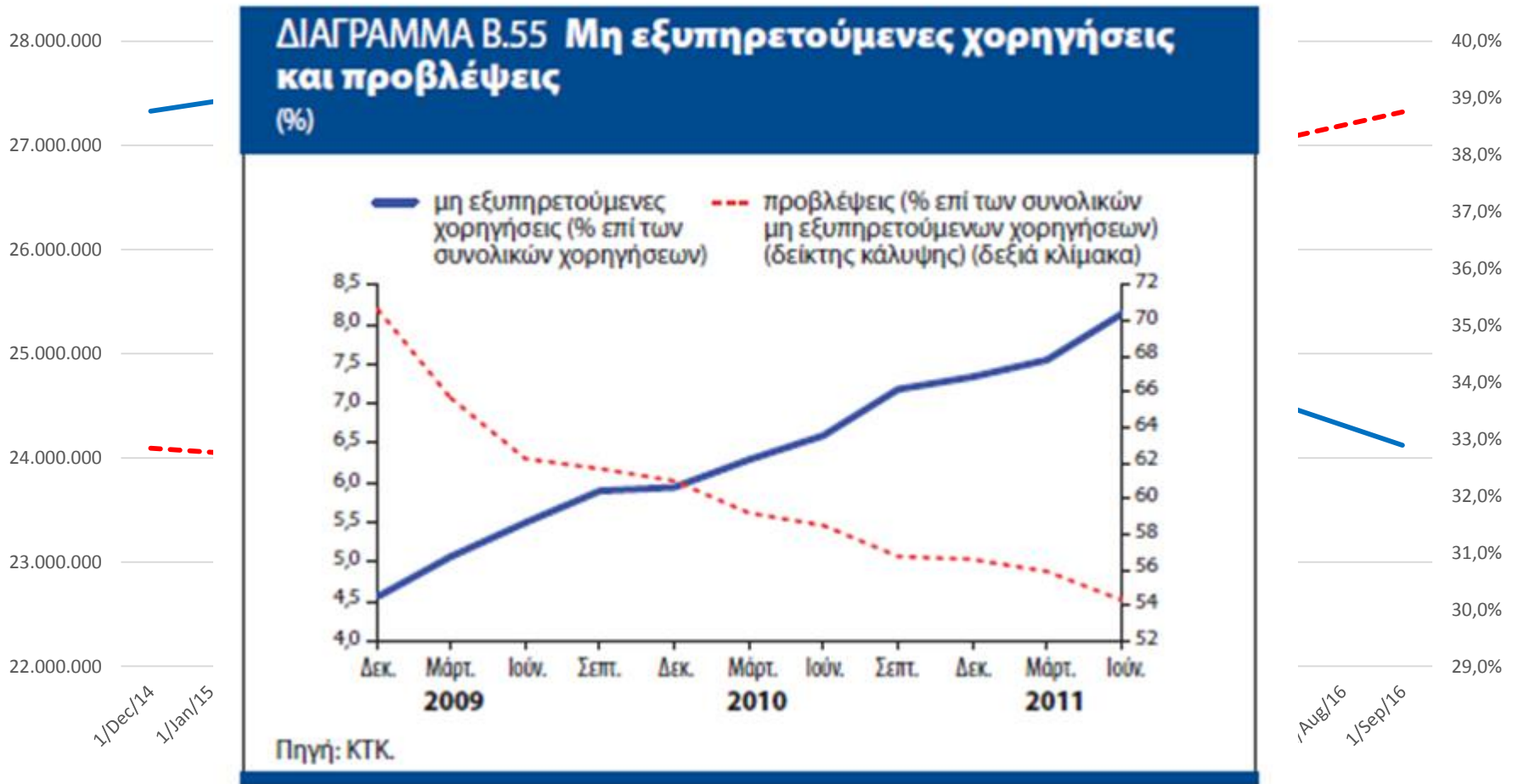
Business Loans/GDP (2015)



**NPLs are a problem of Over-Indebtedness
and not a «Temporary» Income issue***

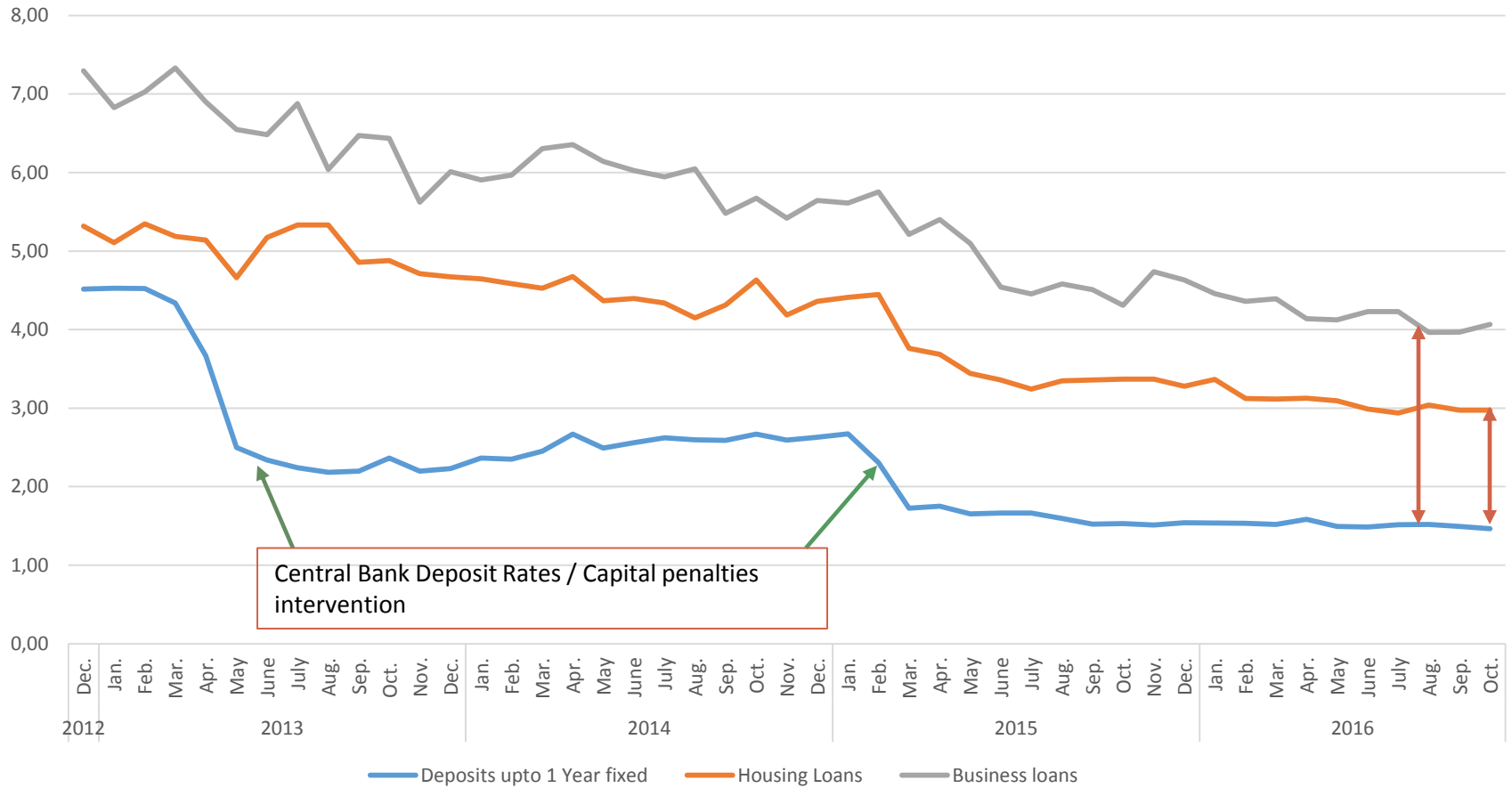
Over leveraged Private Sector is a source of NPLs and hinders new Loans

NPLs & Provisions



NPLs Falling and Provisions Increasing

Interest Rates

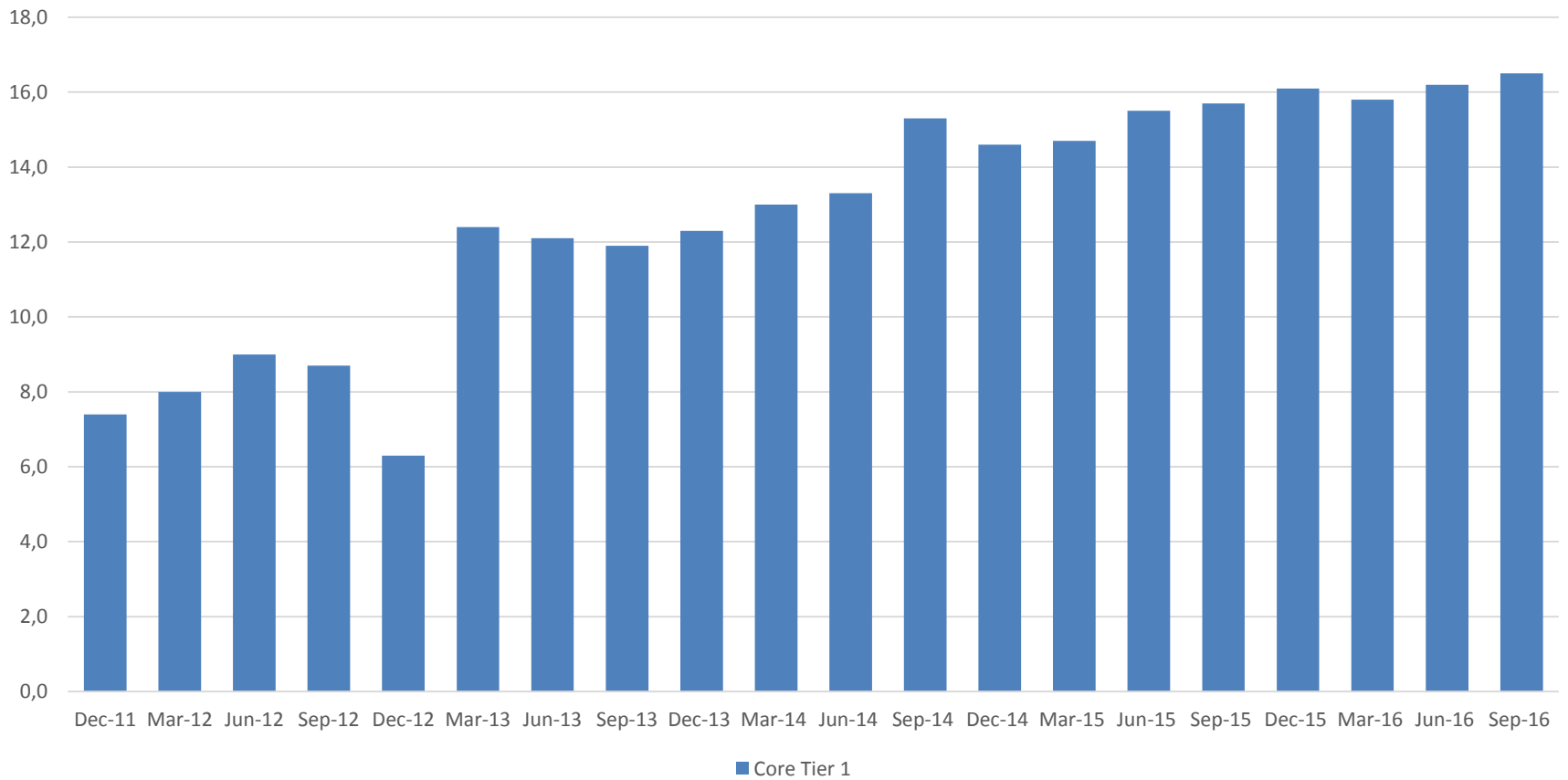


Competition Leads to Risk Underpricing

Regulatory



Capital Ratio



Regulatory

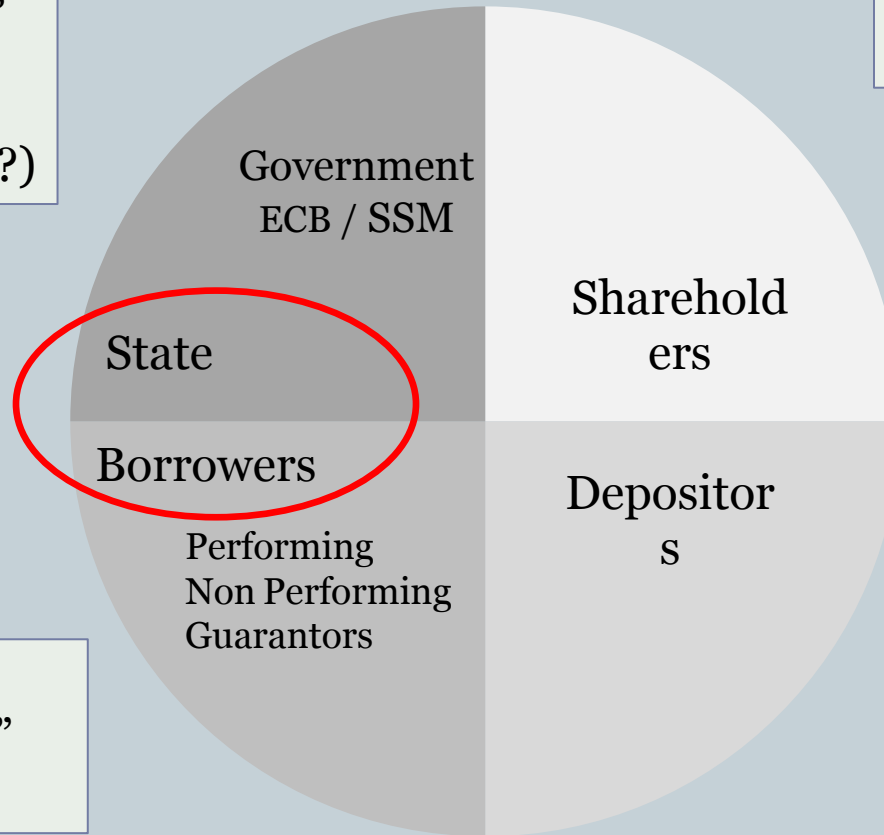


- Capital Requirements
 - Capital Buffers
 - MREL
 - Basel 4
- IFRS 9

Political Challenge*

- Maximise Votes
- Cheap Finance
- Protect itself (and Taxpayers?)

- High Profit
- Quick Returns

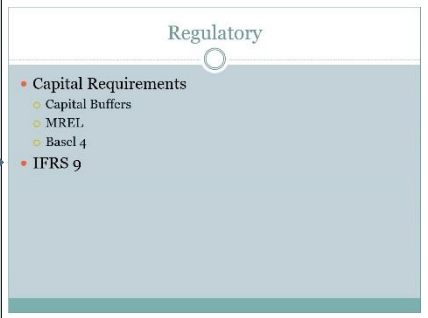
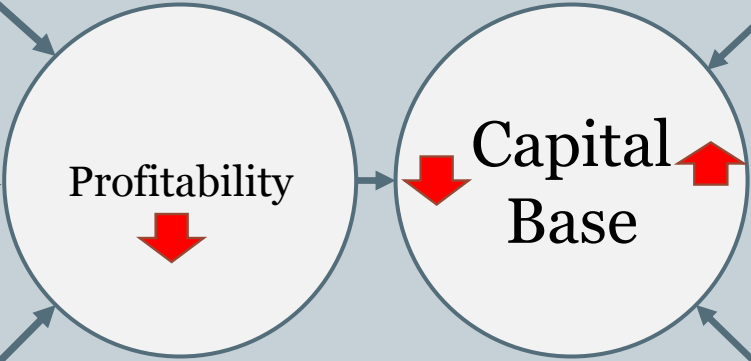
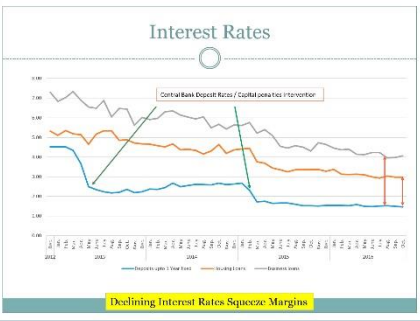
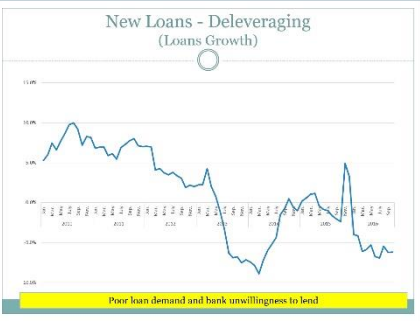


- Cheaper Loans
- Protect “homes”
- Write-offs

- Safety
- Return
- Access

*Charles Calomiris Bank Crisis Model

Bank Challenge(s)



Longer Term Challenges

New Banking Model?



- BoC / Coop too big?
- IBU?
- Cyprus Government Bond Holdings

Thank you