



Cyprus, a well managed and resilient Euro member

Investors' Presentation

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I. Cyprus, a flexible and diversified economy

- Key points of the economic environment
- Government policy to address the financial crisis
- Peer group analysis



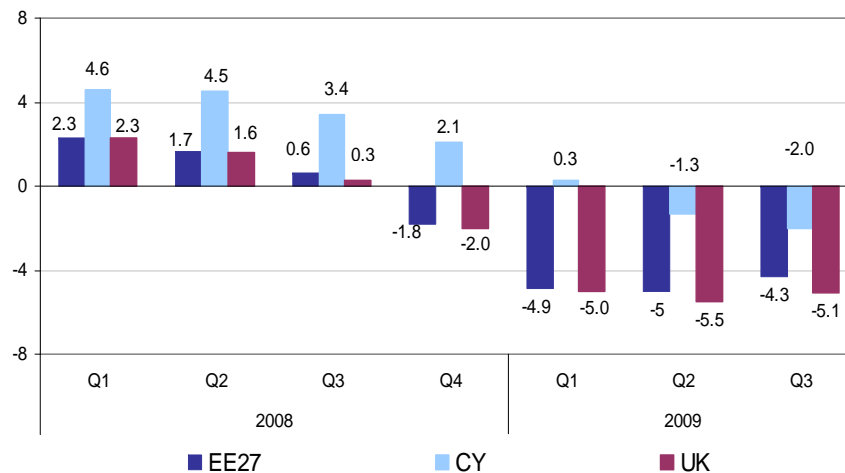
Key points of the economic environment

- Member of the Eurozone since 2008
- **Sound fiscal performance in recent years – relatively low public debt**
- Relatively **high GDP per inhabitant** (above 95.8% of the European Union average, and the highest of the 12 new EU members)
- Higher than European **GDP growth** (potential growth 3%)
- **Relatively low unemployment level** (currently around 5.5%)
- **Low inflation levels** (currently below 1%, core inflation around 2 -2.5%)
- Sound regulatory system
- Efficient and modern tax system
- Increasing diversification, with rapidly expanding financial intermediation, business services, private education and private health care sectors
- Well positioned as a quality **tourist destination**
- Reputable international business centre with enormous growth potential



Relatively satisfactory GDP performance, after a solid 2008...compared to rest of EU

- Cyprus was not affected directly by banking crisis, growth remained positive in 2008
- Indirect effects came through with a lag, especially affecting investment (real estate) and tourism
- Growth in 2009 is estimated at -1%
- We expect growth to pick up slightly to 0.5% in 2010, and 1.5% in 2011 and gradually reach 3% by 2013



GDP forecast (SA data)

	2009	2010	2002/ 2009	2010/ 2013
GDP growth	-1.0	0.5	3.0	2.1
Private Consumption	-0.5	0.5	4.5	3.3
Public Consumption	2.4	1.0	3.4	1.1
Gross Fixed Capital Formation	-8.3	-8.3	6.3	-1.0
Exports	-13.5	1.2	-0.1	3.6
Imports	-19.6	5.1	2.7	5.3
Unemployment Rate (%)	5.2	6.5	4.3	6.1
Employment growth	-0.7	0.0	2.1	0.9
Productivity Increase (%)	-0.3	0.5	0.8	1.1
Current Account Balance (% of GDP)	-7.8	-11.1	-7.6	-11.5

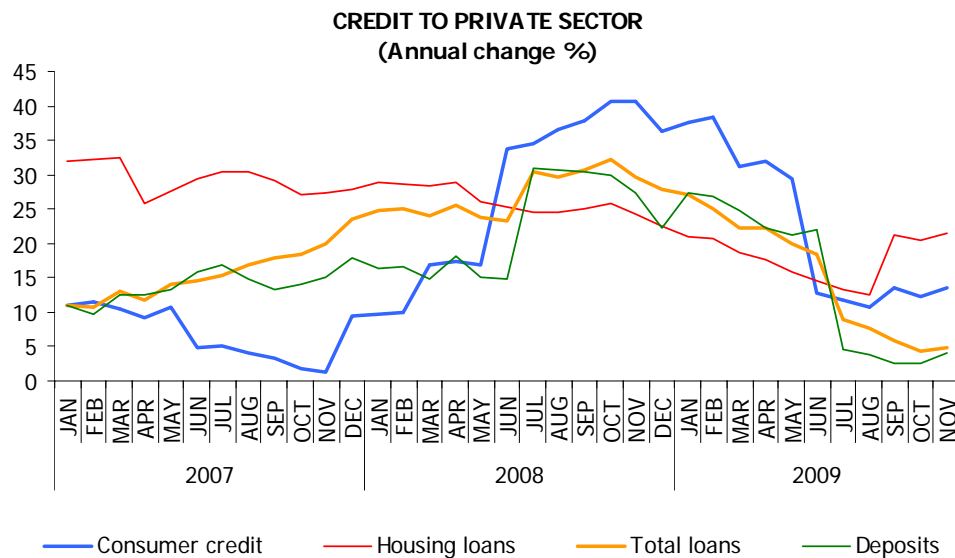
Source: Ministry of Finance

Note: 2009 GDP growth is based on preliminary estimations

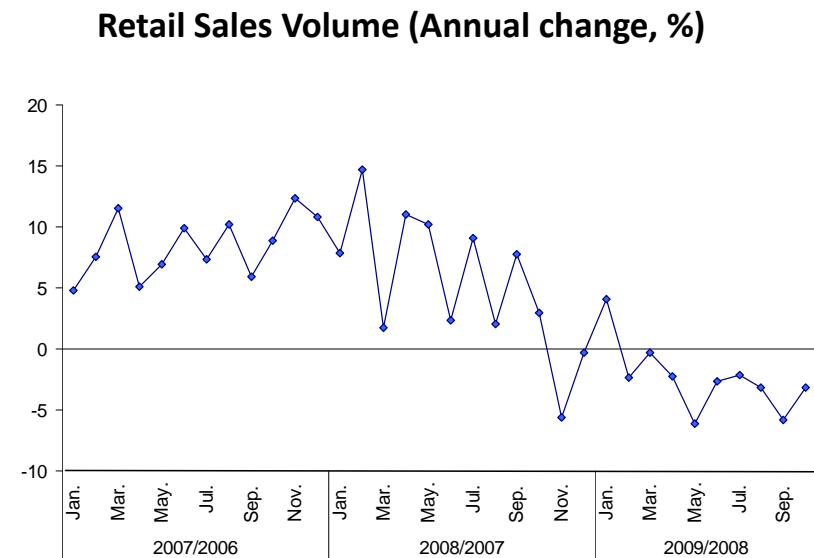


No credit crunch

- Sufficient and satisfactory credit to finance economic activity
- Credit growth decelerated, but remained at satisfactory levels
- Private consumption exhibited a marginal decline



Source: CBC



Source: CYSTAT



Labour market developments

- Strong employment growth during the last years, but employment stagnated in 2009 at the levels of 2008, with unemployment at around 5.5%.
- Wage developments in line with productivity
- Inflow of foreign workers helps to ease the wage pressures
- Small increase in the unemployment, especially in more vulnerable sectors

Unemployment rate and Registered Unemployment (in 000's)

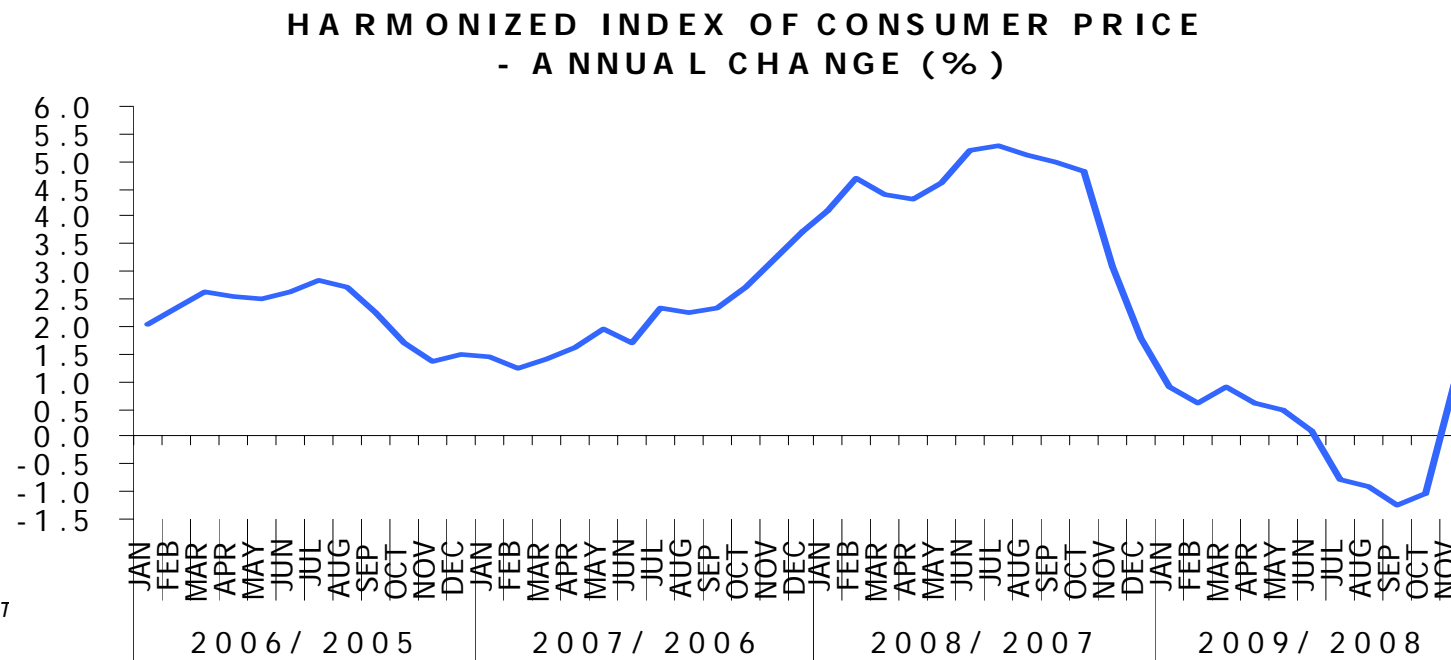


Source: CYSTAT and Eurostat



Deceleration of inflation

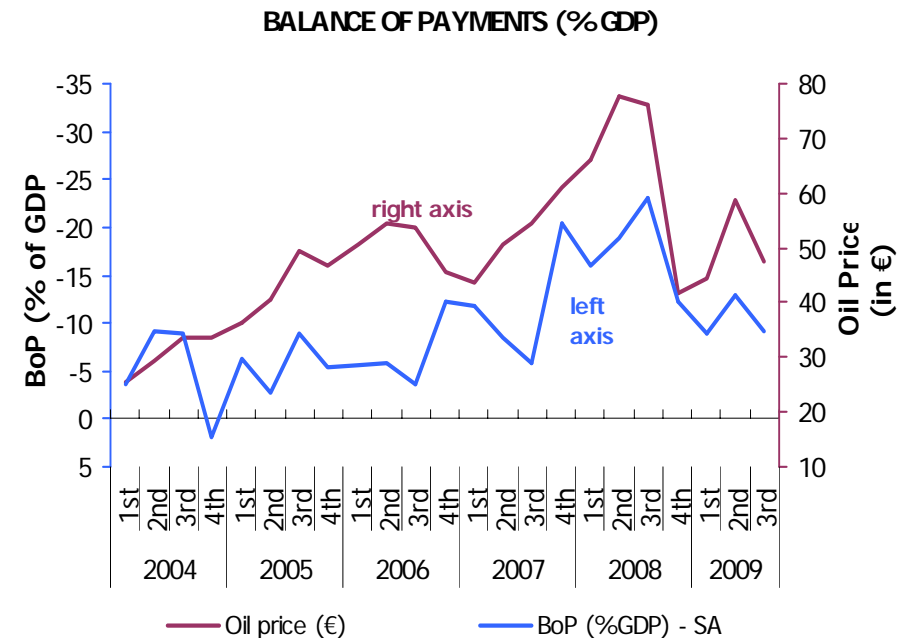
- Low inflation over the medium-term: core inflation around 2.5%, close to EU average
- Headline inflation decreased to 0.3% in 2009
- Expect pick up of inflation due to base effects linked with oil prices in 2010





The trade deficit has narrowed markedly

- Current account deficit in 2008 was 17.75% of GDP due to:
 - significant increase in value of imports of fuels
 - accounting treatment of International companies' inflows/outflows which makes up 4% of the CA deficit
 - strong increase of imports of motor vehicles due to advanced purchases
- Trade balance (goods and services) expected to narrow from 11.75% GDP in 2008 to around 6% in 2009.
- Current account is expected to moderate to 7-8% of GDP.
- Significant capital and financial inflows financed the CA deficit
- The deficit is generally in line with Cyprus' peers



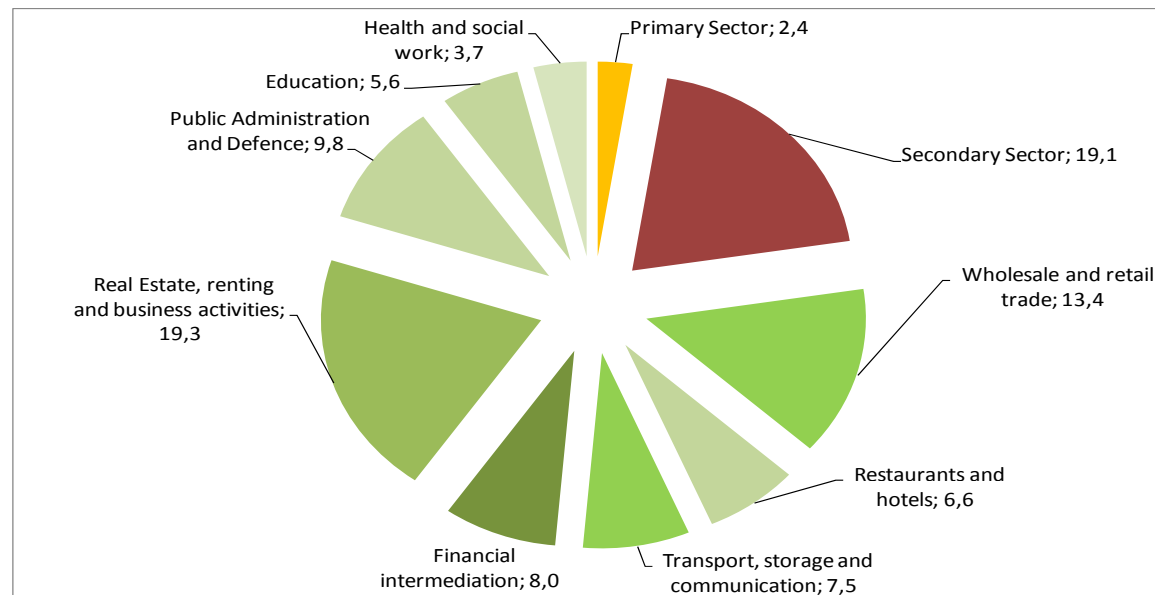
Source: CBC, EIA



Diversified structure of the economy

- Cyprus has a strong reputation as a Financial Service Centre with strong regulation and supervision and relies on a well balanced portfolio of services (as shown on the graph below)
- Cyprus has established itself as a high quality services provider as it possesses high-calibre professionals (accountants, lawyers, tax experts, banking and other financial services)

Structure of Economy (% of nominal GDP)





Reputable international business centre with enormous growth potential

- Modern and simple tax system based on low tax rates (lowest in Europe).
- Double Tax Treaties with more than 40 countries
- Compliance with OECD guidelines on tax transparency
- Cyprus is an attractive location to do business at the crossroads between Europe, Middle East and Africa
- Well developed ties with Middle-East, Central and Eastern Europe
- Stable and adaptable economy, low inflation
- Well-developed infrastructure in airports, ports and telecommunications
- Service economy with high consultancy services such as legal, accounting – operation on the island of all major international audit firms (KPMG, PWC, E&Y) offering audit, tax, legal and related services
- Operation of a sound banking system
- Cyprus legal system is modelled on the English legal system and European Law; also practises Common Law.



Cyprus copes well with the financial crisis

- Cyprus has coped relatively well despite international financial and economic crisis
- The Cypriot financial sector has remained sound throughout the crisis, with a strong liquidity position and a comfortable capital adequacy as well as sufficient profitability
- Cypriot Banks not dependant on ECB funding as this funding is less than 5.5% of their assets.
- Targeted fiscal stimulus measures helped maintain economic activity in weaker sectors



Peer group analysis

Cyprus is rated in the double A category by two of the three major Rating agencies

2008 data	Cyprus	Slovenia	Slovakia	Portugal	Italy	Malta	Greece
Rating S&P	A+/Stable	AA/Stable	A+/Stable	A+/Neg	A+/Stable	A/Stable	BBB+/Neg
Moody's	Aa3/Stable	Aa2/Stable	A1/Stable	Aa2/Neg	Aa2/Stable	A1/Stable	A2/Neg
Fitch	AA-/Stable	AA/Stable	A+/Stable	AA/Neg	AA-/Stable	A+/Stable	BBB+/Neg
Macroeconomic indicators							
GDP growth (%)	3.6%	3.5%	6.2%	0.0%	-1.0%	2.1%	2.0%
GDP / capita (€)	31,916	27,063	17,650	23,092	38,682	20,297	31,328
Inflation (CPI change) [HICP]	4.4%	5.5%	3.9%	2.7%	3.5%	4.7%	4.2%
General government data							
General gvt balance (% of GDP)	0.9%	-1.8%	-2.3%	-2.7%	-2.7%	-4.7%	-7.7%
Gross general gvt debt (% of GDP)	48.4%	22.5%	27.7%	66.3%	105.8%	63.8%	99.2%
Balance of payments							
Current account balance (% of GDP)	-17.7%*	-6.1%	-4.6%	-9.7%	-2.0%	-6.5%	-10.7%
Current account balance (% of current account receipts)	NA	NA	-5.1%	-21.9%	NA	NA	NA



II. Sound fiscal policy framework

- Solid fiscal performance
- Fiscal flexibility

Fiscal performance

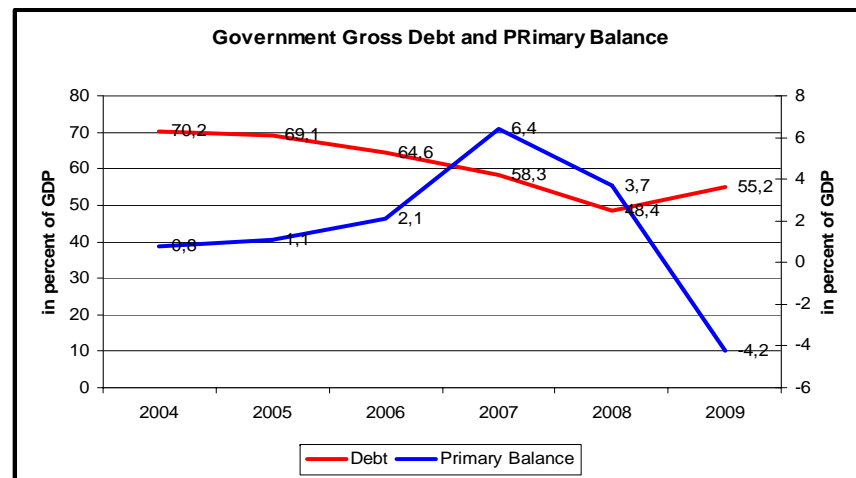
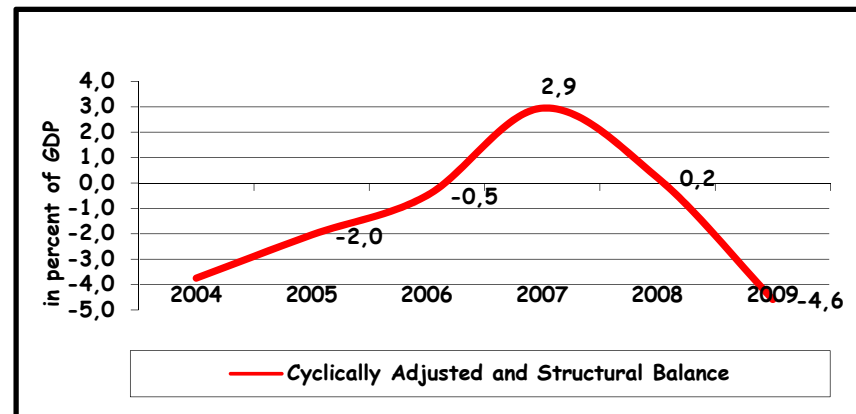
- Expansionary fiscal stance in line with EU recommendation.
- Turnaround in public finances mainly due to the contraction of revenues.
 - Economic slowdown.
 - Composition of growth.
 - Asset price effects.
 - Commodity prices.



Fiscal performance

- The turnaround in economic prospects point towards a **deficit of around 6% of GDP in 2009**.
- **Debt to GDP ratio** remains below the 60% reference value (**55.2% of GDP in 2009**).
- **Primary balance** is forecast to turn into deficit reaching **4.2% of GDP** compared with a surplus of 3.7% in 2008
- **Structural balance** is also projected to decrease to a **deficit of 4.6% of GDP** in 2009 compared with 0.2% of GDP in 2008

Cyclically Adjusted and Structural Balance





Solid fiscal performance (cont'd)

Fiscal strategy is based on the following parameters:

- **The implementation of a Medium-Term Budgetary Framework (MTBF)**, which will institutionalise expenditure-based rules, give more independence to spending ministries and, at the same time, increase their accountability
- **Strengthening social cohesion**, with particular emphasis on raising the standard of living of pensioners. Priority will be attached to households with at least one pensioner living below the relative poverty measure as well as to the reform of the social welfare system in general
- Implementation of **structural reforms** as outlined in the National Reform Programme of Cyprus
- The **modernisation of the public sector**, which will result in leaner and more productive public services. Such a policy will limit expenditure growth and raise overall productivity. Particular attention will be placed on the wage policy for public sector employees, given its significant impact on overall wage developments
- **Enhancement of public debt and cash management systems**
- **Further improvement of tax collection** by addressing tax evasion and strengthening tax administration



Fiscal flexibility

- S&P ranks Cyprus as number 1 in terms of fiscal flexibility compared to its peers – a key advantage over peers in the current environment
- Cyprus' tax system provides flexibility in terms of formulation of fiscal policy due to the low tax rates

	Cyprus	Slovenia	Slovakia	Portugal	Italy	Malta	Greece
Personal Income Tax	20% - 30% (non-taxable income of EUR 19,500)	EUR 1,150 - EUR 3,090 on lower amount; Rate on excess 16% - 41%	19%	EUR 116 - EUR 6,961 on lower amount; Rate on excess 10.5% - 42%	23% - 43%	15% - 35% (non-taxable income of EUR 8,500)	25% - 40% (non-taxable income of EUR 12,000)
Corporate Tax	10%	23%	19%	25%	27.50%	35%	25%
Value Added Tax	15%	20%	19%	20%	20%	18%	19%

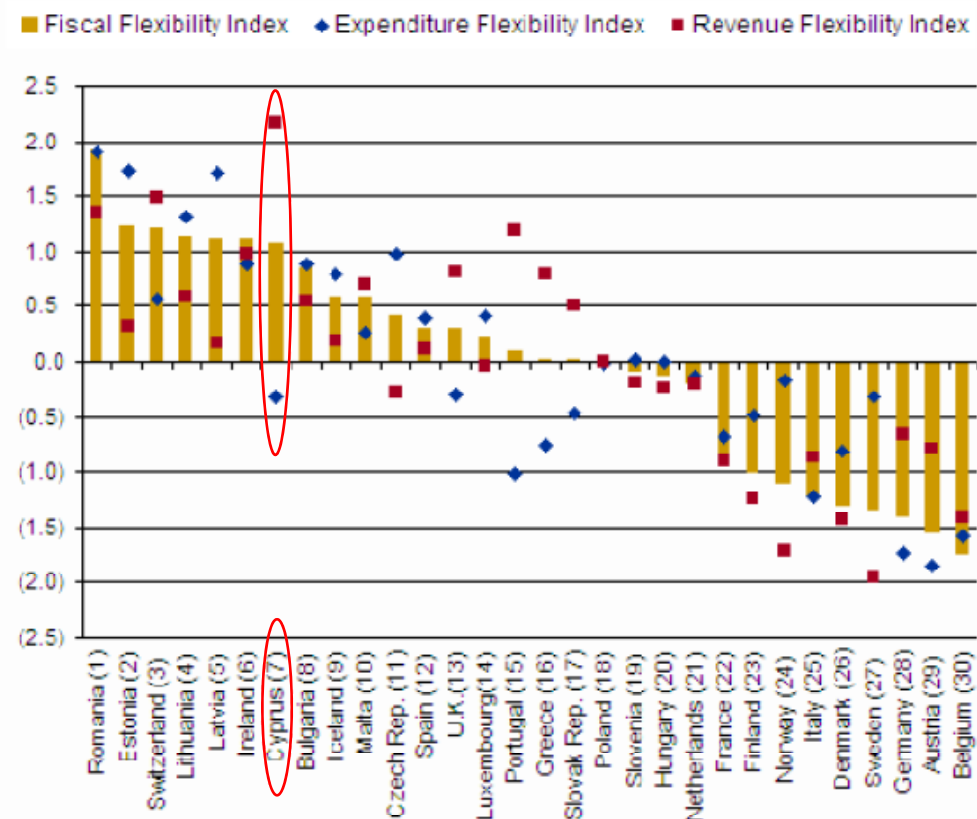
Source: PKF Worldwide Tax Guide 2009 (based on information current as of 30 September 2008)



Fiscal flexibility (cont'd)

Sustainability of this is safeguarded by Cyprus' already solid infrastructure and absence of bail out of the financial system

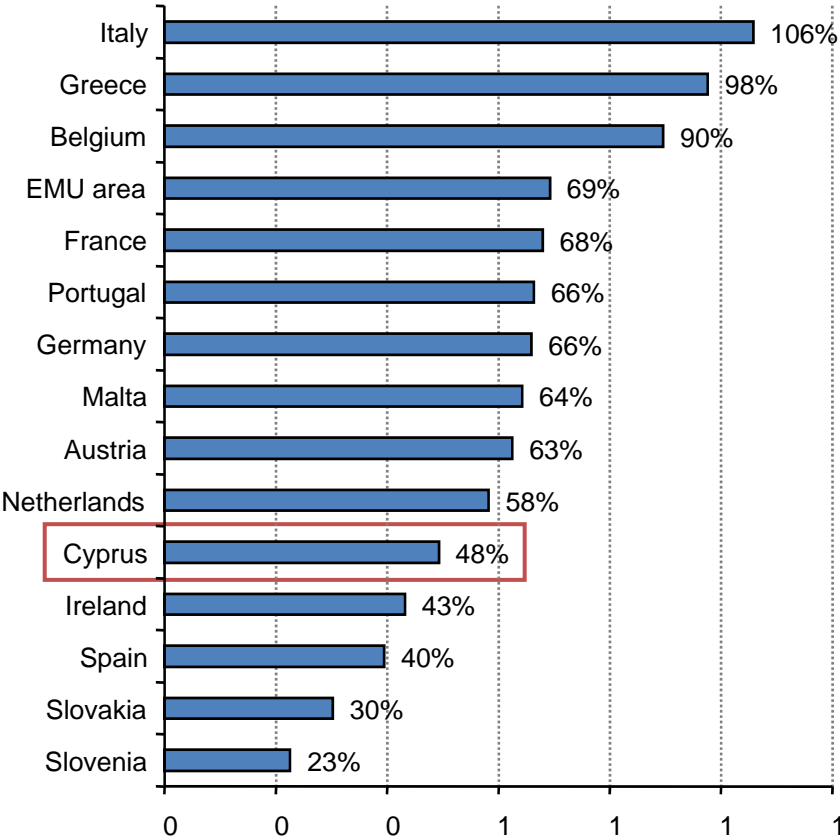
Fiscal Flexibility Index And Rankings, 2008



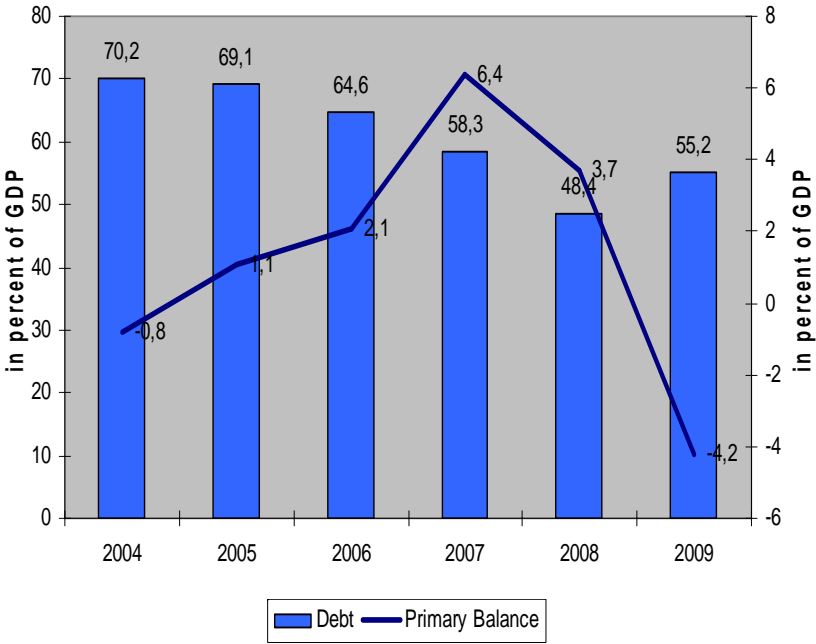
Note: The indices are normalized to generate a mean of zero and a standard deviation of unity. The index measures the numbers of standard deviations from the mean. A negative number indicates below-average flexibility, a positive number indicates above-average. © Standard & Poor's 2008.

Low public debt in comparison to the EU area

Public Debt to GDP, statistics for 2008



Public Debt and Deficit Statistics 2004-2009



Source: Ministry of Finance, DIF

III. Well regulated banking and financial system

- Regulatory framework
- Solid banking Sector



Regulatory and supervisory framework

- Independent banking supervision by the Central Bank of Cyprus and the Authority for the Supervision & Development of Co-Operative Societies
- Financial services regulated by Cyprus Securities and Exchange Commission (SEC) under EU harmonised legislation
- Insurance sector well regulated and supervised by Superintendant of Insurance
- Continuous and close monitoring of the liquidity and capital adequacy position of financial institutions by the supervisory authorities
- IMF in its Financial Sector Assessment Programme for Cyprus in the last quarter 2008, concluded that the supervisory framework of Cyprus complies with all requirements and is of the highest standard



A solid banking sector

Capital Adequacy, risk of loss due to bad loans

- ✓ Banks' solvency ratios averaged about 12.5% at the 30th Sept. 2009, well above the regulatory minimum of 8%
- ✓ Non performing loans (NPLs) ratio to total loans has been steadily decreasing over the past years; increased in 2009 (5.9% at the 30th Sept. 2009). However, the vast majority of these loans is covered by provisions made by the banks

Growth in customer deposits and lending

- ✓ Customer deposits and lending at Cyprus banks exhibit consistently steady growth over the years, slowing down in 2009 as a consequence of the recent international economic crisis
- ✓ Non resident deposits have not witnessed any significant movements despite the world financial crisis

Profitability

- ✓ Total operating profit for all banks during the 1st half of 2009 amounted to about €0.9bn and net profit €0.5bn representing a net return on capital employed of 13.7% as against 14% in 2008
- ✓ Credit slowdown is affecting profitability in the short term, otherwise banks are fundamentally strong and competitive

Stringent regulations on liquidity

- ✓ Cyprus as a member of the Eurosystem abides by the rules of its monetary framework
- ✓ In relation to the Euro obligations, banks must maintain a minimum stock liquidity ratio of 20%
- ✓ In relation to foreign currency deposits, a minimum stock liquidity ratio of 70% is required



A solid banking sector (cont'd)

Foreign operations of Cyprus Banks

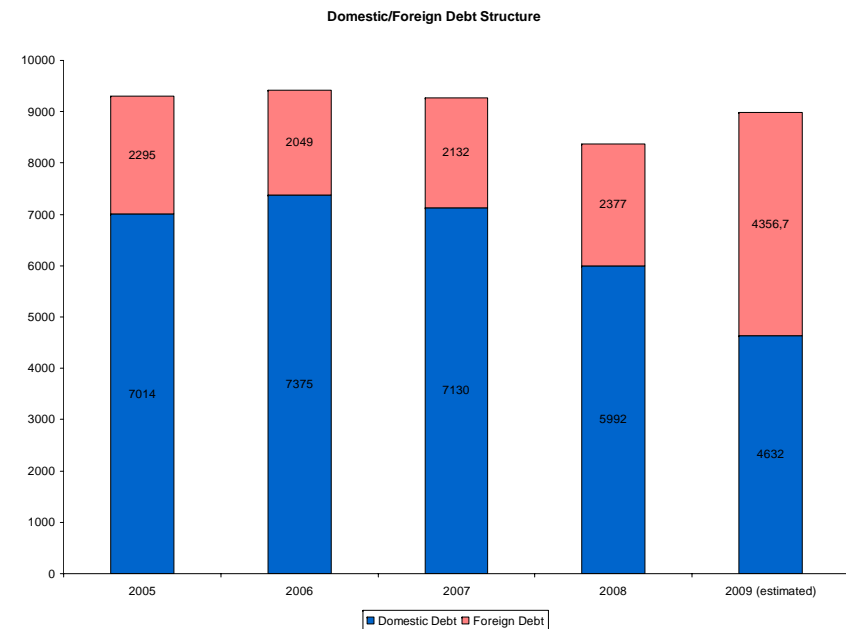
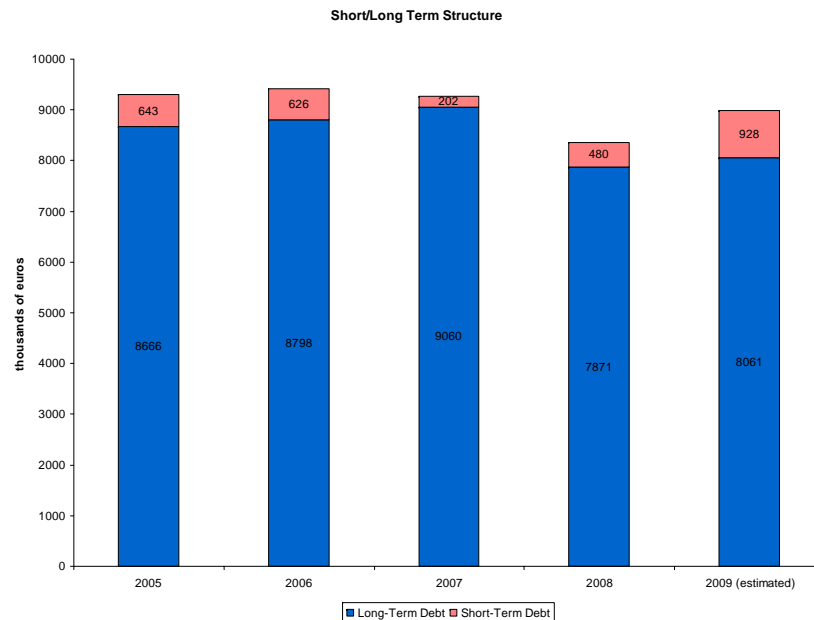
- ✓ The three largest banks in Cyprus engage in significant operations abroad. This growth has been successful and healthy, showing steady upward trends over the years, particularly in Greece
 - ✓ It is stressed that the policy of the Central Bank regarding the expansion of banks abroad is to ensure that this expansion is made gradually and with great caution, after obtaining permission from the Central Bank of Cyprus
-

IV. Debt management and funding strategy



Public Debt Structure

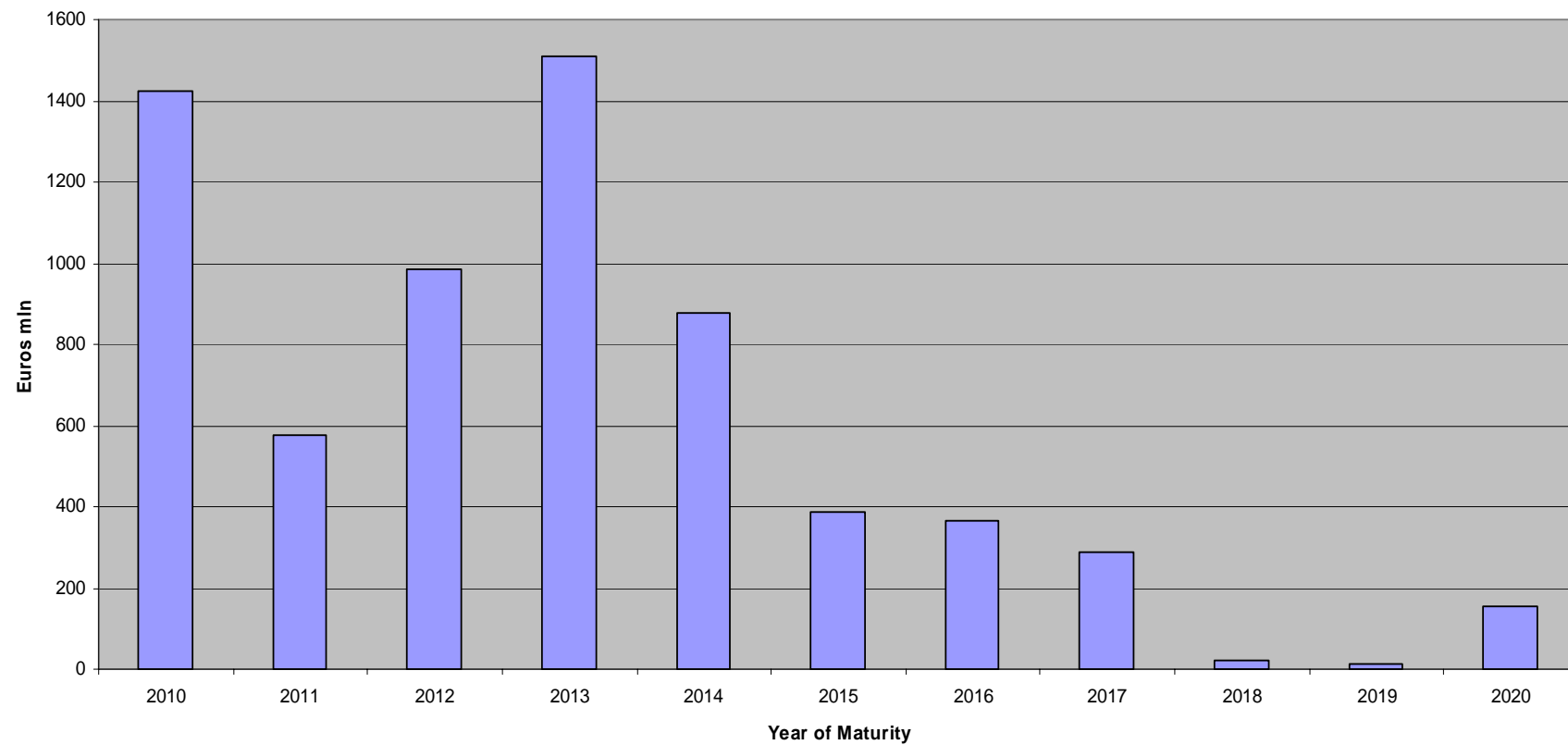
- Cyprus has successfully tapped the international sovereign debt market in 2009 despite the volatile conditions
- Domestic debt is practically exclusively held by domestic investors
- €810 mln euros of debt are bilateral loans with supranational organizations (EIB, CEB)
- Outstanding EMTN's (€2.55 bln euros) mainly held by foreign investors



Maturity structure / Rollover risk

Maturity profile is adequately spread out and even years of peak maturities (2010, 2012) do not pose any significant risks.

Domestic and Foreign Debt maturities in euro mln as at 31/12/2009





Debt management - Achieve international best practice

- Modernize and develop government bond market by introducing Primary Dealers mechanism and by developing the secondary market
- Work is continuing on introducing an electronic trading platform and a Primary Dealers mechanism. Focus is now on clearing and settlement arrangements
- Improve administrative/technical ability for a more professional debt management
- Improvement in Cash Management

Main terms and conditions of the new benchmark issue

Issuer	Republic of Cyprus
Rating	Aa3/A+/AA-
Rating Outlook	Stable (Moody's, S&P, Fitch)
Currency	EUR
Amount	Benchmark size
Coupon Format	Fixed Rate
Issuance Format	EMTN Programme
EMTN Programme Size	EUR 6 bn
Issue date	January 2010
Maturity	5-10 year
Listing	London Stock Exchange
Governing Law	English Law
Joint-Bookrunners	Deutsche Bank, Societe Generale, UBS



Contacts

- Ministry of Finance (English version):
http://www.mof.gov.cy/mof/mof.nsf/DMLindex_en/DMLindex_en?OpenDocument
- Central Bank of Cyprus (English version):
http://www.centralbank.gov.cy/nqcontent.cfm?a_id=1&lang=en
- Cyprus Stock Exchange: <http://www.cse.com.cy/en>
- Third party information
 - IMF Publications: <http://www.imf.org/external/country/CYP/index.htm>
 - European Commission Representation in Cyprus:
http://ec.europa.eu/cyprus/index_en.htm
 - Council of Europe Development Bank: <http://www.coebank.org/>
 - European Central Bank:
<http://www.ecb.int/paym/coll/coll/ncbpractices/html/cyprus.en.html>

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