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## EUROGROUP'S FINANCIAL PROGRAMME FOR CYPRUS & RESTRICTIVE MEASURES BY FINANCIAL INSTITUTIONS

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### **Eurogroup's Financial Programme**

On Monday 25 March 2013, the Eurogroup has reached an agreement with the Cypriot authorities on the key elements necessary for a future macroeconomic adjustment programme. This agreement is supported by all euro area Member States as well as the Troika (International Monetary Fund, European Central Bank and European Commission).

The programme restores the viability of the financial sector with the aim of restoring sustainable growth and sound public finances over the coming years. Financial assistance is warranted to safeguard financial stability in Cyprus and the euro area as a whole. Specifically the program provides for financial assistance to Cyprus for an amount of up to €10bn.

The following measures will form the basis for restoring the viability of the financial sector:

- All insured depositors (less than €100.000) in all banks will be fully protected in accordance with the relevant EU legislation (Deposit Guarantee Scheme – Directive 94/14/EC as amended by 2009/14/EC).
- Laiki Bank: will be “resolved” immediately - with full contribution of equity shareholders, bond holders and contribution of uninsured depositors - based on a decision by the Central Bank of Cyprus, using the newly adopted Bank Resolution Framework. Laiki Bank will be split into a good bank and a bad bank. The bad bank will be allocated all deposits over €100.000 and all the non-performing loans, and will be run down over time. Consequently depositors in the bad bank will not receive the full value of their deposit. The good bank will receive all deposits up to €100.000 and all performing loans, and will be folded into Bank of Cyprus where it will continue to operate as normal.
- Bank of Cyprus: will be recapitalised through a deposit/equity conversion of uninsured deposits with full contribution of equity shareholders and bond holders. This will result in the new shareholders of the bank being the large deposit holders (uninsured deposits over €100.000) participating in the recapitalisation of the bank by receiving shares in the bank in return for a % of their deposit. The deposit/equity conversion will be such that a capital ratio of 9% is secured by the end of the programme. The Governing Council of the European Central Bank will provide liquidity to Bank of Cyprus in line with applicable rules.
- The programme money that will be granted to the government (up to 10bn Euros) will not be used to recapitalise Laiki Bank and Bank of Cyprus.

### **Other Tax Measures**

Measures that were announced earlier and are likely to be voted by Cyprus Parliament:

- Increase in corporation tax rate from 10% to 12,5%
- Increase in Special Defence Contribution from 15% to 20% or 25%



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### **International Business**

The decision of the Eurogroup targets at the reduction of the Cyprus banking sector.

Given the importance of the international business sector to the Cyprus economy, the government of Cyprus is committed to safeguard this sector and to ensure that it ranks as the most attractive jurisdiction in Europe for international business. Even considering the above tax measures Cyprus will still have one of the most favourable tax systems in Europe summarising the following main advantages:

- Significantly lower corporation tax rate as compared with other EU countries
- Tax exempt gains on securities trading including disposal of shares in subsidiaries
- Tax exempt dividend income
- No withholding tax on dividends, interest and royalties
- 80% exemption on profits from the exploitation of intellectual property rights
- No financial transaction tax
- Tax exempt profits received from overseas permanent establishments
- Interest income tax on thin margin
- Utilisation of a beneficial and extensive Double Tax Treaty network
- Utilisation of EU Directives (Parent-Subsidiary Directive, Mergers Directive, Royalty and Interest Directive, Mutual Assistance and Cooperation Directive)
- Unilateral tax credit relief for foreign tax paid on income received abroad

### **Restrictive Measures**

#### **1. Cash withdrawals from current accounts/sight accounts/ savings accounts/ cards:**

- Withdrawals may be made from branch tellers and from ATMs (using debit, prepaid or credit cards from the balance of current and sight accounts)
- Maximum withdrawal amount of €300 per day per person. Any amount not withdrawn each day will be added to the available balance of the following day.

#### **2. Cashing of Cheques**

- Cashing of Cheques is prohibited.

#### **3. Payments to other financial institutions in Cyprus or outside Cyprus for commercial transactions**

- Payments for commercial transactions up to €5.000 daily are allowed upon presentation of the necessary supporting documents.
- Payments for amounts greater than €5.000 require the approval of the Committee established by the Central Bank. A list of all applications for payments will be submitted to the Central Bank Committee by all financial institutions on a daily basis and the Committee will reach a decision within 24 hours.



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### 4. Payments outside Cyprus for students from 1st degree relations

- For living expenses up to €5.000 per quarter upon presentation of the necessary supporting documents for studies and first degree relationship.
- For the necessary tuition fees upon presentation of the necessary supporting documents.
- All payments will be made to the beneficiary educational institution.

### 5. Payments to other financial institutions or outside Cyprus for employee salaries

- Money transfers to other financial institutions in Cyprus and outside Cyprus are allowed, without limitation, upon presentation of the necessary supporting documents.

### 6. Payments or money transfers through credit, debit or prepaid cards

- Allowed for amounts up to €5.000 per person per month per financial institution.

### 7. Other payments to other financial institutions in Cyprus or outside Cyprus

- Allowed with the approval of the Committee established by the Central Bank, upon presentation of the necessary supporting documents.

### 8. Early termination of fixed-term deposits or closing of an account with notice of more than 7 days (without the relevant prior notice)

- Termination of fixed-term deposits prior to maturity is prohibited.
- The closing of an account with notice of more than 7 days is prohibited.
- Early termination is only permitted where the total deposit amount will be used to repay a loan with the same financial institution

### 9. Maturity of fixed-term deposit or expiry of notice given for an account with notice of more than 7 days

- On the expiry/maturity date the greater of €5.000 or 10% of the total deposit amount may be transferred to any sight or current account or to a new notice account with the same financial institution.
- The remaining amount must be deposited to a notice account with notice of at least one month.

### 10. Transfer of cash outside Cyprus

- The transfer of banknotes in Euros or any foreign currency up to the amount of €1.000 or the equivalent amount in foreign currency per natural person per trip abroad is allowed (upon presentation of relevant supporting documents).

### 11. Foreign currency restrictions

- The restrictive measures apply to all accounts, payments and money transfers regardless of the currency.