

Cyprus Cooperative Bank: Sale of the 'good part' creation of a 'bad' bank and State Aid decision by the European Commission



CENTRAL BANK OF CYPRUS
EUROSYSTEM

DEPOSIT GUARANTEE AND
RESOLUTION OF CREDIT AND
OTHER INSTITUTIONS SCHEME

Contents of the presentation:

- Background information on Cyprus Cooperative Bank (CCB)
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- Creation of 'bad'
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Background information on CCB:

- Set up in 1932.
- Focusing on retail deposits and lending.
- CCB had only residents as clients.
- Acted as central body of more than 350 cooperative banks (local and professional) owned by their members.
- In September 2013, consolidation of the sector reduced the number of cooperative banks to 95.



Background information on CCB(cont.)

- Each cooperative bank pursued its own funding and deposit taking. Poor lending practices led to huge NPLs.
- Till September 2013, supervision and regulation by a Commissioner operating under the auspices of the Ministry of Commerce.
- In September 2013 supervision was transferred to the Central bank of Cyprus (CBC).
- CCB was recapitalized (bail-out) by the State in 2014 with €1,5bn. Government acquired 99% of its share capital.



Background information on CCB(cont.)

- Restructuring plan and commitments approved by the European Commission in February 2014 (wind down non-core operations and cost cutting measures).
- Cooperative banks merged into 18 (2014) and then into a single bank (July 2017).
- In November 2014 ECB/SSM assumed direct supervision.



Background information on CCB (cont.)

- Following massive additional provisions (€470mn) against NPLs in December 2014 the Government, having received EC State Aid approval, injected additional €175mn of equity.
- New restructuring plan and commitment to privatise (sell) gradually in 2018-2020.
- Unable to realise collateral of loans (household and SME loans).
- NPLs continued to stand around 60%.



Background information on CCB (cont.)

- Provisioning coverage stood at 45%, by the end of September 2017.
- Last quarter of 2017, CCB decided to launch a procedure for the issue of capital to strategic investors.
- At the time, CCB was the second largest bank in Cyprus.
- 20-25% market share in loans and deposits respectively.



Background information on CCB (cont.)

- 2650 employees and 172 branches
- Financial highlights March 2018:
 - Total assets €11,7bn
 - Loans €8,2bn
 - Deposits €10,2bn
- Late 2017 and Q1 2018 massive deposits outflows and rumors of resolution and bail-in.



Sale of 'good' bank:

- On 19 March 2018 CCB announced the launch of the sale of all or part of its activities and opened a VDR.
- On 3 April 2018 Government placed €2,5bn cash deposits to send reassuring message to depositors and close the “Asset-Liability Gap”. The said placements were financed by €2,35bn of Government bonds, with maturities of 15-20 years, purchased by CCB. Government deposits collateralized with CCB’s NPL portfolio.
- On 25 June 2018, CCB agreed with Hellenic Bank, the third largest bank in Cyprus, to transfer certain assets and liabilities to Hellenic Bank, including all customer deposits.



Creation of 'bad' bank:

- After the sale, deposit outflows stopped.
- Banking license of CCB revoked.
- Residual entity transformed into a 'bad' bank
- 100% government owned.
- Licensed by the Central Bank of Cyprus as an Asset Management Company.
- Engages in loan restructurings and liquidation.
- All assets pledged in favor of government for repaying state aid granted.



CCB Balance sheet after completion

- CCB balance sheet on 31/8/2018, ie just before the completion of the transaction, had total assets of 13,4bln.
- Following completion on 3/9/2018, the balance sheet was split on the basis of the sale agreement transferring to Hellenic Bank the 'good' assets and liabilities.

	CCB Balance sheet before split	'Good' bank	'Bad' bank
	€'mn	€'mn	€'mn
Cash and banks	1.020	1.014	6
Loans	7.410	4.040	3.370
Financial Assets	4.109	4.109	
Property	681	0	681
Other Assets	177	177	
Assets	13.397	9.340	4.057
Customer Deposits	8.779	8.779	0
Republic of Cyprus Deposit	3.560	0	3.560
Other Liabilities	465	189	276
Liabilities	12.804	8.968	3.836
Capital	593	0	593
	13.397	8.968	4.429



State and measures:

1. Government deposit of €2,5bn collateralized by the pledge of NPLs and properties of gross value €7bn and net book value €3,1bn
2. Additional deposit of €1,1bn to cover the funding gap of the assets and liabilities transferred to the buyer.
3. Issue new government bonds with maturities of 2-5 years in exchange of the bonds with maturity 15-20 years.
4. Government guarantees to the buyer to cover liabilities/losses from the sales agreement, staff issues, data protection and an Asset Protection Scheme of €2,8bn of loans transferred to the buyer.



EC State Aid decision 19 June 2018:

General Rule: State aid in any form which distorts or threatens to distort competition by favouring certain undertaking is prohibited.

EC Decision: Government support provided for the orderly liquidation of the CCB (“liquidation aid”).



EC State Aid decision 19 June 2018(cont.):

Reasoning:

- Liquidation procedures would have resulted in a higher cost for the state (cost of coverage of insured deposits).
- No distortion of competition as CCB will exit from the market.
- Shareholders contributed to the maximum possible extent (burden sharing).
- The entity resulting from the acquisition is viable.



EC State Aid decision 19 June 2018(cont.):

- Government bonds issued at market price
- Sale process has been fair, open, competitive and transparent.
- CCB restructuring started on the basis of Cyprus Law before BRRD came into force (1/1/2016). Hence, the process remains governed by Cyprus national law. Hence the BRRD does not apply.
- Buyer not a beneficiary of state aid.
- Cypriot support measures compatible with EU state aid rules as (a) they aim at financing market exit of CCB, (b) legacy entity will work out remaining assets and, hence, no distortion of competition.



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FOR YOUR ATTENTION**

