The Co-operative Central Bank (CCB) of Cyprus was originally founded in 1937 as the central governing body of Cyprus’s 18 affiliated Co-operative Credit Institutions (CCIs), giving the bank unrivalled access to retail customers on the island.

Following its recapitalisation in March 2014, CCB has been undergoing an extensive restructuring programme. An important landmark in this restructuring process was passed at the end of 2016, with the approval of the CCB’s merger with the 18 co-operative lenders it administers, paving the way for a stock exchange listing later this year. CCB is now the second largest bank in Cyprus.

In this interview, CCB’s Chief Executive Officer (CEO), Nicholas Hadjiyiannis, provides an update on the bank’s restructuring programme and some insights into its plans for 2017 and beyond.

GlobalMarkets: How is CCB’s restructuring programme progressing?

Hadjiyiannis, CCB: We have almost completed our restructuring plan ahead of schedule. Originally, the plan envisaged CCB being privatised between the end of 2018 and 2020, with the government selling up to 78% of its stake.

We will now be able to bring this forward, because we have accelerated a radical transformation plan culminating in the radical decision which we took in December to merge the bank’s 18 subsidiaries into a single entity, opening the way for a stock exchange listing in 2017.

GlobalMarkets: To what extent has this transformation plan been driven by an improvement in CCB’s key performance indicators?

Hadjiyiannis, CCB: When we were recapitalised in 2014, the idea that we would be ready in many aspects for a stock exchange listing by early 2017 would have been beyond any realistic expectations.

Since then, we have met key goals in our capital plan and we are making good progress in terms of other key financial indicators.

Over the last year, we managed to accrue additional capital of between 2% and 2.5% through increased operational efficiencies, risk-weighted asset (RWA) optimisation and improved balance sheet management. Our capital ratio is now around 16%.

In terms of liquidity, we have been flooded with deposits over the last two years, which reflects our pedigree as the preferred bank for local individuals to entrust their savings. This has pushed our liquidity ratio up to last over 30%.

GlobalMarkets: A notable feature of Cyprus’s economic recovery has been the decisive way in which the banking industry has tackled the challenge of non-performing loans (NPLs). Has CCB also seen an improvement in its asset quality?

Hadjiyiannis, CCB: Yes. We began to deal with our NPLs much later than the other banks, because we had a highly fragmented and operational structure and we lacked the necessary expertise to start the restructuring process. As our loan portfolio is concentrated among retail borrowers with an average size of about €200,000, the process is very time-consuming, so we needed to establish a new NPL framework within the bank adopting international best practices.

In 2015 and 2016, we implemented restructuring of €2.3bn, or about 1000 accounts per month, with a cure ratio of more than 75%. This has kept our NPL ratio at around 60%. But the stock was reduced by 6% in 2016. We have also created a big gap of about €1.4bn, or 12%, between loans categorised as NPLs and 90 days past due. We now have a provision coverage ratio of NPLs of close to 45% and a collateral coverage value of more than 70%, so we are encouraged by the progress we have made on the asset impairment front.

GlobalMarkets: Has preparation for a stock exchange listing also involved cost-cutting?

Hadjiyiannis, CCB: Yes. In 2014 we introduced a significant cost-cutting initiative, including a voluntary redundancy scheme, which reduced total costs by about 30%. Following a similar scheme in the autumn of 2016, we are now operating with about 10% fewer staff than at the end of 2013.

At the same time, however, we have a significantly increased workload in new areas such as NPL management. So as well as reducing our headcount, we have been continuously retraining our existing staff to ensure that they can deal with the requirements of the CCB’s Single Supervisory Mechanism (SSM).

GlobalMarkets: CCB’s origins and philosophy are similar to Rabobank’s. But will a stock exchange listing change your business model? Will there be any conflict between maintaining the social role that has traditionally been played by CCB, and delivering the returns on equity demanded by external investors?

Hadjiyiannis, CCB: CCB is similar to Rabobank in the sense that both are very close to their local communities. But the key difference between the banks is that while Rabo’s shareholders are still its members, 99% of CCB is now owned by the government.

We believe that through a phased stock exchange listing we can retain our links to our community by building a large and diverse local shareholder base. At the same time, we are confident that a stock exchange listing will bring more transparency and flexibility to our organisation, making us more competitive in today’s market.

We have always aimed to be a profitable bank. But the difference between CCB and some European banking models is that our focus is on delivering sustainable, long-term profits. One way of looking at it is that we aim to operate like a utility, but in the banking sector.

GlobalMarkets: Will CCB also be aiming to support the local community by increasing its lending to SMEs in Cyprus?

Hadjiyiannis, CCB: Historically, we have done very little outside the retail and household sectors, which form the basis of our heritage, because in order to lend to borrowers other than physical persons we needed special permission from the regulator. However, we are now increasing our presence in the SME sector which is an important part of the economy, and to all other categories of banking products and services suitable for a retail bank of our size.

GlobalMarkets: Preparing for a stock exchange listing