



Cyprus
Cooperative
Bank

Key Performance Indicators and Overview of Progress in the Implementation of the Restructuring Plan of the Cyprus Cooperative Bank

FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2017

A. Key Performance Indicators

Following a consultation with the Central Bank of Cyprus, the following Key Performance Indicators (KPIs) have been selected for the Cyprus Cooperative Bank (CCB or the Bank) (former Cooperative Credit Sector constituted by the Bank and the 18 Cooperative Credit Institutions), including mid-term targets, which represent the priorities of CCB. These Indicators are published on a quarterly basis, enabling the public to evaluate the progress of the Restructuring Plan (RP) and the financial performance of CCB.

The following table presents the aforementioned Indicators, the mid-term targets for each Indicator as amended in accordance with the RP that was revised in December 2015, and the latest data for each Indicator.

Cyprus Cooperative Bank Key Performance Indicators		31.12.2016	30.09.2017	Medium-Term Target per Restructuring Plan 31.12.2018
Loan portfolio Quality	Provisions to 90+ Days Past Due Loans	57,4%	56,3%	> 50%
	Provisioning charge (Cost of Risk)	1,0%	1,7%	<2%
	90+ Days Past Due Loans (€ mln)	5.699	5.407	<4.500
	90+ Days Past Due Loans, excluding interest as of 01.01.2014 (€ mln)	4.439	4.000	
Funding	Loans (after provisions) to Deposits ratio	69,7%	69,9%	<85%
Capital	Common Equity Tier 1 capital ratio	15,4%	15,2%	>15%
	Leverage ratio (Assets/Equity)	11,8 x	11,5 x	<12 x
Efficiency	Cost to Income ratio	50,5%	49,9%	<50%
	Net Interest Margin	2,1%	1,9%	>2,0%
	Branches	246	176	200
	Employees	2.677	2.665	2.700

B. Comments on the evolution of the key performance indicators

Loan portfolio quality

As at 30 September 2017, the Provisions to 90+ days past due loans ratio decreased to 56.3%, compared to 57.4% as at 31 December 2016. The provisioning charge for the nine months ended 30 September 2017 increased by 0.7%, compared to the annual change of the year ended 31 December 2016. The 90+ days past due loans did not show any substantial variation and remained below 50% of the loan portfolio.

Funding

The loans (after provisions) to deposits ratio as at 30 September 2017 increased slightly compared to 31 December 2016.

Capital

Capital adequacy ratio (Common Equity Tier 1 capital) for the nine months ended 30 September 2017 decreased to 15.2%, compared to 15.4% as at 31 December 2016. The decrease is due to the period loss. The capital adequacy of CCB is higher compared to the minimum regulatory requirements. The Leverage ratio for the nine months ended 30 September 2017 decreased to 11.5x compared to 11.8x as at 31 December 2016.

Efficiency

Cost to income ratio decreased for the nine months ended 30 September 2017. Specifically, it decreased to 49.9%, compared to 50.5% for the year ended 31 December 2016. The decrease in total costs compensates the decrease in net interest income, mainly due to the decrease in interest income. The decrease in interest income resulted in the decrease in the net interest margin for the nine months ended 30 September 2017 to 1.9% compared to 2.1% during the prior year 2016.

The branch network as at 30 September 2017 decreased by 70 branches to 176 branches maintaining the wide presence of CCB throughout the island. The number of employees as at 30 September 2017 decreased to 2.665 compared to 2.677 as at 31 December 2016.

C. Comments on the progress in the implementation of the Restructuring Plan

In December 2015, CCB submitted an amended RP for the approval of the additional state aid of €175 mln with the purpose of meeting the supervisory capital requirements as assessed by the Single Supervisory Mechanism of the European Central Bank (SSM).

On 18 December 2015, the European Commission approved an additional state aid of €175 mln in favor of CCB and the affiliated Cooperative Credit Institutions (CCIs) in line with EU state aid rules. The recapitalization of CCB was completed through the increase of €175 mln of equity and was fully covered by the independent Recapitalization Fund, in exchange for participation in the ownership structure of CCB. The Recapitalization Fund was set up as per article 3 of the Enactment and Operation of an Independent Recapitalization Fund Law of 2015.

The additional state aid is accompanied by a series of additional restructuring measures / actions that CCB is committed to gradually implement by the end of the restructuring period.

Comments on the overall progress of the implementation of the Restructuring Plan

The responsibility for supervising the implementation of the RP has been assigned to the Corporate Secretarial and Governance Division of CCB which reports directly to the General Manager. The planned actions for the implementation of the RP are presented, as follows:

1. **Enhancement of Corporate Governance and Risk Management**
2. **Cost Reduction / Operational efficiency**
3. **Management of Non-performing Loans**
4. **Commercial and other non-core activities**

The progress achieved thus far is presented below:

Corporate Governance and Risk Management

CCB ownership structure:

According to the Ministerial Decree issued by the Ministry of Finance, Article 14 on the "Restructuring of Financial Institutions Laws 2011 to 2015", dated 6th of May 2016, the percentage shareholding ownership structure of CCB is as follows:

% shareholding, following the capital injection of €175m	
Republic of Cyprus	77.34%
Recapitalization Fund	21.88%
CCB Holding Company	0.78%
CCIs Holding Companies	0
Total	100%

Transfer of non-financial assets of CCIs and CCB to the SPV:

A Special Purpose Vehicle (SPV) was registered on 25 May 2016 with the name "CCSRE Real Estate Company Ltd" and CCB is the sole shareholder (as per the relevant Ministerial Decree issued by the Ministry of Finance). By the end of June 2016, the transfer of non-financial assets of CCIs and CCB, including total immovable properties and excluding equipment, to the SPV was completed.

Mergers and centralization of CCB's Divisions/Units:

The mergers of the 93 CCIs to 18 new entities were completed on 22 March 2014.

By the end of January 2016, the operational merger of CCB and SEM Ltd was completed. As a result SEM Ltd was fully integrated in the organizational structure of CCB as the Senior Technology Division. The final approval of the merger of SEM Ltd with CCB was provided by the Supervisory Authorities on 26 August 2016.

According to CCB's strategy framework, the Bank proceeded with the implementation of the necessary reforms in order to upgrade the operations of CCB and obtain prudent management and cost efficiency. The centralization of the following Divisions / Units of CCB has been completed:

Description	Target Date
Internal Audit Unit	31 December 2015
Senior Technology Division	31 January 2016
Compliance Unit	31 March 2016
Risk Management Unit	31 May 2016
Credit Control Department	31 May 2016
Human Resources Division	31 May 2016
Organisation & Methods Division	30 June 2016
Movable and Immovable Property Department	30 June 2016
Documentation & Administration of Credit Facilities Division	31 October 2016
Senior Finance and Accounting Division	31 October 2016
Tenders Department	31 December 2016

In December 2016, the Management of CCB decided to recommend the legal merger of the CCI with CCB in the context of implementation of the strategy for the restructuring of the CCS. The decision on the legal merger of the CCI with CCB was approved by the General Meeting of the shareholders on 30 December 2016. On 7 July 2017, the Governing Council of the European Central Bank (ECB) approved the legal merger of the 18 CCIs with CCB and set the 1st of July 2017 as the date of transfer of the assets and liabilities of each CCI to CCB. The ECB's approval was notified to the Registrar of Cooperative Societies. On 21 July 2017, the Deputy Registrar of Cooperative Societies registered the agreements for transferring the assets and liabilities of the 18 CCIs to CCB with effective date the 1st of July 2017.

On the 24 July 2017 the Deputy Registrar of Cooperative Societies also registered the new Bylaws of the Bank and the new name. In accordance with the Cooperative Societies Laws 1985 to 2016, the change of the Bank's name does not affect any right or obligation of the Bank or its officers. Specifically, the name of the Bank was changed from Cooperative Central Bank Ltd to Cyprus Cooperative Bank Ltd.

Organizational structure of CCB:

The new organizational structure became operational on 23 May 2016, as per the amended RP, with the target of improving the operational efficiency of CCB and the affiliated CCIs and simplifying and enhancing operations.

With the legal merger of the 18 CCIs with CCB, a new structure of Retail Banking was implemented, aiming to optimize CCB's operations in achieving its targets.

Board of CCIs:

On 1 March 2016, the Board of Directors ('BoD') of the CCIs were appointed and have fully assumed their duties. According to the amended RP, the BoD of the CCIs shall be comprised of two executive managers of the CCI and one CCB manager.

On 21 July 2017, the Deputy Registrar of Cooperative Societies registered the agreements for the legal merger of the 18 CCIs with CCB and thus, the registration of the CCIs has been revoked and they have been dissolved. Therefore, the BoD of CCIs have been resolved.

Advisory Councils:

CCB has appointed six advisory Councils (Nicosia District Advisory Council, Larnaca District Advisory Council, Limassol District Advisory Council, Paphos District Advisory Council, Famagusta District Advisory Council and Professional District Advisory Council).

More specifically the Advisory Councils shall operate at a regional level and will advise in writing the BoD of CCB, on various issues such as the needs of the local community and innovative social programs that will enhance education, culture and sport.

Transfer of staff from the CCIs to CCB:

With the registration of the 18 agreements for transferring the assets and liabilities of the 18 CCIs to CCB, CCIs' employees have been transferred to CCB in accordance with the provisions of the Maintaining and Ensuring Employee's Rights in Situations of Transfers of Businesses, Facilities or Part of Businesses or Facilities Law (L.104 (I)/2000).

Policies and operational procedure manuals:

Significant risks are systematically monitored through risk limits that are included in the Credit Policy Documents which in turn support the Bank's Strategy.

The policy and operational procedures manuals of CCB are revised on a continuous basis in line with the best practices and with the requirements of the Supervisory Authorities.

Risk Charter of Risk Management Unit:

The Risk Charter of CCB's Risk Management Unit (RMU) is revised at least annually or when deemed necessary and approved by the Risk Committee of CCB.

Framework of Management Information Systems:

A project for enhancing the framework of the Management Information Systems is in progress.

Access to Capital Markets:

The final signed Prospectus was submitted to the Cyprus Securities and Exchange Commission (CySEC) on 22 December 2016. The CySEC sent a letter of approval of the CCB's Prospectus on 22 December 2016. Also, following the instructions of

the Cyprus Stock Exchange (CSE), the Bank submitted the signed Annexes 4 and 7 for the application of CCB, thus ensuring the pre-approval by the CSE.

CCB has appointed Citigroup as a Global Coordinator to examine a possible capital increase in 2018, on the basis of the new Strategic direction “ Agenda 2022”.

Cost reduction / Efficiency improvement

To meet the targets set out in the RP the following actions were taken:

- The salaries were reduced by more than 15% on an annual basis
- The 1st Voluntary Retirement Scheme was implemented in April 2014. The scheme was taken up by 297 employees, with an annual reduction in staff costs of €12, 7 mln
- On 15 September 2016, the 2nd Voluntary Retirement Scheme was completed and 78 employees left
- In light with the branch network rationalization project, which was initiated on the basis of the provisions of the RP, the branches had been reduced to 246 as at 31 December 2016 (December 2015: 251). Subsequently, by 30 June 2017, the number of branches has been reduced to 243 and a further reduction to 176 branches took place by 31 August 2017. On 30 September 2017 the number of branches remained stable at 176.

Managing Loans in Arrears

The Bank, in collaboration with a reputable consultancy firm with international expertise in managing loans in arrears and NPEs, has developed a business model, on which a 5-year strategic plan (2018-2022) was based, aiming to the effective management of the CCB's NPEs portfolio.

The strategic plan entails the following:

- regulatory requirements
- recent ECB directive on NPE management
- relevant CBC guidelines for dealing with customers who are or are likely to face financial difficulties
- banking legislative framework
- financial environment
- challenges from both external and internal factors
- characteristics of the portfolio under management
- role of CCB in the economy.

The main objective of the plan is the timely and effective management of customers experiencing or likely to experience financial difficulties by significantly reducing the delinquent portfolio over the medium term.

The following will assist to achieve the targets set:

- The current organizational structure of the Non – Performing Loans Management Senior Division (SNPLD) of the CCB which is at full operational capacity since 2014 and is in line with international best practices and regulatory directives.

The SNPLD comprises of 4 Divisions (Early Arrears Management Division, Arrears Management & Restructuring Division, Debt Recovery Division, Asset Management & Real Estate Division) and is staffed with adequate trained employees who manage customer cases from the early arrears to the legal action stage where appropriate.

The presence of SNPLD across the island, through its Regional Centers is important as it enhances the accessibility to all CCB customers.

- CCB has been continuously investing on the upgrade of both technology infrastructure and human capital.

- The delinquent portfolio has been micro segmented, with the goal to adopt optimal and where applicable standardized approaches for each segment, aiming the increase both efficiency and effectiveness.
- A newly centralized call center has been established, that aims to timely and proactively manage credit facilities in early arrears and has been staffed with appropriately trained personnel and the required infrastructure has been set up.
- The Asset Management & Real Estate Division was established centrally to manage the entire real estate and investment portfolio of CCB and effectively support the NPL restructuring process.

Moreover, in the context of evaluating strategic options to optimize the management of the NPE portfolio of CCB, the Extraordinary General Meeting of CCB held on 17 July 2017 has decided the establishment of a servicing platform for the management of NPE and real estate in collaboration with the Spanish company Altamira Asset Management, SA (Altamira).

The registration of Altamira Asset Management (Cyprus) Ltd, by the Registrar of Companies, is an important development in the processes undertaken for the operations of Altamira in Cyprus.

From the beginning of 2018, Altamira Asset Management (Cyprus) Ltd will take over the business responsibility of managing the Bank's non-performing loans including loans of €5,4 billion (90+ days past due loans) and real estate for sale of €0,4 billion, as well as the off balance sheet portfolio.

In the share capital of Altamira Asset Management (Cyprus) Ltd participates the Spanish Altamira with 51% and Bank with 49%.

Commercial and other non-core activities

Commercial Non Credit Participations

CCB's participation in the commercial non-credit companies should be divested by the end of 2018. In this respect, following the completion of valuations by independent valuation firms, proposals have been submitted by the entities regarding the divestment of the commercial cooperative sector for all the major commercial participations of CCB, which have been approved by the BoD of CCB. The sale agreements for the agreed transactions, which involve all the major commercial participations, have already been drafted and are expected to be signed upon the approval of the Registrar of Cooperative Societies. The disposal of PEAL Troodos Ltd to its existing shareholders, has already been completed.

Commercial Activities

All commercial activities have been divested during the year 2016, with the exception of two activities for which the transactions were completed in 2017.