



University of Cyprus  
School of Economics  
and Management

School of Economics and Management  
Tel. 22893610  
Email: [fem@ucy.ac.cy](mailto:fem@ucy.ac.cy)  
Website: <http://ucy.ac.cy/fem/el/>

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**LECTURE / DISCUSSION WITH BANKING CEOs:**  
***“Assessing the potential of the Cyprus banking system:  
Risks, challenges and opportunities”***

The potential of the Cyprus Banking System was the main topic of discussion during the 3<sup>rd</sup> annual lecture with banking CEOs organized by the School of Economics and Management of the University of Cyprus, on Thursday 18<sup>th</sup> of April 2019. In front of a fully packed venue, the Chief Executive Officers of the three largest banks in Cyprus, Mr. John Patrick Hourican (Bank of Cyprus), Mr. Ioannis Matsis (Hellenic Bank) and Mr. Kirill Zimarin (RCB Bank) shared their experiences on such an interesting and contemporary topic.



At the beginning of the event the Dean of the School of Economics and Management, Professor Andreas Charitou and the Vice-Rector of the University of Cyprus, Professor Ioannis Giapintzakis addressed short welcoming remarks.

The opening speech was addressed by the Dean of the School, who expressed initially his great appreciation to the three distinguished guests for accepting the invitation to present at this special event. He then, referred to the last developments of the Cyprus Banking Sector in the last year breaking them down into positive and negative ones. Positive like the recent upgrades of the banks and the sovereign by the Rating Agencies, the successful completion of the stress tests, the reduction of the NPLs (non-performing loans), the higher adequacy ratios and negative like the shutdown of the Cooperative Central Bank and the high ratio of NPLs. As he said, “the banking sector still faces various risks and challenges and in spite of the great efforts in the past few years, there are some unanswered questions” related to the “health” of the banking system and the survival of the smaller banks. He finally thanked the sponsors of the event.



Following the Dean’s speech, the Vice-Rector congratulated the School of Economics and Management for setting up this event on an annual basis, stressing the entire social action of the School and its commitment to upgrading the public debate. According to the Vice-Rector, “the Cyprus Banking System has undergone significant transformation since the crisis start”, while the shutting down of the Cooperative Central Bank took many by surprise, although I was known to the public that the bank was going through a difficult transitional period. Today he said, “the

Cyprus banking sector is on a better position, it has shrunk, reorganized and developed its capital strength” but, it still faces a lot of challenges and risks. In concluding his remarks, he referred that “we have to proactively think and act in order to avoid events such the 2013 bail-in from happening in the future and in order to stride towards development and growth.”



Yannis Matsis highlighted that the banking sector is in a much better shape than it was few years ago. 2.3x smaller size, but despite the deleveraging, there has been a very healthy new lending in the economy with extremely low default rates. Another very important development that resulted in a more resilient Banking Sector is the recent transfer of NPE exposures outside Banks into the non-regulated space, as was the case with Hellenic’s acquisition of CCB with NPEs remaining in non-regulated KEDIPEs and also, BoC’s recent sale of NPEs to an Investment Manager. As a result, Bank system NPEs reduced from 20 billion to 11 billion within 2018, a 55% reduction! He also referred to the consolidation of the banking system and the acquisition of CCB business from Hellenic Bank resulting in the creation of two pillar Banks on the island. On the challenges side, he stressed that the strongly unionised labour force, results in inefficient, inflexible, rigid work practices with a staggeringly high cost basis, and commented that Unions and Banks must work together to arrive at reasonable consensual solutions, that further strengthen the sector. He concluded by saying that: with a rapidly expanding economy, Banks can continue the dynamic lending momentum. The opportunities are plentiful, observing significant equity investment from abroad in long term sustainable sectors and projects.



In his speech, entitled “Future Scenarios for the Cyprus Banking System”, Dr. Kirill Zimarin, CEO of RCB Bank referred to the Cyprus Banking System as one of the major pillars of the Cypriot economy. “Healthy and efficient banking industry is vital for the sustainable economic development of the island. Banks are key employers and taxpayers. The task of all bankers is to make the system reliable, efficient, transparent and compliant to all modern regulatory requirements”, Dr. Zimarin said. Responding to questions on the citizenship by investment program, Dr. Zimarin noted that the scheme is an important driving force for Cyprus’ economic growth. “Foreign investments, attracted due to the program, contribute not only to the real estate sector, but also help to reduce the unemployment rate and in general significantly improve the infrastructure of Cyprus.



Mr. Hourican initiated his speech saying that every bank in Cyprus, or at least the systemic banks, has a decent capital base, a large amount of liquidity and in general the sector is strong today. The Bank of Cyprus' capital has been remarkably improved in the last 5 years, but it is still more to do, he said, due to the increased pressure on bank capital and the decreased level of leverage against capital. Talking about the NPEs, the reduction was about 10 billion of euros, stressing that from the remaining 4,8 billion, 1 billion concerns fully performing loans and 1 billion is going to be covered by the ESTIA scheme. Agreeing with the other two speakers, he referred about the huge number of bank branches declaring that "we have some work to do in the infrastructure we deploy to support our customers". He then argued that we are living through the most significant period of change in the history due to the great technological development and data expansion which is revolutionary on how we think about doing business. Demographic expansion, urbanization and climate change affect a lot of things like natural resources utilization, politics, the way data is exchanged and we have to be alert, Mr. Hourican said. In concluding his speech, noted that it has been a privilege for him being a part of the fast recovery of the Cyprus economy after a huge destruction of economic value and that there is today a great opportunity to expand the size of the economy of Cyprus by focusing on business, health, education and tourism sectors.

At the end of the event, a cocktail reception took place in the courtyard of the venue. Main sponsor of the event was KPMG Cyprus, while POLITIS was the communication sponsor.