

Panicos Demetriades: The pros and cons of having a separate and independently managed asset management and development bank

Welcome remarks by Mr Panicos Demetriades, Governor of the Central Bank of Cyprus, at the Institute of Directors (IoD) Open Panel Discussion, Nicosia, 27 August 2013.

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Good evening ladies and gentlemen. I think tonight's panel discussion is very important. The Bank of Cyprus is our largest bank and it will shortly hold its Annual General Meeting. At the AGM shareholders will choose the Board that will run the bank. The strategy that the new Board approves will need to be aggressively pursued.

The Bank of Cyprus in the future will have a greater focus on its core Cypriot business, serving personal, SME and corporate customers. It will also have to deal with the legacy of historic expansion and growth in non-performing loans.

The Central Bank of Cyprus does not have a fixed view as to whether the Bank of Cyprus should be split into two or not. This is a decision for shareholders and the Board. The question is whether separating certain assets is the right answer today. Opinion is divided – some say that this would be damaging to borrowers, others that it is the only way to manage the assets and restore the bank to health. I believe that we need to confront this issue and the bank should investigate all options. Any decision should be based on the facts and merits.

In all options, the Bank of Cyprus will need to create an organisation to manage non-performing loans. The bank is already moving in this direction, and should it remain as a single entity it is likely that there will still be a dedicated focus on managing the workout of troubled loans.

Splitting the Bank of Cyprus into a commercial bank and an asset management/development bank would create a legal and management separation. This – as any other option – has a number of merits and challenges. Two institutions would provide specialisation. The asset management/Development Bank could focus on maximising value through the restructuring of the loan book with no immediate time pressures. It could also act as a specialist bank focussed on real estate and development related activities. The remaining commercial bank could focus on serving the domestic economy. However, a split could be operationally disruptive in the immediate term, even if it was beneficial over time.

Substantial progress in the restructuring of the banking system has been made. This has not been easy, and market conditions remain fragile. In determining the way forward any solution should look to meet four objectives;

Restoration of Confidence – It is essential that any solution furthers the restoration of confidence. Customers must have confidence in the future of the Bank of Cyprus whether it is one bank or two. As confidence is re-established we can further ease and ultimately lift capital controls.

Funded Balance Sheet – The Bank of Cyprus's reliance on emergency support is well known. Any structure needs to be funded. The use of emergency support should be reduced over time.

Maximise Value – The Bank of Cyprus has received substantial capital. It needs to manage its loan book, restructure loans and maximise value. This will not be best achieved through a fire sale.

Support the Economy – As the largest and most important bank in the country the recovery of the Bank of Cyprus is vital to the recovery of Cyprus. The bank must continue to prudently lend to business and consumers.

The Cypriot economy and the Bank of Cyprus have undergone a severe shock. However, both Cyprus and the bank are resilient and can emerge strongly. It is important to recognise that substantial progress has been made. The Bank of Cyprus is now adequately capitalised and has exited resolution. New management is in place and they are working on preparing the strategy and restructuring plan. The ECB's Governing Council has recognised the steps taken to restore confidence. Continuing the efforts to create a stronger and safer Bank of Cyprus is in all of our interests. I look forward to hearing the panellists' views on how this can best be achieved.