ANNUAL REPORT
2006

ASSOCIATION OF CYPRUS COMMERCIAL BANKS

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Message from the Director General

It is with great pleasure that I present the first published Annual Report of the Association of Cyprus Commercial Banks. The Annual Report for the banking year 2006 marks the beginning of a practice that will continue for the years to come, in an effort to best inform our colleagues and the public on the latest major developments in the Cyprus banking sector. With the support of our member banks we look forward to continually enriching and improving this publication in the ensuing years.

With the accession of Cyprus into the European Union, the competitive forces of an open market economy were put into action and today the effects are evident. The banking sector is no exception and during 2006 competition between financial institutions reached new levels. As a result, consumers have witnessed a plethora of new and innovative products being introduced into the market. Today, consumers have more options and are in a better position to evaluate and select the most appropriate products to suit their needs.

In 2006 Cyprus banks achieved exceptional results and their profitability improved dramatically. Cyprus banks are financially sound and continuously upgrading their technology systems in specialized areas of operations. Their human resources is an essential factor for the high level of services offered to customers but also important to meet the challenge of time successfully.

In line with their European peers, our member banks are in the middle of major regulatory and structural changes and reforms, put forward by the European Union, in an effort to further promote the single European market. During 2006 banks dedicated considerable resources and efforts in preparing for the implementation of Basel II (Capital Requirements Directive), SEPA (Single Euro Payments Area) and MiFID (Markets in Financial Instruments Directive). An additional major task for our banks is the preparation for the adoption of the Euro as a national currency by January 2008 (expected date). Member banks realised early on, the intrinsic and crucial role that they will play in the changeover to the Euro and preparations are well underway. The Association is taking an active role in all substantial issues that our member banks are faced with, and strives towards promoting and realizing their major goals.

As an Association we have actively urged and will continue to urge for the promotion of major projects that will enable and assist in the materialization of the government's strategic goal of establishing Cyprus as a regional financial services centre. Government functions and officials should have the means and the vision to promote projects of high importance, such as the modernisation of the legal framework in relation to the forced sale of immovable property, the taxation of mutual funds and leasing. Moreover, the evolution of the primary and secondary market of government bonds should also be a priority. These projects are crucial since competition between financial institutions is no longer a local issue but rather a global one.

The challenges of cross border competition are today a reality for banks in Cyprus. In the years to come the banking system will transform rapidly and our member banks are positioning themselves in order to provide quality services and security to their customers and stakeholders.

In conclusion, I would like to thank the Board of Directors for their contribution and support in all the projects the Association of Cyprus Commercial Banks has undertaken and all the members of staff for their dedication and hard work.

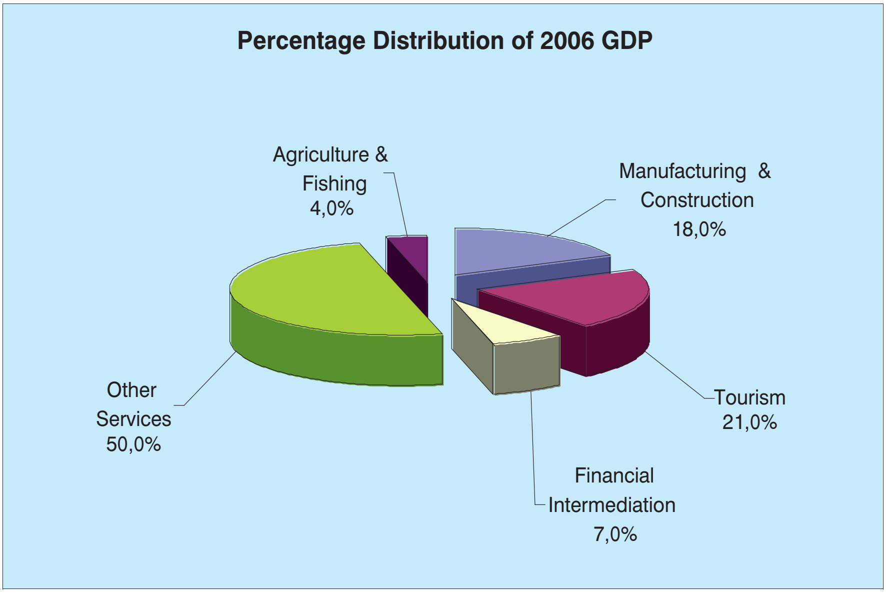
Dr. Michael Kammas
Director General

The Cyprus Economy

Situated in the Mediterranean Sea at the crossroads of three continents, Cyprus is the third largest island with an area of 9.521 square kilometers and a population of around 750,000. The island's strategic position has played a significant role in its economic development throughout the years and its transformation into an international business center.

Today, the economy of Cyprus although relatively small, continues to develop steadily with both the unemployment and inflation rates remaining at low levels. With an annual per capita income that is comparable to that of other European countries, the standard of living in Cyprus is high.

Cyprus has an open market economy dominated by the service sector, which accounts for more than 75% of GDP. The private sector is the major player of economic activity, with the Government's role limited to the monitoring of the economy and the provision of public utilities.



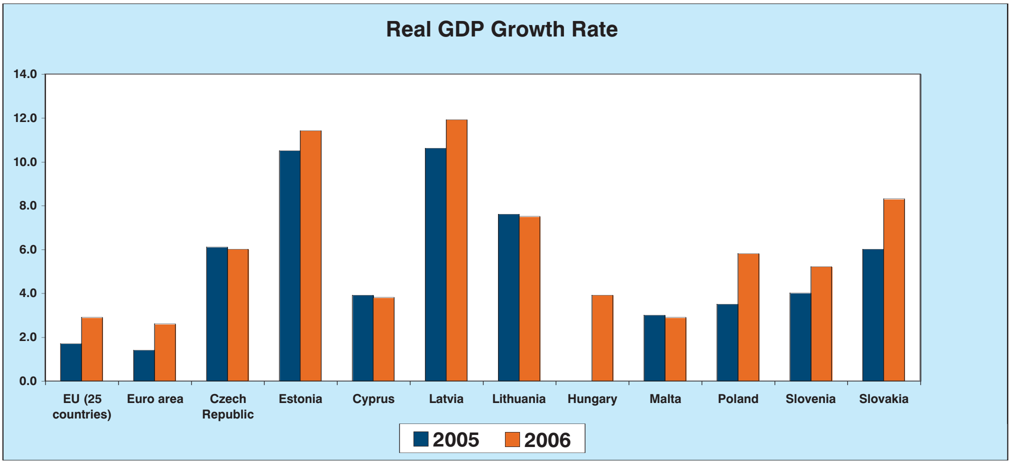
Tourism, manufacturing & construction and financial services are the most important sectors. Emphasis is given in reducing over-dependence on tourism and expanding other services like tertiary education, shipping and health services (private hospitals).

Financial services and other business related services have remained competitive during 2006, supported by the following facts:
- Cyprus has the lowest corporate tax rate in Europe (10%)
- A highly qualified labour force
- Reliable legal and regulatory systems
- A fully developed banking sector

GDP Real, % Change	2002	2003	2004	2005	2006	2007F
Cyprus	2,1	1,9	3,9	3,8	3,8	3,9
EUR 25	1,2	1,3	2,4	1,7	2,8	2,4
EURO AREA	0,9	0,8	2,0	1,4	2,6	2,1
USA	1,6	2,5	3,9	3,2	3,4	2,3
Japan	0,1	1,8	2,3	2,6	2,7	2,3

Source: Ministry of Finance

In 2006 the economy grew a healthy 3.8% (well above the EU25 average) at approximately the same rate as in 2005.



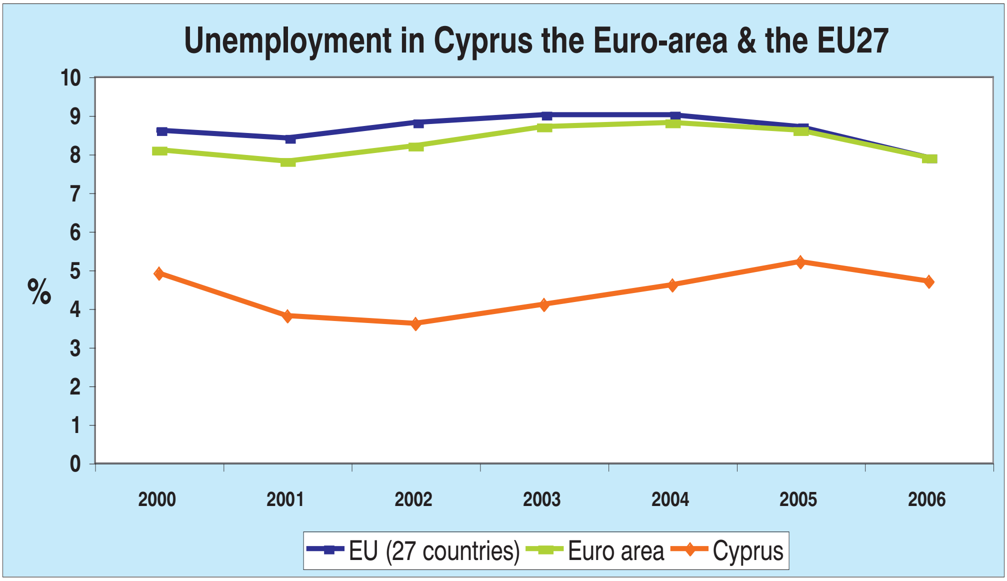
Source: Eurostat

On May 2nd 2005, Cyprus joined the European Exchange Rate Mechanism (ERM II) and is expected to officially introduce the Euro as a national currency on 1 January 2008. To meet this strategic goal on time, the government has initiated an aggressive program in order to fulfill the prerequisites (convergence criteria) for the adoption of the Euro.

The inflation rate rose slightly from 2.0% in 2005 to 2.2% in 2006.

Source: Eurostat

Unemployment in Cyprus, based on the EU method of calculation, reached 4.7% in 2006 compared to 5.2% in the previous year, figures that compare favorably with those of the Euro-area and the EU27.



Source: Eurostat

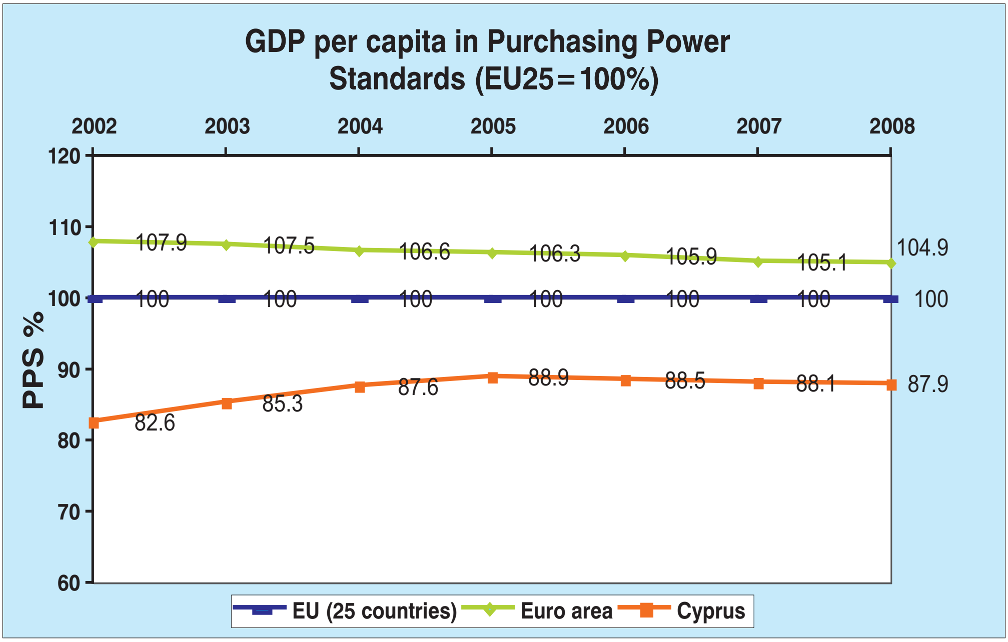
Major Economic Indicators

CYPRUS MAJOR ECONOMIC INDICATORS		2003	2004	2005	2006	2007 F
Inflation Rate	% Change [3]	4.14	2.29	2.0	2.2	2.4
Unemployment		4.1	4.6	5.2	4.7	4.5
GDP (At Current Prices)	EURO mil.	11,858	12,623	13,600	14,465	15,014
GDP (Real Growth)	% Change [3]	1.9	3.9	3.8	3.8	3.9
GDP Per Capita (EURO)		16,455	17,125	17,792	18,468	19,170
GDP Per Capita (PPS) [1]	EU - 25 = 100	85.3	87.6	88.9	88.5	88.5
Fiscal Deficit	% of GDP	-6.3	-4.1	-2.3	-1.4	-1.9
Total Public Debt [2]	CYP mil.	4,746	5,199	5,443	5,461	
Total Public Debt [2]	% of GDP	69.6	71.7	69.2	66.0	66.0

(1) Source: Eurostat

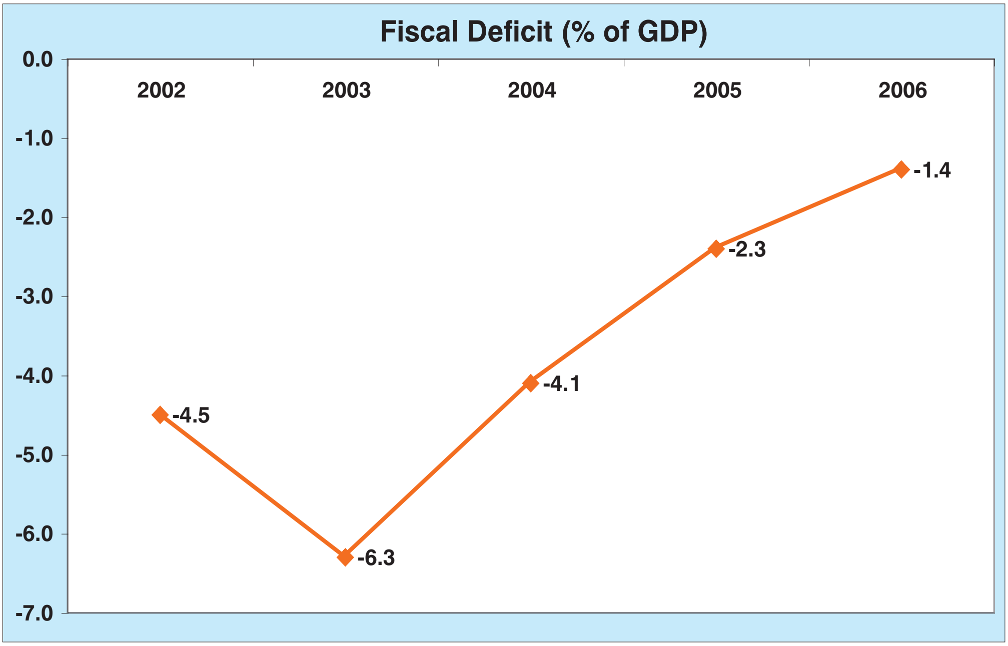
(2) Excluding intragovernmental & short-term liabilities of the Central Bank to the IMF

(3) Percentage change compared with the corresponding period of the previous year



Source: Eurostat

The chart below indicates the significant decrease of the fiscal deficit from 6.3% in 2003 to 1.4% in 2006.



Source: Ministry of Finance

All the above major economic indicators comprise an environment of economic macro stability that Cyprus currently enjoys.

General Overview & Key Figures.

The Cyprus Banking Sector is characterized by its three-tier system composed of three sub sectors:

- Commercial Banking
- Co-operative Credit Institutions
- International Banking Units (ex offshore banks)

The five different regulatory authorities that are involved in the monitoring of all banking institutions are:

- The Central Bank of Cyprus
- The Cyprus Securities and Exchange Commission
- The Co-operative Credit Societies' Supervision and Development Authority
- The Commissioner of Insurance Companies (Ministry of Finance)
- Authority for the Supervision of Pension Funds (Ministry of Labour and Social Insurance)

Banking Sector – Statistics (end of 2006) Amounts in EURO (milion)	Commercial Banks	Coops	IBUs	TOTAL
Deposits	33,361	9,153	3,368	45,883
Loans	20,206	6,866	4,429	31,501
Branches	434	292	N/A	726
Personnel	8,201	2,200	N/A	N/A
Branches per 100.000 inhabitants	56	38	N/A	
Capital Adequacy Ratio *	12%	N/A	N/A	
Cost to Income Ratio *	51%	N/A	N/A	
Return on Equity *	11%	N/A	N/A	
Non Performing Loans *	7.5%	N/A	N/A	

* averages of 3 largest banks

On the deposits side Commercial Banks hold approximately 73% of the total market. Cooperative Credit Institutions follow with a 20% share and IBUs with a 7% share. Commercial Banks hold a 64% market share of total loans, followed by the Cooperative Credit Institutions with a 22% share and IBUs with a 14% share.

Commercial Banking

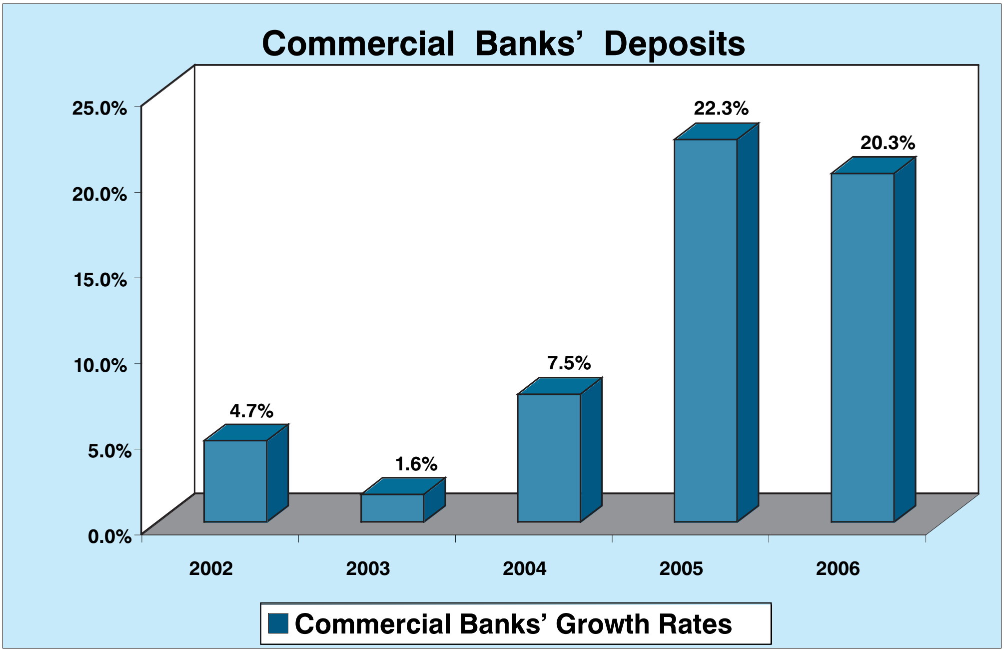
Commercial Banks in Cyprus are supervised by the Central Bank, which applies strict rules and regulations based on the recommendations of the Basel Committee and the Directives of the European Union.

One of the major characteristics of the Commercial Banks sector is its high degree of concentration. More specifically, the three largest Commercial Banks of the island account for approximately 70% of total assets.

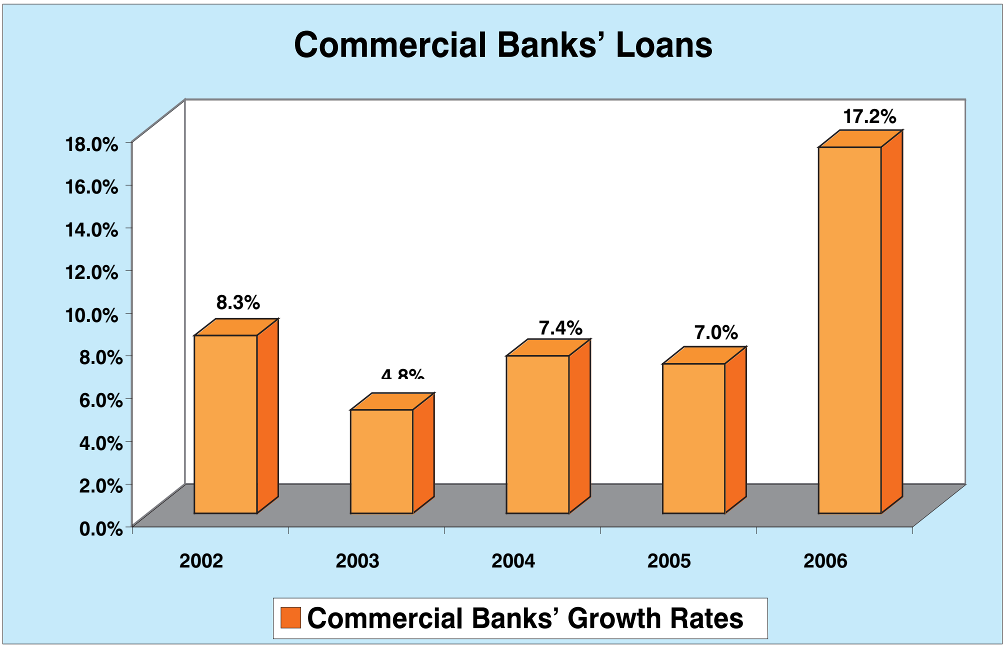
In order to maintain their growth and increase their profitability the three largest Cyprus Commercial Banks have expanded abroad during the last few years. The expansion was directed mainly towards Greece, the UK, Australia and more recently Central and Eastern Europe.

Financial Intermediation

Financial Intermediation in total, deepened further in 2006. As far as commercial banks are concerned, in 2006 deposits and loans grew by 20.3% and 17.2% respectively compared to 22.3% and 7.0% in 2005.



In 2005 and 2006 Commercial Banks experienced an impressive growth of 22.3% and 20.3% respectively in their deposits. This increase can be attributed mainly to deposits in foreign currencies, placed mostly by non-residents. Depositors' confidence (resident and non-resident) was boosted by Cyprus' accession to the European Union and ERM II. This boost combined with higher interest rates (compared to those in the eurozone) and a tax amnesty plan introduced by the government, have resulted in this impressive growth in deposits in 2005.



Loans by Commercial Banks grew by 17.2% in 2006 compared to a 7% growth in 2005, thus continuing the aggressive trend set during the previous three years.

Bank Credit by Sector

	End of period balances CYP000		Outstanding amount as a % of total		Annual % change	
	2005	2006	2005	2006	2005	2006
Public institutions	317,258	342,761	3.2%	2.9%	13.3%	8.0%
Agriculture	107,250	108,516	1.1%	0.9%	-8.2%	1.2%
Mining	28,768	28,458	0.3%	0.2%	5.6%	-1.1%
Manufacturing	524,622	538,764	5.3%	4.6%	0.1%	2.7%
Transport and communications	98,668	117,257	1.0%	1.0%	-7.8%	18.8%
Foreign & domestic trade	1,552,812	1,519,247	15.6%	13.0%	-0.6%	-2.2%
Building & construction	1,751,043	2,199,786	17.6%	18.8%	10.2%	25.6%
Tourism	849,592	909,809	8.5%	7.8%	-3.3%	7.1%
Personal & proffessional	4,739,031	5,916,018	47.5%	50.6%	11.7%	24.8%
Bills Discounted						
Local	2,508	2,692	0.0%	0.0%	-16.0%	7.3%
Foreign	1,578	1,620	0.0%	0.0%	-22.0%	2.7%

Source Central Bank of Cyprus

New bank credit in 2006 was mainly distributed to the Building and Construction sector and the Personal – Professional sector. The Personal - Professional sector accounted for 50.6% of total credit and the Building and Construction sector accounted for 18.8% of total credit. It is important to indicate that the majority of the Personal – Professional sectors credit was directed towards housing needs.

In 2006 the euro accounted for approximately 55.2% of all loans in foreign currency. The Swiss Franc followed with a 36.6% share and the US dollar with a 4.8% share.

Year Under Review

Some of the major areas of interest for the Association and the Banking sector, during 2006, included the following:

Basel II – The Capital Requirements Directive

The Basel II Capital Accord is an international initiative that sets out new rules for internationally active banks. Its purpose is to further strengthen the soundness and stability of the international banking system by introducing consistent capital adequacy regulations through the adoption of common rules. The ultimate and final goal of Basel II is to ensure that banks have adequate capital to address all underlying risks.

Formally, the new Basel II Capital Accord consists of three mutually reinforcing pillars. Pillar 1 sets the minimum capital requirements for credit, market and operational risk, Pillar 2 requires banks to assess their capital requirements in relation to their risk, and Pillar 3 establishes core disclosure by banks in order to improve market discipline.

The Committee of European Banking Supervisors, consisting of all European banking supervisors, promotes coherent application of the Basel II Capital Accord and plays a key role in promoting convergence in the implementation of the capital adequacy reform in Europe. The Central Bank of Cyprus, as the national supervisor, is responsible for the finalisation of all relevant application details and the supervision with reference to the application and compliance of Basel II by locally based banks.

During the consultation period with the Central Bank of Cyprus all member banks, under the co-ordination of the Association, met regularly to discuss issues and form common views towards national discretions applied by the Central Bank of Cyprus.

In December 2006 the Central Bank of Cyprus published the official Capital Adequacy Directive, which became effective as of 1st January 2007. The credit risk capital allocation is calculated using the Standardised Approach method. This approach uses external ratings, provided by external credit assessment institutions, to determine risk weights for capital charges. The minimum amount of regulatory capital that a bank must hold for credit risk has been set to 8% of its risk-weighted assets.

A number of member banks have opted to postpone the application of the Capital Adequacy Directive until 2008. The decision was based mainly on technical reasons, due to the various changes that need to be implemented in some members' information systems, which will enable them to calculate their capital requirements. We expect that all banks will comply with the new Directive from 2008.

The Association fully supports all member banks in their efforts to comply with the new regulations, and will continue to be actively involved in shaping the local banking industry's future.

Markets in Financial Instruments Directive (MiFID)

Directive 2004/39/EC on Markets in Financial Instruments (level 1 Directive) is the primary piece of legislation, which is destined to replace Directive 93/22/EEC on Investment Services (ISD). The transposition period for the level 1 Directive is set for 31 January 2007 and implementation is set for 1 November 2007. Being a Lamfalussy Directive, MiFID is set up by a "level 1 Directive" or the framework Directive and it is complemented by "level 2 measures" which are detailed – technical implementing measures. In 2006 the Commission published two draft measures, one Regulation and one Directive.

The implementation of MiFID represents one of the most crucial steps of the Financial Services Action Plan (FSAP) aiming towards the fulfilment of a unified and coherent single market with regard to financial services. MiFID actually provides for a comprehensive regulatory regime that will cover European financial markets and the provision of financial services.

The world of financial services is changing rapidly with innovation and technology playing an even increasing role. The constant introduction of new financial products and services has eventually set the ISD as being outdated. Therefore, one of MiFID's primary goals is to fill in the gaps and settle the weaknesses of the ISD, thus keeping pace with the developments in the global financial markets.

Basic Principles

- MiFID further promotes cross border trading and transactions between Member States by strengthening and improving the "passporting" wrights of Investment Firms. This is achieved through the inclusion of additional financial products and services that can be "passported". In addition "passporting" is further enhanced through the clear definition of jurisdictions between the various regulators of Member States.

- Cross border homogeneity is enhanced with regard to the organizational requirements and practices of investment firms, regulated markets, Multilateral Trading Facilities (MTF) and Systematic Internalisers.

- MiFID abolishes the "concentration rule". It actually eliminates the monopolies that currently exist in some Member States. With the implementation of MiFID, Member States will no longer require investment firms to direct all of their transactions exclusively through a regulated market (stock market). Furthermore, considering the creation of MTFs and the operation of Systematic Internalisers it is evident that competition will be boosted.

- MiFID also enhances the concept of consumer / customer protection. The new Directive provides for upgraded pre and post – trade transparency requirements as well as the categorization of customers according to their investment knowledge and financial condition. Because of MiFID, it is expected that investors will feel confident in employing the services of any EU investment company regardless of its origin.

- Most firms that fall under the provisions of MiFID, will also have to comply with the Capital Requirements Directive (CRD).

It is evident that MiFID is bound to have an impact in the way the European financial markets operate. The new Directive will affect investment companies, investment banks, fund managers, banks, IT companies and investors. Moreover, MiFID will affect regulators in all Member States and infrastructure providers such as trading platforms, clearing houses etc.

Although the efforts for the transposition of MiFID into the national legislation of Cyprus are slow, the Association is carefully following the developments and awaits for the consultation papers from the Cyprus Securities and Exchange Commission.

EURO – Preparation for the Changeover

The target date for Euro introduction is 1st January 2008. Cyprus has filed its official application for the adoption of the Euro, which is currently under consideration by the European Commission. Cyprus economic indicators satisfy all the convergence criteria - Maastrich criteria - which is the most important prerequisite for entering the eurozone. The official approval, which will be followed by the fixing of the exchange rate, is expected on July 10 2007.

The changeover process will take the form of a “Big-Bang” scenario where introduction of the Euro as the currency and the introduction of Euro notes and coins will coincide. There will be no transitional period as was the practice followed by the first wave of countries that introduced the Euro. The “Big-Bang” scenario was also used by Slovenia, which adopted the Euro on 1st January 2007.

The public and private sectors are currently working intensively to complete all the necessary preparations for a successful Euro changeover. The banking industry’s contribution is considered among the most important factors for the success of the project. The Association is a member of the National Coordinating Committee, which includes representatives from the Central Bank of Cyprus, the Ministry of Finance, the Chamber of Commerce and Industry, the Employers Federation, the Labour Unions and Consumer Associations. Additionally, the Association and its member banks meet often with the Central Bank of Cyprus to discuss various issues concerning technical preparations. The aim is to coordinate the preparations of the financial sector so as to ensure timely and thorough changeover to the new currency.

Regular meetings are also held with member banks in order to discuss various issues, like the campaigns for early withdrawal of national coins, dual display of prices, sub-front loading of Euro notes and coins to retailers, loading of ATMs, supply of Euro cheque books to customers and technical issues relating to use of credit cards.

Lastly, the Association has held meetings with different public and private bodies in order to discuss various matters of mutual interest. These include municipalities, insurance companies, telecommunication and electricity authorities, the social insurance department of the Ministry of Labour, the water board and consumer associations.

The banking industry's intensive preparations for the Euro changeover are well in advance. The Association and its member banks are totally committed to a successful and smooth changeover to the new currency.

Money Laundering

The Association plays an instrumental role in the process of the review and update of the Anti- Money Laundering Legislation and has developed a close cooperation with the Central Bank and the government towards that end.

Third Anti- Money Laundering Directive

The Association generally welcomes the text of the third Anti-Money Laundering Directive (which was adopted in October 2005 and is to be implemented the latest by December 2007). Furthermore following the completion of a detailed examination of the prospective transposition to the national legislation of the latter Directive, and the changes to be upheld by the Banks in their procedures, systems and methodology, the Association met with the representatives of the Central Bank of Cyprus to discuss this transposition and further the views of its member Banks.

The Third Anti-Money Laundering Directive builds on existing EU legislation and incorporates into EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing.

The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of €15.000. Those subject to the Directive need to:

- Identify and verify the identity of their customer and of its beneficial owner, and to monitor their business relationship with the customer;

- Report suspicions of money laundering or terrorist financing to the public authorities -usually, the national financial intelligence unit; and

- Take supporting measures, such as ensuring a proper training of the personnel and the establishment of appropriate internal preventive policies and procedures.

- Introduce additional requirements and safeguards for situations of higher risk (introduction of risk-based approaches to the identification of clients)

Further to the Third Anti-Money Laundering Directive the Commission adopted 'level 2' Implementing measures (2006/70/EC) in relation to the latter Directive, concerning the definition of politically exposed persons and technical criteria for simplified customer due diligence procedures and for exemption on grounds of a financial activity conducted on an occasional or very limited basis.

Regulation on the information of the payer accompanying transfers (EU implementation of FATF SR VII) EC 1781/2006

The Association generally welcomes the text of the Regulation, which has been implemented by the Central Bank of Cyprus through a circular letter dated 21 December 2006. The Regulation introduces obligations for banks and money remitters involved in the payment system. The requirements apply to transfer of funds in any currency that are sent or received by a payment service provider in the EU. The Regulation requires that the name, address and account number of the sender of the transfer to be transmitted together with the funds.

Recent Matters dealt with by the Anti – Fraud Anti-Money Laundering Committee of the Association:

1. Finalization of the single 'Opening of Account Information Document', which contains the information /documentation which shall be requested by a Bank in order to open an Account for a Customer. This Document has been forwarded for notification to the Central Bank of Cyprus and has been finalized according to its comments.

2. Following the request of the Unit for Combating Money Laundering, the Association has completed a ''Study Cost-Benefit Analysis of Transparency Requirements in the company/corporate field and banking sector relevant to the fight against money laundering and other financial crime'', which is funded by the European Commission – DG JLS.

3. Following the request of the European Banking Federation (EBF) in relation to the preparation of the ''EBF Report on National Legislation on Banking Secrecy- Update'' the Association forwarded to the EBF, a summary of the Cypriot legislation regarding banking secrecy.

Single Euro Payments Area (SEPA)

Following the establishment of the single European Market and the introduction of the Euro, the European Commission (EC) and the European Central Bank (ECB) expressed their ambition to transform the current diversity of domestic payment instruments into a single European intergraded market so as to enable citizens to use a more standardized set of payment systems.

Responding to the above objective, the European Banking Industry committed itself to developing a Single Euro Payments Area, known as the SEPA program. SEPA will be the area where citizens, companies and other economic stakeholders will be able to make cross-border payments in Euro, within the European Union, and benefit from the same convenience and rates as current domestic payments.

With the full support of the EC and the ECB the Banking Industry founded the European Payments Council (EPC) in 2002, in order to act as the regulator, decision-making body and coordinator of the SEPA program. In 2004, the EPC endorsed and made publicly available the "SEPA EPC Roadmap 2004 – 2010".

According to EPC's regulations, SEPA will be adopted by all 27 European Union (EU) member states plus Switzerland, Norway, Iceland and Liechtenstein and will be put into effect from the beginning of 2008. It will go through an adaptation period of three years (i.e. from the 1st of January 2008 until the 31st of December 2010), whereby both SEPA and the existing national processes will be able to co-exist and operate alongside. From the end of 2010 and onwards, full migration must be achieved.

In line with the primary deliverables spelled out in the EPC Roadmap, the European Banking industry has finalized a set of four fully fit-for-purpose European Payments Schemes covering Direct Debits, Credit Transfers, a Framework for Card transactions and a Framework for Cash.

Once the Credit Transfers and Direct Debits Schemes are implemented, users will be able to make transfers in Euro within the 31 countries mentioned above, in a secured and efficient manner. There will be no maximum amount per transaction and a bank account must be maintained by all users at any currency. The aim of the two Schemes is to enable the involved stakeholders adopt a common platform both for national as well as cross-border transfers, in order to achieve economies of scale and reduce costs.

According to the Cards Framework, every card owner will be able to use his/her Debit or Credit card at any ATM or POS within the adopting countries and bear the same costs irrespective of the country the card was issued.

Single European Cash Area (SECA) is aimed towards harmonizing all basic procedures regarding the administration and maintenance of cash by the Banking sector and the National Central Banks of the participating countries. Once this is achieved, it will lead to more efficient and secure distribution of cash within the Eurozone and will reduce costs.

As defined in the “EPC roadmap 2004-2010”, SEPA will be delivered in three phases being: a) Design and preparation, b) Implementation and deployment and c) Co-existence and gradual adoption.

In preparation for the implementation phase and in order to raise awareness amongst all stakeholders, EPC and the European Central Bank (ECB) have requested all participating Member States to prepare a Migration Plan in which they should describe their current situation and their future plans for the implementation of SEPA.

Following the above, the ACCB prepared a Cyprus SEPA Migration Plan, which was finalized in November 2006. The aim of the document was to describe:

- The overall vision and scope of SEPA
- The content and philosophy of the SEPA Schemes and Frameworks
- The right environment that should lead to the success of SEPA in Cyprus
- The roles and responsibilities of the stakeholders in the SEPA program
- The existing situation, objectives, roadmap and phases of the Cyprus SEPA Migration Plan

Within this framework, a National SEPA Steering Committee (NSSC) was set up under the auspices of the Central Bank of Cyprus. The NSSC is considered as the project's highest decision-making body and is composed of executives from the Banking Community, the Public Authorities, the Business Community and the Consumer's Association. Its aim is to monitor the implementation of the Cyprus SEPA Migration Plan and to secure successful migration by the deadlines set by the EPC.

Code of Banking Conduct

The existing Code of Banking Conduct (first issued in 2001), which applies to individual customers in Cyprus, is currently being updated. This was deemed essential in light of the fast changing legal and practical developments in the banking sector, and especially due to Cyprus accession in the EU.

What is the Code of Banking Conduct

The Code is the product of interbank cooperation under the auspices of the Association of Cyprus Commercial Banks, which had the initiative for and assumed the coordination of its first edition and its current update. Through the Code, banks are committing themselves, towards their customers, to adopt good banking practices and standards, as these are prescribed by commercial custom, EU and national Legislation, Supervisory Authorities' regulations and internationally accepted rules of banking. Its main objective is to inform bank-customers about what to expect from their bank when it is dealing with them, their personal data and their accounts.

Why a New Code

Cyprus accession in the EU has brought a tide of regulation. Banks are now required, amongst other things, to be more careful when dealing with customers' personal data, to adopt and have in place certain anti-money laundering and anti-terrorism measures and processes, to calculate their capital adequacy differently and so on. At the same time, the accession has offered them the possibility of providing a wider range of banking products and services. These developments have necessitated the revision of the Code, so as to explain to bank-customers how their bank will behave in their dealings with them.

Special Features of the New Code

- The wording of the new version is simpler and clearer than the current one.

- It covers: current accounts, savings and deposit accounts, foreign exchange services, cross-border payments, loans and overdrafts, cards and PINs, cheques, on-line banking and pre-paid cards.

- It does not cover: investments, insurance, currency accounts and loans in foreign currency.

- While drafting the new code, special attention was placed on the requirements of the following: 3rd Anti-Money Launderings Directive, CRD, Personal Data Law, amendments on the Banking Law and the Guarantors' Law, creation of the Central Information Register for issuers of dishonoured cheques, Directive of the Central Bank of Cyprus on Transactions effected by Electronic Payment Instruments, Regulation (EC) No 2560/2001 of the European Parliament and of the Council on cross-border payments in euro and Distance Marketing of Consumer Financial Services Law.

The new edition Code is expected to be issued in Autumn 2007. It will be handed to customers at the opening of accounts and it will be available in all branches of Banks and on the Associations' web page.

The ACCB

Background

The Association of Cyprus Commercial Banks (ACCB) was first established in 1969 as a liaison body for the commercial banks in Cyprus and since 1999 has acted as the secretariat and executive arm of member banks on sectoral issues and policies.

In 1999, the Association decided to develop the necessary infrastructure and prepared a Strategic Plan, which was oriented towards internal organizational changes, and focused on the formulation of structural policies and objectives; this meant to assist its members to the maximum possible extent in meeting the new challenges effectively, efficiently and with high professional standards. Therefore, the role and mission of the Association was redefined in the light of globalization and Cyprus' efforts to accede into the European Union, and as a consequence the need for formulating common positions and collective policies concerning legislative reforms and policy measures being introduced by the public sector.

In the year 2000, in accordance with the Strategic Plan, the Association decided to register under the Cyprus Company Law as a non-profit organization. The institutionalization of the Association was linked to the preparation of an upgraded Constitution, which reflects the rights and obligations of both the Association and its members. This legal establishment has enabled the Association to successfully become an authoritative institution, to participate actively in promoting the interests of its members and pro-actively influence the formulation of policy-making on behalf of the domestic banking industry.

Organizational Structure

The Association of Cyprus Commercial Banks is governed by a Board of Directors whose members are appointed by the member banks. The Board of Directors appoints yearly, on a rotation basis, a Chairman and a Vice-Chairman.

The Director General who is appointed by the Board of Directors and heads a team of professional and highly qualified staff, manages the running of the day-to-day activities of the Association, makes recommendations to the Board regarding the Association's policies and internal organization, reports on major issues of its operation and supervises all tasks which have been delegated to him by the Board of Directors, according to the Constitution of the Association.

In order to meet the needs of its members and operate efficiently and proactively, the Association has established the following Permanent Inter Bank Advisory Committees.

1. Committee for Legal Affairs

2. Banking Operations & Policies

3. Economic & Statistical Affairs

4. Financial Markets

5. ICC

6. Fraud & Money Laundering

7. Treasury & Risk Management

8. Banking Supervision

9. Consumer Affairs

10. Communications & Crisis Management

The Permanent Interbank Advisory Committees and Ad hoc Committees analyse information on a broad range of issues concerning banking and financial activities and act as advisory bodies to the Board of Directors. These Committees examine various issues and make recommendations to the Board and subsequently implement the Association's policies according to the Board's decisions. ACCB Committees are composed of representatives of member banks at the highest possible management level in the hierarchy of banks and are delegated with sufficient authority to take decisions.

In addition to the above, senior staff of the Association also participate in the various standing committees and working groups of the European Banking Federation (EBF). These delegates examine in depth the issues dealt by the Committees they represent, participate in meetings of the EBF abroad and inform member banks of the developments taking place within the European banking sector.

Mission

Following the Cyprus accession in the European Union and the consequential harmonization of the domestic financial sector, the major objective of the Association is the coordination of banking policies and the formulation of common positions on several legislative and financial issues.

In this sense, the mission of the Association is to become a major player on the part of the private sector in evaluating and formulating suggestions on the economic, monetary and financial developments in the light of the globalisation process of the world market and the increasing intensity of competition anticipated in the financial sector. The constant changes in the structure of international banking render the role of the Association essential in evaluating on time, the impact of global reforms on the domestic banking sector and in promoting the expanding needs of the local banking community.

Membership

Membership of the Association is open to any institution legally authorized to operate as a registered bank, whether local or foreign, in Cyprus, which can provide commercial banking services under the Banking Law of 1997. Applications for new membership are subject to approval by the members of the Board of Directors of the Association.

The Association of Cyprus Commercial Banks is a non-profit professional body representing the interests of the banking industry and is supported by subscriptions from its members.

The bank members of the Association offer a diverse range of products and services. Beyond the traditional deposit and lending services, banks have established their own subsidiaries providing short and medium term credit, hire purchase finance facilities, investment services (such as asset management, investment advice and brokerage), factoring and invoice discounting services, electronic and telephone banking, leasing, private banking as well as all types of insurance services.

Cyprus banks are financially sound, they have engaged in a process of continuous upgrading of their technology systems in specialized areas of operations, and regard their human resources not only as an essential factor for the high level of services offered to customers but also important to meet successfully the challenge of time. Beyond their traditional economic and financial engagement, banks have shown commitment to social responsibility by actively participating and supporting a variety of cultural and social events in Cyprus.

Realizing that there are challenges and more opportunities abroad, banks have sought expansion beyond the boundaries of the island. Today, the banking sector is characterized by an extensive network abroad having established branches, subsidiaries and representative offices in Greece and other European countries, the U.S.A, Canada, Australia and Africa.

List of Members

Bank of Cyprus

Head Office, 51 Stasinos Street, Ayia Paraskevi, Strovolos,
P.O.Box 21472, 1599 Nicosia
Tel.: 22 378000, Fax: 22 378111
www.bankofcyprus.com

LAIKI GROUP

Head Office, 154 Limassol Avenue,
P.O.Box 22032, 1598 Nicosia
Tel.: 22 552000, Fax: 22 811491
www.laiki.com

HELLENIC BANK

Head Office, Corner Limassol Avenue & 200 Athalassas Avenue
P.O.Box 24747, 1394 Nicosia
Tel.: 22 500000, Fax: 22 500051
www.hellenicbank.com

ALPHA BANK

Head Office, Yiorkion Building, 1 Prodromou Street,
P.O.Box 21661, 1596 Nicosia
Tel.: 22 888888, Fax: 22 776550
www.alphabank.com.cy

NATIONAL BANK OF GREECE (CYPRUS)

Head Office, 15 Arch. Makariou III
P.O.Box 21191, 1597 Nicosia
Tel.: 22 840000, Fax: 22 840010
www.ethniki.gr

ARAB BANK

Head Office, 1 Spyrou Kyprianou Avenue
P.O.Box 25700, 1393 Nicosia
Tel.: 22 899100, Fax: 22 760890
www.arabbank.com.cy

Emporiki Bank

Head Office, 4 Ionos Street, Engomi
P.O.Box 25010, 2406 Nicosia
Tel.: 22 696650, Fax: 22 663923
www.emporiki.gr

UNIVERSAL BANK

Head Office, 85 Dhigeni Akrita Avenue, Universal Tower, 6th Floor
P.O.Box 28510, 2080 Nicosia
Tel.: 22 883333, Fax: 22 358702
www.universalbank.com.cy

THE CYPRUS DEVELOPMENT BANK

Head Office, 50 Arch. Makarios III
P.O.Box 21415, 1508 Nicosia
Tel.: 22 846500, Fax: 22 846604
www.cyprusdevelopmentbank.com

SOCIETE GENERALE CYPRUS

Head Office, 20 Ayias Paraskevis Street, Strovolos
P.O.Box 25400, 2002 Nicosia
Tel.: 80007777, Fax: 22 399801
www.sgcyprus.com

Association of Cyprus Commercial Banks

1E Menandrou Str., 1st Floor,
P.O.Box 23363,
1682 Nicosia
Cyprus
+357 - 22664293
+357 - 22665135
info@accb.com.cy