



ANNUAL REPORT

2011-2012

ASSOCIATION'S ADDRESS

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Message from the Director General



The year 2011 marked the second part of a double-dip recession for Cyprus, as our economy and banking system were caught in the aftermath of the prolonged depression in Greece and of the escalation of the Greek sovereign crisis. In the middle of adverse market conditions, the Greek debt restructuring and subsequent write-down applied to holdings of Greek debt resulted in economic losses and reductions in capitalization levels for the Cyprus banking sector. The year 2012 will remain a difficult one for the economy, given the negative external environment as well as the lack of access to international capital markets following the recent credit rating downgrades.

On a positive note, the necessary measures to pursue fiscal consolidation have finally been taken. The pursuit of fiscal targets and the attainment of macroeconomic stability will be a strong message to capital markets and investors that Cyprus remains a reputable financial centre with clear advantages to foreign investors. Additionally the discovery of natural gas reserves within Cyprus's Exclusive Economic Region is expected to boost confidence and potentially lead to an increase in foreign direct investments.

In order for the positive scenario to materialize, the private and public sectors, as well as all political parties, should remain committed to the attainment of fiscal targets and the recovery of lost credibility. For its part, despite the challenging conditions, the banking sector is proceeding with bank recapitalization. Through raising their capital levels and deleveraging their positions in non-core assets, banks are gradually implementing their Capital Strengthening plans. In addition, they are increasing their organic profitability through adopting cost-cutting measures and restructuring their operations to further strengthen their capital position. Towards this end, they have implemented a wage freeze for the years 2012 and 2013 and have negotiated a change of retirement schemes from defined benefit to defined contribution which contributes further to cost reduction.

In this volatile environment the challenges for our member banks and subsequently the Association are numerous. An important milestone in the past period, which was actively pursued by the Association, was the enactment of the law amending the International Trusts Law. By modernizing the framework of international trusts, it offers a robust and attractive environment to investors and is expected to further enhance Cyprus's position as an international business centre. Additionally, the Association and its members have worked extensively with

local authorities to arrive at a draft law for the regulation of fiduciaries, trustees, administration services and company directors' providers, which is expected to be approved by Parliament later in the year. Another measure which will contribute towards Cyprus's attractiveness as a financial centre is the transposition of UCITS IV, and the member banks through the Association have contributed towards the drafting of the relevant law and regulations.

During the past year, the Association was actively involved in the preparation of two important laws to strengthen the stability of the financial system: the Law for Financial Crisis Management and the Financial Stability Fund Law, both of which were enacted in December 2011. In addition, the Association contributed towards the amendment of property planning laws and the sale of land law, which facilitate the issuance of titles, the transfer of property and the provision of credit.

In the area of financial markets, the Association has coordinated the formation of a local Market Implementation Group to promote the implementation of the Market Standards for Corporate Actions Processing and the Market Standards for General Meetings that have been endorsed by European trade associations to improve efficiency and reduce costs in post-trading of securities. The Financial Ombudsman, a project in which the Association was involved from its inception, is in the process of being set up and is expected to begin operations towards the end of 2012. In the year 2011, the initiative of the Central Bank of Cyprus and the Association to create property price indices was completed, and the first indices were published. Furthermore, the Association and its members are involved in a research program aimed at improving operational risk management.

In the current period, we are assisting our member banks to address issues stemming from Basel III as well as SEPA implementation. Additionally, as part of our ongoing activities, we continue to provide training to member banks covering a wide area of interest.

Looking at Artemis Bank Information Systems, the credit bureau which is a subsidiary of the Association, we note the completion of its second year of operations, during which it joined forces with member banks to improve data quality and began preparations to introduce an additional category of data.

We would like to thank our Board of Directors for their continuing support, as well as the members of our various committees for dedicating their time and expertise towards our common targets. We at the Association will continue our efforts to improve, in order to better serve our members in dealing with the challenges ahead.

Dr Michael Kamas
Director General

Economic Environment

The Cyprus Economy

Cyprus is an independent republic with a presidential system of government and, as at 1 May 2004, a member of the European Union. The euro has been used as legal tender since 1 January 2008.

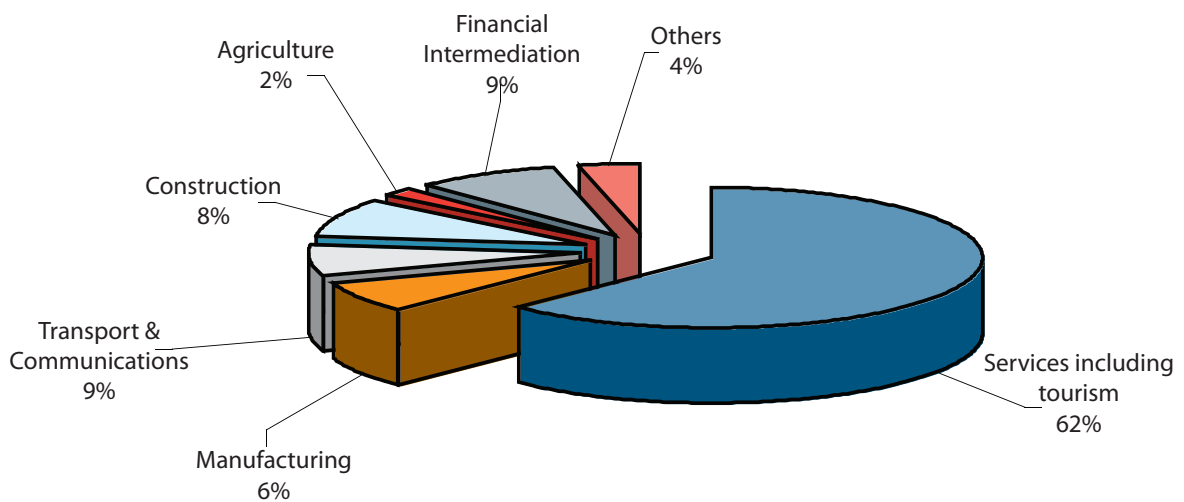
The island's increasing attractiveness as an International Financial Centre is supported by the following:

- Cyprus offers the lowest tax rate in the EU and has a number of advantageous double tax treaties
- Cyprus's legal system is based on its British counterpart and UK court decisions are often used as precedent

- The labor force is highly skilled and multilingual
- The island is strategically located and has excellent climate and high standard of living
- International Financial Reporting Standards have been used for over three decades
- There is a strong banking infrastructure

Cyprus has an open market economy dominated by the service sector which accounts for around 80% of GDP, while the importance of agriculture and manufacturing is declining steadily. Services include mainly tourism, banking, accounting, consultancy, legal, telecommunications, education and medical.

Percentage Distribution of 2011 GDP



Source: Statistical Service of Cyprus (provisional data for 2011)

In 2010 the Cyprus economy grew by a modest 1.1%. The year 2011 began well due to an exceptionally good tourism season, however, the loss of economic momentum in the second half of 2011 was greater than anticipated and the economy entered again into recession. Economic activity was badly affected by an accident in July 2011 that destroyed the main electricity producing plant. The overall growth in 2011 was 0.5% and this was attained due to the positive performance of the tourism, banking and services sector. However, as the economy began contracting in the last two quarters of the year, it is projected that in 2012 the economy will continue to contract by 0.5%. The negative sentiment is confirmed by the survey of the Economics Research Centre of the University of Cyprus. The survey contains information on consumer and business confidence and incorporates leading indications about the evolution of macroeconomic variables. During 2011 and the first months of 2012, the Index of the survey has been declining and it has reached the lowest historical levels on March 2012, predicting that more negative economic growth lies ahead.

GDP Real, % Change							
	2007	2008	2009	2010	2011	2012F	2013F
Cyprus	5.1	3.6	-1.9	1.1	0.5	-0.5	1.8
EUR 27	3.2	0.3	-4.3	2.0	1.5	0.0	1.5
Euro Area	3.0	0.4	-4.3	1.9	1.4	-0.3	1.3
USA	1.9	-0.3	-3.5	3.0	1.7	1.5	1.3
Japan	2.2	-1.0	-5.5	4.4	-0.7	1.8	1.0

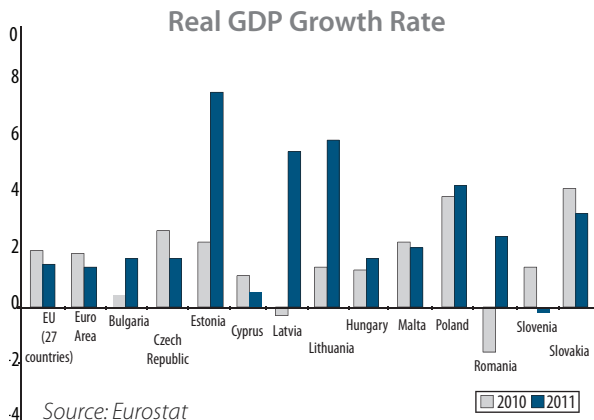
Source: Eurostat

Following a mild recovery in 2010, the tourism sector recorded impressive growth in 2011, with tourist arrivals up by 10.1%, while tourist receipts increased by 12.9% for the year. The key driver was the sharp increase in tourists from Russia and also the political instability in competing Mediterranean destinations. These trends, however, do not appear to continue in 2012 as tourist arrivals declined by 3.5% during the first two months of the year compared to the first two months of 2011.

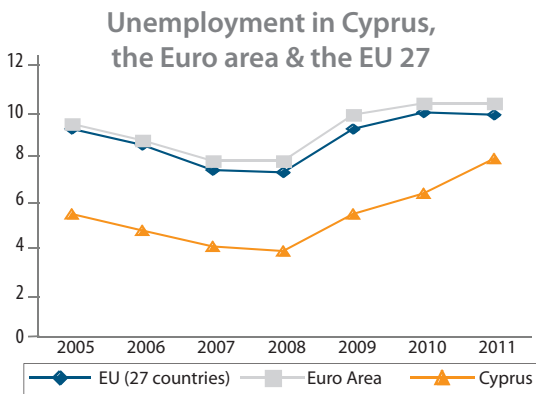
The year 2011 marked the third consecutive year of decline for the construction sector, that contracted by 10.3% over the year. The total area of real estate licenses, which is a reliable indicator of future performance, was down by 22.8% for 2011. The decline of the construction sector is reflected on real estate prices. According to the residential property price indices which are prepared by the Central Bank of Cyprus's Real Estate Unit (REU) in collaboration with the member banks of the Association, during the third quarter of 2011, prices of residences were down by 5.5% on a yearly basis, compared to the corresponding quarter in 2010.

The reduction of disposable income due to various fiscal consolidation measures, the increase in unemployment and an overall decline in consumer confidence have impacted private consumption, and the turnover volume index of retail trade declined by 0.9% in 2011. During the first two months of 2012, vehicle registrations were down by 24.6% compared to the same period in 2011. Despite the introduction of VAT to food and pharmaceuticals, VAT revenues during 2011 have decreased by 0.9%.

The international business services sector remains stable and company registration applications during 2011 are at the same levels as 2010. The recently enacted legislation on trusts is expected to boost the international business services sector. Additionally, the ongoing initiative to turn the Cyprus Investment Promotion Agency to a one-stop-shop for by-passing red tape to facilitate foreign investors will be an important milestone for the sector.

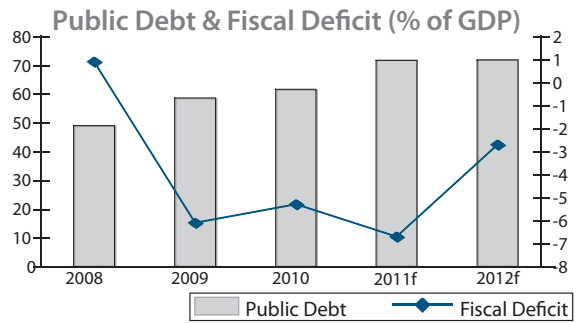


The low levels of growth have impacted the labour market in Cyprus to a great degree. Unemployment has risen to a record level of 7.7% in 2011 (2010: 6.2%). The employees that have been affected the most are those in the trade and construction sectors.

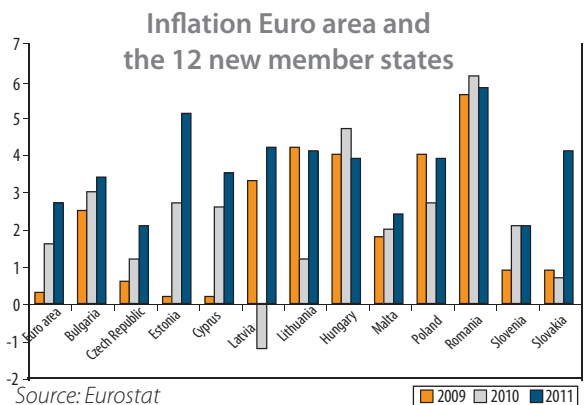


Inflation in 2011, as shown by the harmonized index of consumer prices, reached 3.5% in Cyprus compared to average inflation of 2.7% in the Euro area. This is due to price energy pressures that have had a comparatively higher impact in Cyprus than the rest of the EU, as Cyprus imports nearly all of its energy.

Cyprus is presently one of the countries placed under ECOFIN supervision for exceeding the fiscal deficit threshold of the Stability and Growth Pact. In order to consolidate public finances, the government adopted a series of fiscal "packages". The first one included two important structural



measures: the enactment of contributions from public sector employees towards their public pensions, and the inclusion of newcomers in public sector in the social security fund, with the abolition of occupational pensions. Additional measures were adopted in December 2011. These included the raising of the VAT rate from 15% to 17%, a better targeting of social transfers and a freeze of emoluments, including pensions, in the broader public sector for two years, implying a downward level shift on the public wage bill. In addition, they contained a temporary contribution on gross earnings of private sector employees and pensioners based on a scaled contribution rate (of up to 3.5%), and an increase in the tax rate on deemed dividend distribution from 17% to 20%. The European Commission has appraised the measures and found them to be effective towards a timely and sustainable correction of the excessive deficit, which is targeted to be reduced from an estimated 6.3% of GDP in 2011 to 2.7% in 2012 and 1.8% in 2013. Additionally, the government has committed to the introduction of a legislation that will make mandatory the preparation of balanced budgets.

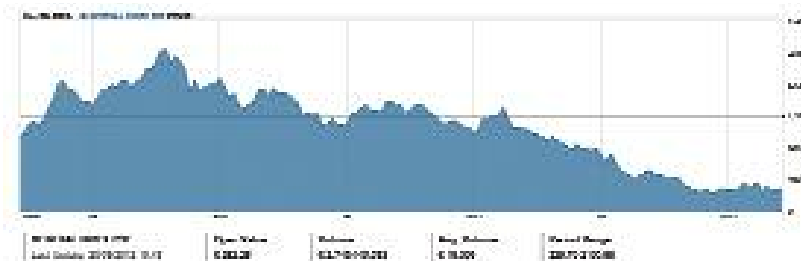


Stock Market Developments

During 2011, the Cyprus Stock Exchange (CSE) lost a great part of its capitalization as a result of a prolongation of the Greek crisis and the CSE General Index ended the year with losses of 72.0% (2010: losses 33.6%). The fall was accompanied by a reduction in the total volume of transactions by 55.6%, compared to 2010.

In the beginning of March 2012, the CSE had total capitalization (excluding bonds) of €2.7 billion, compared to €5.2 billion at the end of 2010. Around 20% of the market capitalisation is due to foreign investor participation.

CSE General Index



The banking sector accounts for around 60% of total market capitalization. The shares with the largest market capitalization as at the beginning of March 2012 were as follows:

Source: Cyprus Stock Exchange

	Company	Market	Market Capitalisation (€)	Weight (1)%
1	Bank of Cyprus Public Company LTD	Main	975,417,933	36.7%
2	Cyprus Popular Bank Public Co LTD	Main	460,777,620	17.3%
3	Hellenic Bank Public Company LTD	Main	103,186,578	3.9%
4	Woodland Designs PLC	Special Category	83,331,282	3.1%
5	Vision International People Group Public LTD	Alternative	75,000,000	2.8%
6	Petrolina (Holdings) Public LTD	Alternative	48,562,500	1.8%
7	Demetra Investment Public LTD	Investment Companies	41,800,000	1.6%
8	Empire Capital Investments Public Ltd	Alternative	40,675,173	1.5%
9	Pandora Investments Public LTD	Alternative	38,199,168	1.4%
10	Woolworth (Cyprus) Properties PLC	Parallel	36,106,514	1.4%
	Total		1,903,056,768	71.6%

(1) The weight is calculated to the market capitalisation (shares only, including Investment Companies Market)

Source: Cyprus Stock Exchange

At the end of 2011, a political decision was taken by the Council of Ministers to privatize the Cyprus Stock Exchange (CSE). Accordingly, the Ministry of Finance will begin consultation with all relevant stakeholders and will prepare a bill for the conversion of CSE into a private legal entity. It is hoped that this will attract interest from institutional investors who can operate at more cost-effective levels and can develop further the local securities market.

The CSE has introduced the role of market maker to all CSE markets as from May 2011 and has published the relevant regulations. All companies that trade at low volumes have been encouraged to introduce a market maker in order to increase tradability.

Additionally, in order to increase liquidity in the market, the CSE is about to introduce securities lending and short selling. Securities Lending will be executed as an Over the Counter Trade. The CSE will not be involved in the private agreements that the brokers and custodians might have between them or between themselves and clients related to the borrowed securities. In relation to dividends and voting rights, the CSE will recognise as beneficiary of the registered securities the registered holder, even if the registered holder during that period has borrowed the securities. With regards to short selling, orders for sale of securities which are borrowed or which at the time of the order are not registered at the Central Security Depository in the name of the seller will be con-

sidered as short sales and should be flagged by the CSE member as such in the trading system. The CSE will publish daily the volume of transactions executed after a short sale. The Cyprus Securities and Exchange Commission will be able to postpone or forbid the execution of short sale orders.

With regards to collective investment schemes, Cyprus is expected to introduce shortly legislation to harmonize with the UCITS IV Directive. It is envisioned that the new legislation will boost the registration of foreign and domestic UCITS and attract management companies from the Middle East, Asia and Eastern Europe due to the benefits of the European "passport" and the introduction of master/feeder structures. Non-UCITS in Cyprus are known as International Collective Investment Schemes (ICIS) and will be harmonized under the local implementation of the AIFMD (Alternative Investment Fund Managers Directive). There are currently around 70 ICIS registered in Cyprus and they invest mainly in real estate, shipping and renewable energy. More interest in the registration of ICIS is evident from Eastern Europe, Russia, Ukraine and Greece.

As part of its efforts to develop new products and services, the CSE is promoting the development of an Exchange Traded Funds (ETFs) market. Towards this end, the CSE is initiating the creation of the relevant regulatory framework and has introduced the concept of market maker, which is a prerequisite to trade ETFs.

Major Economic Indicators

- **Doing Business 2012 (World Bank):** Cyprus is ranked 40th out of 183 economies.
- **Global Competitiveness Index 2011-2012 (World Economic Forum):** Cyprus is ranked 47th overall out of 142 countries, while in the “Financial Market Development” category it is ranked 25th.
- **Index of Economic Freedom World Rankings:** Cyprus is ranked 20th out of 179.

CYPRUS MAJOR ECONOMIC INDICATORS						
		2008	2009	2010	2011	2012 f
GDP (Real Growth)	% Change ⁽¹⁾	3.6	-1.9	1.1	0.5	-0.5
GDP (At Current Prices)	EUR mil.	17,157	16,854	17,334	17,761	N/A
GDP Per Capita (EURO)		21,370	20,120	20,962	21,264	N/A
GDP Per Capita (PPS)	EU - 27 = 100	99	100	99	N/A	N/A
Unemployment	%	3.7	5.3	6.2	7.7	9.5
Inflation Rate	% Change ⁽¹⁾	4.4	0.2	2.6	3.5	3.0
Current Account Balance	% of GDP	-16.8	-7.8	-7.8	-7.0	-6.0
Fiscal Deficit	% of GDP	0.9	-6.1	-5.3	-6.3	-2.7
Total Public Debt ⁽²⁾	% of GDP	48.9	58.5	61.5	71.6	71.7
Total Public Debt ⁽²⁾	EUR mil.	8,388	9,865	10,653	12,720	13,050

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

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

Source: Eurostat, Ministry of Finance, European Commission interim Forecast

CREDIT RATINGS FOR THE REPUBLIC OF CYPRUS	
Fitch	BBB- (negative)
Moody's	Ba1 (negative)
Standard & Poor's	BB+ / negative / B

As at April 2012. Source: Fitch, Moody's, Standard & Poor's

The Banking Sector

General Overview & Key Figures

The banking sector is comprised of two tiers: (a) locally active commercial banks, subsidiaries and branches of foreign banks which are supervised by the Central Bank of Cyprus (CBC) and (b) Co-operative Credit Institutions which are supervised by the Co-operative Credit Societies' Supervision and Development Authority.

Since the adoption of the Euro on 1st January 2008, one of the primary roles of the CBC is the supervision of the Banking System and the maintenance of financial stability. In its supervisory role, the Central Bank of Cyprus has always been guided by the recommendations of the Basle Committee on Banking Supervision and implements the EU Directives on banking regulation. Additionally, the CBC monitors new developments and accordingly reviews and amends its policies.

As can be seen from the table below, banks dominate the domestic financial system, holding a 79% share of loans and a 78% share of deposits. The number of bank personnel is at the same levels as in 2010 whereas the number of bank branches has declined by 2% in 2011 and this trend is expected to continue as banks continue their cost-reduction efforts.

Banking Sector – Statistics (31/12/11)		
	Banks	Coops
Deposits (€ million)	54,031	15,269
Loans (€ million)	53,845	14,729
Branches	476	426
Personnel	10,338	2,471
Branches per 100,000 inhabitants	60	53

Source: Central Bank of Cyprus, Co-operative Credit Societies' Supervision and Development Authority

Commercial Banking

The private sector involvement (PSI) and subsequent write-down in the value of Greek sovereign bonds (GSBs) had a major impact in the financial results of our member banks. Our members have accepted the proposal of the Greek government and their participation in the voluntary exchange of GSBs and have therefore included in their results losses stemming from a write-down of over 70% of the nominal value of GSBs. This caused the profitability and the return on equity index to drop to -29.7% (2010: 12.6%) and reduced the capital adequacy ratios of some members below the regulatory thresholds.

Return on equity before the impact of the Greek sovereign bond write-down was 7.2% (2010: 12.6%), as a result of our member banks' efforts to preserve organic profitability in an especially demanding environment. Operating income rose by 3.3% during the year while the net interest margin increased to 2.57% (2010: 2.16%). Commercial banks have maintained the operating expenses and the relevant cost to income ratio at last year's levels (49%). The quality of the loan portfolio was affected by the continuing recession and the ratio of non performing loans rose to 10.5% (2010: 7.8%).

Member banks are in the process of strengthening their capital base on the basis of their capital strengthening plans in order to meet the regulatory capital adequacy thresholds. It should be noted that the regulatory authorities have increased significantly the minimum required limits of capital adequacy with the minimum limits coming to 8.0% for core tier 1 capital ratio, 9.5% for tier 1 capital ratio (prior limit 4%) and 11.5% for total capital ratio (prior limit 8%). The recapitalisation measures include rights issues, allocation of un-allocated shares, strengthening of the capital base through profitability, effective management of risk weighted assets and conversion of CoCos into shares.

Key Banking Ratios			
	Cyprus		EU-27 average ¹
	31/12/11	31/12/10	30/06/11
Profitability:			
Return on equity	-29.7%	12.6%	1.6%
Return on equity before impact of Greek sovereign bond write down	7.2%	12.6%	N/A
Return on Assets	-1.7%	0.6%	0.1%
Net interest margin (NII / Assets)	2.57%	2.16%	1.00% ²
Cost to Income	49.1%	48.7%	55.3%
Dividend payout ratio	N/A	13.7%	N/A
Provision charge / loans (gross)	1.5%	1.1%	N/A
Growth:			
CAGR of operating income	3.3%	N/A	N/A
% income on non-interest income sources	15.6%	20.7%	43.0%
Loan quality:			
Non Performing loans / Total loans	10.5%	7.8%	4.6%
Non performing loans coverage	50.8%	57.2%	41.1%
Liquidity:			
Loans to deposits ³	1.16	1.00	1.44
Cash, trading and available-for-sale assets ratio to total assets	4.7%	5.1%	12.2%
Capital:			
Capital Adequacy Ratio	11.1%	12.9%	13.2%
Tier 1 Ratio	9.9%	11.6%	10.3%
Leverage (shareholders' capital / total assets)	5.8%	5.4%	5.8%
Overseas assets as % of total assets	36.0%	40.1%	N/A

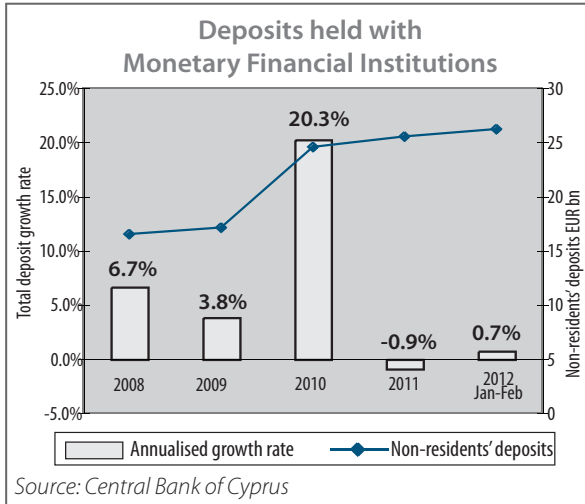
¹ Data for medium sized domestic banks (medium-sized banks = banks with total assets between 0.5% and 0.005% of total consolidated assets of EU banks).

² Net interest income / Assets

³ Cyprus banks: Gross loans/Deposits, EU-27 medium size banks average: Net loans/Deposits

Source: Information collected from 11 of our 12 Member Banks, Consolidated banking data, European Central Bank website

Financial Intermediation

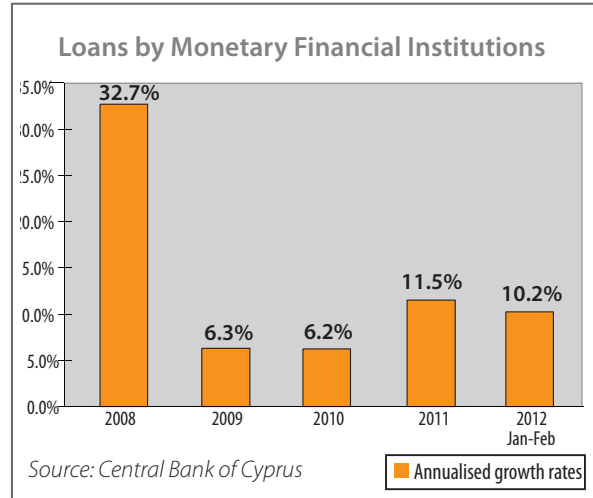


In 2011, deposits held with all monetary financial institutions declined slightly by 0.9% (2010: 20.3% growth) and the deposits of foreign residents have increased by 4.0%. The annualised growth in deposits during the first two months of 2012 was 0.7% compared to the first two months of 2011.

During 2011, credit expansion (total lending to Cyprus residents, other EU residents and non-EU residents) increased to 11.5% from 6.2% in 2010. Although a significant portion of this can be attributed to loan restructurings the data show that the banking sector in Cyprus continues to provide funding to the economy. This can also be seen from comparative data given by the European Commission on bank lending to EU residents. On average, for the year 2011 lending to EU residents grew by 1.2% in the European Union whereas in Cyprus it grew by 7.6%, and total lending in Cyprus (to EU-residents and non-residents) grew by 11.5%. Latest data from the Central Bank of Cyprus show that annualised credit expansion was 10.2%

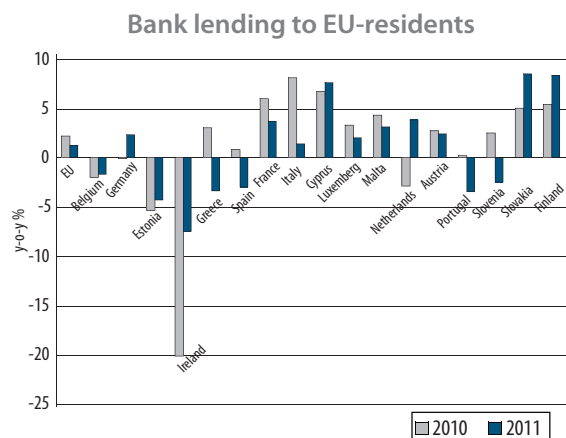
Loans / GDP		
	Dec 2010	Mar 2011
Household	131%	132%
Corporate	156%	156%

Source: Central Bank of Cyprus



during the first two months of 2012.

According to the Bank Lending Survey carried out by the Central Bank of Cyprus, the demand for loans by both households and enterprises is declining, and demand by households is expected to continue to decline in the first quarter of 2012, whereas demand by enterprises is expected to stay at the same levels. As far as loan supply is concerned, the Survey concludes that credit standards for consumer and enterprise loans were tightened during the fourth quarter of 2011 and are expected to tighten further in the first quarter of 2012, along with credit standards in the Euro area.



Bank Credit by Sector

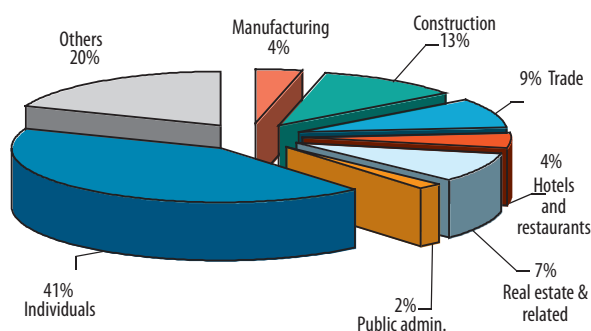
As the table below shows, housing loans have a modest increase of 4.6%, while consumer loans have stayed at last year's levels. Lending to enterprises has increased by 10.3%.

	End of period balances €million		Outstanding amount as a % of total		Annual % change
	2010	2011	2010	2011	2011
General Government	1,106	1,110	1.8%	1.6%	0.4%
Other financial intermediaries	6,304	9,227	10.3%	13.5%	46.4%
Insurance corporations & pension funds	69	87	0.1%	0.1%	26.1%
Non-financial corporations	28,179	31,079	45.8%	45.3%	10.3%
Consumer credit	3,479	3,483	5.7%	5.1%	0.1%
Housing loans	14,474	15,139	23.5%	22.1%	4.6%
Other household loans	7,864	8,448	12.8%	12.3%	7.4%
Totals	61,475	68,574			11.5%

Source: Central Bank of Cyprus

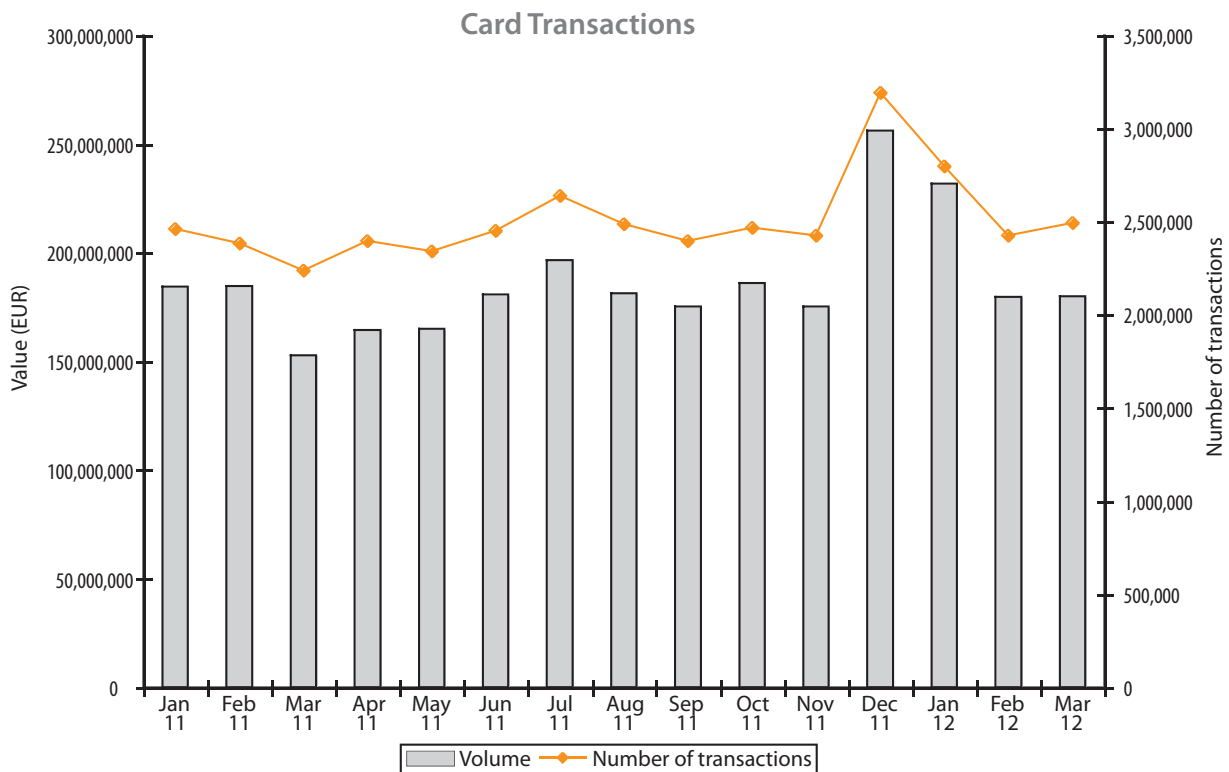
Loans to individuals amount for the largest portion of outstanding loans (41%). As a consequence of the continuing slowdown in the construction sector, the percentage of loans to construction and real estate has decreased to 13% of the financial institutions' lending portfolio from 20% in 2010.

Bank Credit by Economic Sector



Source: Central Bank of Cyprus, data as at Sept 2011

Credit and Debit Card Transactions



Source: JCC

During 2011, the total value of credit and debit card transactions in Cyprus by holders of credit cards issued in Cyprus grew by 11.2% to a total of €2.20 billion (2010: €1.98 billion). Within the year, the total number of transactions increased by 10.4%, while the average value of transactions was €74 per transaction (2010: €73). The increase continued in the first three months of 2012, whereby the total value of transactions in-

creased by 13.4% compared to the first quarter of 2011.

During 2011, Cypriot card-holders spent abroad a total of €1.29 billion using Cyprus issued cards (2010: €1.18 billion). The average value of transactions was €137, same as last year.



The Member Banks

Membership of the Association is open to any institution which is legally authorized to operate as a registered bank, whether local or foreign, in Cyprus, and which can provide banking services. Applications are also accepted by other legal entities such as associations or unions, which are non-profit organizations and whose own members are banking institutions.

Participation to the ACB can be either in the form of Regular or Associate membership. Applications for new membership are subject to approval by the members of the Board of Directors of the Association and subsequently by the General Meeting.

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, private banking as well as all types of insurance services.

Member banks of the ACB 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 the home market offers limited opportunities, 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, Russia, China and Africa.



Bank of Cyprus



BANK OF CYPRUS PUBLIC COMPANY LTD

Founded in 1899, the Bank of Cyprus Group is the leading banking and financial services group in Cyprus, with a presence in Greece and Russia and operations in other Eastern European countries which have strong links with Cyprus. In addition to retail and commercial banking, the Group's activities include finance, factoring, investment banking, private banking, brokerage, fund management, private banking, life and general insurance.

The Group currently operates through a total of 583 branches, of which 199 are located in Russia, 188 in Greece, 137 in Cyprus, 42 in Ukraine, 12 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has six representative offices in Russia, Romania, Ukraine, Serbia and South Africa.

The Bank of Cyprus shares are listed on the Cyprus and Athens Stock Exchanges.

The Group has also received the following awards:

- Bank of the year in Cyprus 2009, 2011, The Banker
- Best Bank In Cyprus 2010, 2011, Global Finance
- Best Developed Market Bank 2010, Global Finance

- Best Bank of Private Banking in Cyprus, 2011, Bank of Cyprus Private Banking ranked first among Cypriot, Greek and other international financial institutions operating in Cyprus in the Private Banking sector, Euromoney
- Best Foreign Exchange Provider in Cyprus 2008, 2009, 2010, 2011, Global Finance
- Straight-Through Processing (STP) Excellence Award, USD 2009 and 2010, Euro 2010 Deutsche Bank
- Morgan Chase Quality Recognition Award 2010, JP Morgan Chase
- Financial and Business Excellence Award 2009 (Cyprus Employers and Industrialists Federation)
- IIP – Investors In People 2009, 2010

Number of branches: 583 (in Cyprus 137)

Number of ATM: 139

Number of employees: 11,326 (in Cyprus 3,239)

Head Office: 51 Stasinou Street, Ayia Paraskevi, 2002 Strovolos
P.O.Box 21472, 1599 Nicosia
Tel: 22122100 Fax : 22378111
www.bankofcyprus.com



LAIKI BANK GROUP

CYPRUS POPULAR BANK PUBLIC CO LTD

Laiki Bank Group, with a history of over 110 years, has developed into a dynamic financial organization with a presence in 10 countries: Cyprus, Greece, United Kingdom, Russia, Ukraine, Romania, Serbia, Malta, Guernsey and a Representative Office in China.

The Bank offers services to private individuals, enterprises and large organizations, private banking, foreign exchange and treasury services, electronic banking, factoring, financing and leasing, international banking, insurance, investment and fund management.

The Group's competitive advantage is its manpower, which is guided by a culture of innovation, competitiveness and successes.

Its distinction in technological leadership, its customer-oriented approach and its anthropocentric philosophy confirm that Laiki Bank "is more than a Bank".

Number of branches: 116

Number of ATM: 128

Number of employees: 2,362

Head Office: 154 Limassol Avenue, 2025 Nicosia
P.O. Box 22032, 1598 Nicosia
Tel: 22552000 Fax: 22811491
www.laiki.com



HELLENIC BANK PUBLIC COMPANY LTD

The Hellenic Bank commenced operations in 1976. Within a relatively short period, it succeeded in establishing itself as one of the most powerful financial organisations in Cyprus with a network of sixty seven branches in Cyprus, twenty in Greece and one in Moscow. The Hellenic Bank also operates Representative Offices in Russia, the Ukraine and South Africa.

In addition to traditional products, the Hellenic Bank offers a full range of financial services such as those for the Corporate & Commercial Sector, International Banking Services, Investment Banking, leasing, factoring, stock exchange transactions, personal banking, custodian, electronic banking, as well as general insurance and life insurance.

Within this wide range of products and services, the Hellenic Bank provides full and effective service for its customers, covering their contemporary needs, both personal and professional. The quality of its service has been recognized and acclaimed over the years with a series of awards: JP Morgan for automatic transmission

of money orders (SWIFT), The Global Custodian for custodian services, Deutsche Bank for quality of outgoing payment messages, Euromoney for Personal Banking Services, Global Finance for Electronic Banking Services and Citibank for fully automatic transmission of all money orders.

The Bank's success is based on friendly and efficient service provided by its human resources, the wide range of products and services offerings and the use of advanced IT and control systems.

Number of branches: 67

Number of ATMs: 75

Number of employees: 1,976 (in Cyprus 1,423)

Head office: Limassol Ave. & 200 Athalassas Ave. Corner, 2025 Strovolos
P.O. Box 24747, 1394 Nicosia
Tel.: 22500000, Fax: 22500050
www.hellenicbank.com



ALPHA BANK CYPRUS LTD

Alpha Bank made its first appearance in Cyprus in 1998 with the acquisition of Lombard Natwest Bank. It was renamed Alpha Bank Limited and later Alpha Bank Cyprus Ltd. Alpha Bank Cyprus Ltd is an Alpha Bank Group Company which is registered in Greece with an international presence, in addition to Greece and Cyprus, in Romania, Bulgaria, Serbia, Ukraine, Albania, F.Y.R.O.M and Great Britain.

The Bank offers a wide range of both Retail and Wholesale Banking Services. It has a modern network of 35 branches and other specialist Corporate Units and International Banking Services Units, which are effectively supported by alternative networks such as ATM, Internet Banking and Mobile Banking. Alpha Bank Cyprus Ltd has been

repeatedly recognized for its excellent service in processing international payments by being awarded the Deutsche Bank quality awards EUR STP Excellence Award and USD STP Excellence Award for several years.

Number of branches: 35

Number of ATM: 38

Number of employees: 753

Head Office: 3 Lemesou Avenue, 2112 Nicosia
P.O.Box 21661, 1596 Nicosia
Tel: 22888888, Fax: 22334868
www.alphabank.com.cy



NATIONAL BANK OF GREECE (CYPRUS)

NATIONAL BANK OF GREECE (CYPRUS) LTD

The largest and most powerful financial services Group in Greece, the Balkans and South – Eastern Europe, holds its presence on the island since 1910.

A prominent position in the strategic planning of the National Bank of Greece (Cyprus) Ltd, holds the constant growth of its activities, the provision of top-notch services and the ongoing expansion and development of banking products. Having its clientele always in mind, National Bank ensures that the procedures followed are continuously reviewed and updated so as to match the highest available standards.

National Bank of Greece is currently traded on the Athens Stock Exchange (ASE) and New York Stock Exchange (NYSE). According to the European Banking Authority (EBA), National Bank of Greece is ranked amongst the 40 largest Banking Groups in Europe.

Awards of the National Bank of Greece Group:

- Top 100 Best Banking Brands
- Global Dow – Top 150
- FT Global 500
- Marketing Excellence Award – Customer Relationship Management
- Best Investor Relations by Greek company 2011
- Famous Brand Award 2011
- Social Responsibility Prize
- Best Bank for Regulatory Capital
- Top Performer Award

Number of branches: 16

Number of ATM: 17

Number of employees: 281

Head Office: 15 Makarios III Avenue
P.O.Box 21191, 1597 Nicosia
Tel.: 22840000, Fax: 22840010
www.nbg.com.cy



EMPORIKI BANK – CYPRUS LTD

Emporiki Bank - Cyprus Ltd was established in 1993, and in 2001 changed its status to a subsidiary of the EMPORIKI BANK GROUP S.A, with the participation of Cypriot shareholders. As of August 2006, EMPORIKI BANK GROUP is part of the CREDIT AGRICOLE GROUP, CASA, France.

Emporiki Bank caters for both the Retail and Corporate Markets. Within the framework of satisfying customers' needs, the Bank focuses on three pillars - service quality, service, speed, competitive pricing - in providing a full range of contemporary banking products and services.

The Bank aims to further penetrate the local market capitalising on its branch networks, its new core banking system and its highly professional staff.

Number of branches: 11

Number of ATM: 11

Number of employees: 194

Head Office: 4 Ionos Street, 2406 Engomi
P.O. Box. 25151, 1307 Nicosia
Tel.: 22696650, Fax: 22663923
www.emporikicyprus.com



USB BANK PLC

As a member of BLC Bank-FRANSABANK Group, since February 2011, USB Bank continues its successful growth capitalizing on the opportunities arising from the group's wide network. Building on their international strength, history and expertise USB Bank will continue its focus on the local business growth, strengthening its market share with International market practice, products, solutions, supporting its customers with integrity and professionalism.

USB Bank's customers will benefit from full range of personal and business banking products and services in Cyprus and abroad, in all major international currencies either directly through the Bank or through its foreign correspondents' network.

Day to day services are offered through our network of 16 branches throughout the island, through our Call Centre

at 8000 2323 and for 24 hour accessibility, 7 days a week USB Bank offers 16 Automated Teller Machines (ATMs) throughout the island and its ibank (Internet Banking).

Number of branches: 16
Number of ATM: 16
Number of employees: 215

Head Office: 83 Digeni Akrita Avenue, 1070 Nicosia
 P.O.Box 28510, 2080 Nicosia
 Tel: 22883333, Fax: 22875899
www.usbbank.com.cy



CDBBANK: A modern and reliable bank with client focus

cdbbank (The Cyprus Development bank) was established in 1963 and, after completing its mission as a development bank, was privatised in 2008. Following its privatisation, it adopted a new Corporate ID and its new name. Since then, it is transforming into a commercial financial institution, offering the full range of products and services to large and medium sized enterprises in Cyprus as well as to international businesses.

The Bank also provides corporate advisory, asset management and brokerage services through its subsidiary cdbGlobal Capital Ltd and investment services through its subsidiary PCM Advisers Ltd. cdbbank has, this year, launched its Private Banking unit which will offer specialised and high quality investment consulting services to private high net worth individuals.

cdbbank currently has two branches in Cyprus, one in Nicosia and one in Limassol, while full banking services are also offered in Russia, through cdbbank Russia, with branches in Krasnodar and Sochi. Since early 2010, cdbbank also operates a Representative office in Moscow.

Number of branches: 2
Number of ATM: 2
Number of employees: 107

Head Office: 50 Arch. Makariou III Avenue,
 P.O.Box 21415, 1508 Nicosia
 Tel.22846500 Fax.22846600
www.cdb.com.cy



SOCIETE GENERALE BANK - CYPRUS

SOCIETE GENERALE BANK - CYPRUS LIMITED

SOCIETE GENERALE BANK - CYPRUS Limited (SGBCy), is one of the first international banking units established in Cyprus, since 1985, and is proud of its heritage. SGBCy by exploiting its long experience and knowledge, provides to its clients creative banking solutions, adapted to the Cypriot market.

Today, apart from the operation of the international banking unit (IBU) which covers the entire spectrum of banking needs of international customers and even more, SGBCy functions in the Cypriot market with a network in all the cities.

SGBCy offers in the local market a complete range of banking products and services as products of deposits and loans to private individuals and small to medium /big enterprises, Management of Capital and Wealth,

services of International Capital markets and Cash Management, as well as Trade Finance products, satisfying all the banking needs of its customers.

Number of branches: 6
Number of ATM: 7
Number of employees: 141

Head Office: 20 Ayias Paraskevis Str., 2002 Strovolos,
P.O. Box 25400, 1309 Nicosia
Tel: 22399777, Fax: 22399700
www.sgbcy.com



PIRAEUS BANK (CYPRUS) LTD

Piraeus Bank (Cyprus) Ltd, a 100% subsidiary of Piraeus Bank Greece, has entered the Cypriot market through the acquisition of the local Arab Bank network.

With a network of 21 branches and business units all over Cyprus and more than 300 employees, the Bank offers a full range of banking and investment services:

- International Bank Services
- Corporate Banking
- Retail Banking
- Wealth Management
- Asset Management
- Custody Services
- Treasury Sales
- Insurance

The Bank's strategic objective is to develop Cyprus as a financial center for the region through high level banking services.

Number of branches: 14
Number of ATM: 14
Number of employees: 312

Head Office: 1 Spyrou Kyprianou Aven., 1065 Nicosia
P.O.Box 25700, 1393 Nicosia
Tel: 22575500, Fax: 22760890
www.piraeusbank.com.cy



RUSSIAN COMMERCIAL BANK (CYPRUS) LIMITED

In 1995, Russian Commercial Bank (Cyprus) Ltd (RCB) was established in Cyprus under the supervision and license of the Central Bank of Cyprus. As at 31 December 2011, RCB is a subsidiary of VTB Bank, which is in turn controlled by the Russian Federation.

RCB specializes in financing the Russian economy. It provides its customers with a safe, European, banking environment and is aware of the business realities of Russia. The performance of the Bank in Cyprus is steadily growing both in terms of revenue and total assets.

RCB aims to establish its image as a socially responsible financial organisation with intense activity in the social and cultural life of Cyprus, participating in various cultural, sports and charitable events.

Number of branches: 2
Number of ATM: 2
Number of employees: 168

Head Office: 2 Amathountos Street, 3105 Limassol
 P.O.Box 56868, 3310 Limassol
 Tel: 25837300, Fax: 25342192
www.rcbcy.com



EUROBANK EFG CYPRUS LTD

Eurobank EFG Cyprus started its operations in August 2007 with the opening of the first banking centre in Nicosia and currently operates a network of seven Banking Centers in all major cities of the island.

Applying a different approach and strategy from its competitors, Eurobank EFG Cyprus focuses entirely on Wholesale banking services through the segments of:

- . Corporate and Investment Banking
- . International Business Banking
- . Private Banking and Asset Management
- . Global Markets (Treasury Sales)

Eurobank EFG Cyprus is a crucial ally in accomplishing the clients' financial and business objectives, offering superior service that is timely, flexible and customised. Despite the benefit obtained by the Group's extensive international network and its open architect strategy, the touchstone of Eurobank EFG Cyprus' success is the commitment to Relationship Management.

Within the four years of operation, the Bank has grown at an impressive pace and managed to become one of the largest banks in Cyprus demonstrating at the same time a very healthy profitability.

Number of branches: 7
Number of ATM: 0
Number of employees: 177

Head Office: 41 Arch. Makariou III Ave., 1065 Nicosia
 Tel: 22208000
 Fax: 22776722
www.eurobank.com.cy

ASSOCIATE MEMBERS

JSC “TRASTA KOMERCBANKA” CYPRUS BRANCH

ASSOCIATION OF INTERNATIONAL BANKS:

ARAB JORDAN INVESTMENT BANK SA

AS LTD BANK

BANCA TRANSILVANIA S.A.

BANKMED SAL

BANK OF BEIRUT SAL

BANQUE BEMO SAL

BANQUE SBA SA

BARCLAYS BANK PLC

BBAC SAL

BLOM BANK SAL

BYBLOS BANK SAL

CENTRAL COOPERATIVE BANK PLC BULGARIA

CREDIT LIBANAIS SAL

FBME BANK LTD

FIRST INVESTMENT BANK LTD

JORDAN AHLI BANK PLC

JORDAN KUWAIT BANK PLC

JOINT STOCK COMPANY AKCIJU KOMERCBANKA BALTIKUMS

JSC TRASTA KOMERCBANKA CYPRUS BRANCH

IBL BANK SAL

LEBANON & GULF BANK SAL

OPEN JOINT-STOCK COMPANY AVTOVAZBANK

OJSC PROMSVYAZBANK

PRIVATBANK COMMERCIAL BANK

RUSSIAN COMMERCIAL BANK (CYPRUS) LTD

Year under review

Artemis Bank Information Systems Ltd

The completion of the second year of its operations finds Artemis Bank Information Systems Ltd (Artemis) in a stabilising phase, as the company consolidates the gains resulting from its various initiatives while also continuously striving to improve the standards of the services offered to banks.

The findings of the latest Artemis System Bank users' satisfaction survey, completed in June 2011, revealed a very high satisfaction rate among users, attributed primarily to the usefulness of the Artemis Database in making informed decisions about the creditworthiness of prospective debtors.

The tangible benefits banks derive from using Artemis data, along with the consolidated and user-friendly way this information is presented, have convinced the banking institutions to broaden access to the whole system to new departments and users.

Artemis, building on the banking industry's business needs and requirements, has upgraded the system, whenever deemed necessary, by offering additional information. At the same time, the company has taken all the necessary preparatory steps for the introduction of an additional Negative-data category, namely that of terminated accounts.

The improvement of data correctness, completeness and timeliness, as also mandated by the Central Bank of Cyprus Directive for the "Exchange of data for the evaluation of customers creditworthiness", issued in 2010, is deservedly regarded as a joint, banks-Artemis achievement. An im-



provement in the quality of the data received from external sources has also been recorded.

The data-quality improvement made possible through the joint effort of Artemis and banks is seen as particularly important, as demonstrated by international experience which leaves no doubt that data-quality improvement leads to better decision making during the evaluation of creditworthiness, both for companies and individuals.

In addition to the aforementioned improvements and upgrades, Artemis has already launched various other initiatives, all designed to further improve the company's offerings to the banking industry. This will, in turn, enable Artemis to fulfil more effectively its role as the first fully-fledged, Cyprus-based Credit Bureau.

In the pursuit of the continuous improvement of its services Artemis has developed a complete Quality Management System based on ISO 9001:2008 standards. Thus, Artemis procedures ensure standardization and uniformity on the servicing of both banks and the public. At the same time the procedures adopted ensure transparency on the handling of all pertinent issues.

Recognizing Artemis' importance, given the depth and quality of information in its database, a significant number of financial institutions have already expressed interest in cooperating with the company. A key prerequisite for this cooperation to be effected, on the banks' side, is the honouring of the Reciprocity Principle. According to this principle for a company to gain access to the Artemis database, it needs to keep the latter fully updated with its own, respective data.

ACB's Training Activities

The Association of Cyprus Banks continued successfully to organize training seminars for middle and high level management bank employees, as part of its efforts to enhance and enrich the services offered to its members. Our aim is to further the knowledge of participants on issues, activities and trends in the modern financial services industry, including risk management, internal audit, banking supervision, compliance, prevention of money laundering, corporate governance and other.

The seminars are approved and partly subsidized by the Human Resource Development Authority of Cyprus. During the financial year the Association organized 10 seminars inviting high level speakers from abroad and the total number of participants reached 295 persons. Additionally, the Association organized in cooperation with IMH for a second year the «Cyprus Retail Banking Conference» and the 4th Banking Forum in cooperation with the Cyprus Management Development Association. In both conferences, experienced speakers from Cyprus and abroad presented specialized topics related to the local and international trends in retail banking technological developments related to banking.

Publications

The Association of Cyprus Banks continues to publish the monthly Newsletter and the six- monthly Cyprus Banking Insight. The Newsletter is addressed only to member banks and aims to inform and update the reader about the Association's main activities, the Director General and the Senior Officers' meetings with various authorities concerning the discussion of matters relating to the banking sector, the European Banking Federation meetings that the Director General and the Senior Officers participate, and the meetings of the Association's different Committees. The Cyprus Banking Insight is a specialized publication addressed to member banks as well as other individuals or organizations that are interested in current issues relating to the banking sector, both local and overseas. The Cyprus Banking Insight is sent to all member banks, the Governor and Senior Officers of the Central Bank of Cyprus, the Ministry of Finance and members of various Committees of the House of Representatives.

Every issue of the Cyprus Banking Insight contains articles provided by the Association's Senior Officers, member banks and guest contributors from the greater financial sector.

Main Activities carried out by the Association

Law for financial crises management

In December 2011 the Law of financial crises management of 2011 was enacted. The law assigns to the Council of Ministers and the Central Bank of Cyprus the power to take measures at times of financial crises to resolve liquidity or solvency problems faced by the financial system or to strengthen the capital base of financial organisations that could create systemic problems if they were left unsupported. According to the Law, the Council of Ministers following the recommendation of the Central Bank of Cyprus may provide support to a financial organisation. The support could have the form of a government loan, the provision of government guarantees for loans or bond issues by financial organisations, or the provision of capital to financial organisations in exchange of participation in the equity structure of the organisations. Additionally, the Council of Ministers can provide government loans, or guarantees or funding to the Depositor Protection Funds and to the Financial Stability Fund. All support measures can only be taken in emergencies and they should be of limited extent and temporary nature and must be ended as soon as circumstances allow. In case of support of a financial organisation, the Minister of Finance and the Central Bank of Cyprus may limit the exercise of shareholders' voting rights, may appoint the majority members of the Board of Directors and may limit the growth of operations. The Law will be applicable until 30 April 2013 and in case of measures taken before that date, the measures will continue to apply until it is decided that they may be terminated.

Financial Stability Fund

The Financial Stability Fund (FSF) aims to enhance the current crisis management and resolution framework in Cyprus and to contribute towards financial stability. Particularly, the FSF will (a) support and fund the resolution of ailing credit institutions, (b) avoid the use of public funds for the resolution of credit institutions, and (c) maintain public confidence in the financial system while minimizing moral hazard in case of the FSF intervention. The FSF will be funded by (a) the transfer of approximately €50 million collected under the Law on Special Tax on Credit Institutions and (b) the regular contributions of credit institutions. Starting from 2013 all credit institutions (Banks and Cooperative Credit Institutions) incorporated in Cyprus (Cypriot banks, cooperatives credit institutions, subsidiaries of foreign

banks, branches of foreign banks), including their overseas branches, as well as branches of foreign credit institutions operating in Cyprus will contribute to the FSF. The FSF's aim is by 2025 to build up capital equal to 5% of Gross Domestic Product (GDP) of Cyprus.

International Trusts Law

The Cyprus International Trusts Law ('Law') has been revised with the objective of enhancing the attractiveness of Cyprus international trusts. The Law achieves the expansion of the definition of the 'International Trust' by deleting the past restriction which required beneficiaries of the Trust to be persons having their residence overseas and not have a permanent residence in Cyprus. In addition, the definition of International Trust is enhanced by including property situated in Cyprus in the allowed assets of the Trust, whereas the old Law provided for the assets of the Trust to be situated only outside Cyprus.

The Law includes efficient "firewall" provisions and modern jurisdictional protection clauses that address the security concerns expressed by existing and new foreign investors. Notably, the law in force in any other country or any court judgment relating to inheritance or succession shall not affect in any way such transfer or disposition or otherwise affect the validity of a Cyprus international trust. In addition, the validity of the Trust shall not be affected in situations where legal provisions in other jurisdictions do not recognise the concept of a trust, or in the case where foreign legal orders aim to dissolve the Trust. Furthermore, the definition of confidentiality is widely expanded.

A major addition to the Law is the insertion of provisions which deal with the principles of choice of law in the Trust. The explicit elaboration on the jurisdiction of Cyprus courts and application of foreign jurisdictional laws is also a novelty introduced by the Law.

Fiduciary Services Providers Draft Law

A Draft Law for the Regulation of Fiduciaries, Trustees, Administration Services and Company Directors Providers ('Draft Law') has been recently issued and it is expected to be implemented later in the year. The Draft Law regulates the following professional services:

- a) The creation, administration or the management of trusts and the provision of advice in relation to the latter services, including the provision of trustee services;
- b) The provision of company management services, including non-exclusively the creation and administra-

tion of companies or other legal entities and the provision of services or the provision of advice in relation to these services. These services are as follows:

- (i) the provision of services in relation to the appointment of company directors;
- (ii) the provision of consulting services in relation to the appointment of company secretaries or other company officials in any position;
- (iii) the holding of share capital and its registration in the shareholders register on behalf of a third party;
- (iv) the registration of the official P.O. box and/or the email of companies
- (v) the provision of partners for the creation of partnerships;
- (vi) the provision of similar to above positions in other organizations or legal entities;
- (vii) the opening or the management of bank accounts or securities accounts.

UCITS IV

The new Bill on UCITS will be discussed soon in Parliament. The proposed legislation seeks to harmonize national law with the UCITS IV Directive. The Association has also participated in the public consultations of the Cyprus Securities and Exchange Commission concerning the Directives and Application forms for the registration of UCITS.

Financial Ombudsman

The Financial Ombudsman (FO) was created for the settlement of consumer complaints against financial institutions. The office of the FO was formed based on the provisions of Law 84 (I) /2010 published in the Official Journal of the Republic of Cyprus on 23 July 2010. Under this legislation, consumer complaints against banking institutions, insurance companies and investment companies are examined. The Office of the FO is governed by the Council which is composed of eight members, one of whom is the Director General of the ACB. During 2011, the first Budget of the Office of the FO was prepared and a new Bill has been drafted to provide for its yearly expenses. This Bill will be submitted to the House of Parliament for approval.

Roundtable discussion on promotion of investment funds

As part of the efforts to promote Cyprus as an investment fund jurisdiction, Cyprus Investment Promotion Agency (CIPA) and the Association jointly hosted a roundtable discussion. The purpose of the discussion was to eva-

luate the findings of a study carried out by fund specialists of Société Générale from France and Greece, who visited Cyprus to evaluate the legal framework for the creation and promotion of investment funds. This was followed by a useful exchange of views between participants who included representatives from the regulatory authorities, the Ministry of Finance, as well as bankers, lawyers and accountants on ways to improve the legal framework so as to make Cyprus more attractive as fund domicile.

Financial Transactions Tax

In September 2011, the European Commission published a draft Directive whereby it proposed an EU wide financial transactions tax (FTT) to be applicable to a wide range of transactions in financial instruments. This proposal was examined by an ad-hoc committee of the Association which concluded that, if implemented, FTT would have significant negative impacts on Cypriot banks as well as investment companies and holding companies operating in Cyprus. The anticipated relocation of companies would cause a decline in economic activity, decrease in tax revenues, loss of foreign deposits and an overall deterioration of Cyprus's position as a financial centre. The Association communicated this position to the Ministry of Finance, the European Banking Federation, the Cyprus Parliamentary Committee, Cypriot Members of the European Parliament, the EU Commissioner on taxation and other stakeholders.

Standards on corporate actions and general meetings

The Association initiated the formation of a local Market Implementation Group for Corporate Actions and General Meetings (MIG), following an invitation by the European MIG. The purpose of the MIG is to promote the implementation of the Market Standards for Corporate Actions Processing and the Market Standards for General Meetings. The Standards have been developed on a European level and have been adopted so far by a number of member states in order to harmonize EU practices and improve efficiency in the post-trading of securities. The MIG is made up of a representative of the Association, representatives from the Cyprus Stock Exchange and Central Security Depository, as well as custodians. The MIG has met to conduct a gap analysis on corporate actions and in subsequent meetings to conduct a gap analysis on general meetings and a progress report on corporate actions. These analyses outline divergences from the market standards and were sent to the European MIG. In addition, MIG members exchanged views on ways to implement the remaining standards and will follow up progress in the future.

Amended property planning laws

The three recently amended property planning laws [Town and Country (Amended) Law 2011, the Streets and Buildings Regulation (Amended) Law 2011 and the Immovable Property (Tenure, Registration and Valuation) (Amended) Law 2011] aim to ease problems in issuing Title Deeds resulting from planning infringements. Up until the amendments, the legality of the building was a prerequisite for the issuing of an updated title deed. This caused problems particularly to purchasers of units in larger developments, whereby any illegality in one unit was a barrier for the issuing of a separate title deed for the rest of the units. This in turn had a negative impact during the provision of credit, as the banks of the purchasers could not register a mortgage on the separate title deed and had to take different, not to mention more costly for the purchaser, types of securities such as corporate guarantees from the developer, letters of guarantee etc. Now this situation is significantly improved as it is made possible for a certificate of registration to be issued for a building with certain irregularities and in addition separate title deeds are issued for individual units of a larger development. This also facilitates significantly the purchaser of a unit to invoke the right of specific performance of the contract of sale, through action taken in Court, against the vendor. The transfer of property to purchasers is performed by the registered owner, either voluntarily, or by an Order of the Court, issued at the request of the purchaser.

Sale of Land Law (Specific Performance) Law (L. 81(1)/2011)

Under the amended law buyers of houses or flats from land developers may register their Sale of Land Agreement with the Land Registry and this will take the form of a legal charge over the property. In addition, the legal charge may take priority over a previous mortgage over the land, provided certain conditions are met. To do that, buyers will have to pay directly the previous mortgagee creditors the amount of their flat or house. In addition, the law introduces the concept of Security Assignment Agreement. This is a written agreement between the buyer (in an existing sale of land Agreement) and a third party (the bank), via which the rights under the sale of land agreement are assigned to the bank as security for the provision of credit. The Security Assignment Agreement may be registered with the Land Registry. In applying the Law, banks faced problems with the Land Registry. The Association resolved the issue after consultation with the Land Registry.

Deposit Guarantee Scheme

The Association of Cyprus Banks is a member of the Deposit Protection Scheme (DPS) Management Committee and participates at the meetings with two representatives. The global financial crisis has led the European Union to prepare a new Directive in order to harmonize the operating regulations of all national DPSs. The proposed amendments include, among others, recommendations for the reduction of the pay-out time, the removal of set-off arrangements, the funding mechanism, the risk-adjustment of contributions and the co-operation of the various DPSs. As far as the local Deposit Protection Scheme, the Central Bank of Cyprus has developed a Depositor Registry which banks complete and submit to the Central Bank of Cyprus. The purpose of the Depositor Registry is to provide an indication of the DPS' total exposure per bank in case of activation.

Research on Operational Risk Management

The Association and its member banks take part in a research program regarding the management of operational risk by Cypriot banks (including subsidiaries and branches of foreign banks). The research is conducted by Synectics Ltd and the Frederick Institute of Technology and is part of a research program funded by the Cyprus Research Promotion Foundation. The aim of the research, which is carried out using a qualitative Questionnaire, is to improve and support the operational risk management. In September 2011, following the collection of data, the first results and the statistical method used for data analysis were presented. Based on the outcome of the research program, Synectics Ltd will develop software that will respond to the operational risk management of financial institutions.

Property Index

The application of the Capital Requirements Directive has rendered necessary the creation of property indices. The existence of scientifically produced property indices will allow banks to monitor changes in the value of residential and commercial property and improve credit risk management. The initiative by the Central Bank of Cyprus and the Association of Cyprus Banks to create Property Price Indices begun in 2009 and was completed in 2011. The Central Bank of Cyprus collects and processes data (property valuations) from the banks and publishes a quarterly Residential Property Price Index, which indicates the annualised percentage change per district and per property type (houses and apartments). Within 2012, the Central Bank of Cyprus is expected to publish a Commercial Property Price Index.

Banking Supervision Committee

The global financial crisis has shown that there are weaknesses in the regulatory framework of the financial sector. The Basel Committee on Banking Supervision recently adopted new regulations, known as Basel III, aiming to improve the resilience and to further protect the financial system. The new rules include the following: strengthen the quality and quantity of Tier 1 capital, introduction of a minimum liquidity standard, introduction of leverage ratio, increase capital in relation to the trading book risks and build-up of additional regulatory capital during good times.

The Central Bank of Cyprus has issued new Directives / Guidelines relating to the following issues:

- Liquidity Management (Euro and Foreign Currencies).
- Calculation of the Capital Requirements and Large Exposures of Banks (CRDIII).
- Internal Governance, Policies and Remuneration Practices (CRD III).
- Disclosure Guidelines.
- Common Reporting (COREP).
- Operational Risk – Advanced Method.
- Supplementary Supervision of Banks which Belong in a Financial Conglomerate.
- Calculation of the Capital Requirements and Large Exposures of Banks – Capital Requirements Pillar II

European Regulation on SEPA Migration end – date

Within the Single Euro Payments Area (SEPA), the European electronic payments landscape will eventually become borderless. Cashless payments such as Credit Transfers and Direct Debits made in and out of countries belonging to the SEPA community, will be as simple, quick and cost-effective as domestic payments.

For Credit Transfers, this has already been a reality since January 2008. Whereas national payment schemes of each member state differed considerably before, new technical standards and harmonized formats are now in use, allowing companies and consumers to use SEPA Credit Transfers (SCT) for their euro payments across Europe, under the same terms and conditions.

A similar simplification has been realized for Direct Debit payments through the adoption of two SEPA Direct Debit (SDD) instruments, both introduced in November 2009 (the SEPA Core Direct Debit Scheme and the SEPA Business-to-Business Direct Debit Scheme).

However, the slow migration from existing Credit Transfers and Direct Debits to SCT and SDD respectively, has led the European Commission to prepare a Proposal for regulating the end-dates of SEPA migration. The idea was to have SCT and SDD to fully replace existing Credit Transfers and Direct Debits, rather than allowing them to exist in parallel.

The Proposal has eventually led to the preparation of a new Regulation, named: "Regulation establishing technical requirements for Credit Transfers and Direct Debits in Euros" (the "Regulation"). This came into force in April 2012.

The law contains a SEPA migration end-date for both Credit Transfers and Direct Debits, which is the 1st of February 2014. This means that SEPA migration is no longer a voluntary project. It is in fact a regulatory project, because the use of SCT and SDD will become mandatory. Full compliance with the provisions of the Regulation will lead to faster, safer and cheaper payments for all EU citizens and is expected to save up to €123 billion in national charges within the next six years, benefiting both retail customers and businesses.

Banks will also be able to benefit from the exclusive use of SEPA products, as they will achieve economies of scale by standardizing their payment instruments. This will lead to consequent cost savings, after their initial investment is recovered. Banks will also be able to open to new markets and thereby increase their revenue base for existing payment instruments, or benefit from launching innovations on a broader scale.

Bills on Financial Leasing

The final Bills regarding Financial Leasing have been submitted to Parliament. The Association played an important role in their formation.

The Association is opposed to provision 17(2) of the Bill which amends the Capital Gains Tax. Under this, at the end of the leasing period, the lessor shall be responsible for the payment of all direct and indirect tax obligations that arise from the sale of the immovable property under lease and its transfer/sale cannot be effected before settlement of these tax obligations. In the Association's opinion the responsibility to pay the relevant taxes should be on the lessee. The matter will be resolved in Parliament, as a consensus could not be reached during the public consultation process with the Inland Revenue Department.

Consumer Credit Law – Corrigendum

The Ministry of Commerce, Industry and Tourism (MCIT) drafted a new Bill which amends Part III of Annex II of the Consumer Credit Law (N.106 (I) 2010). The draft Bill has been prepared in line with the European Corrigendum to the Consumer Credit Directive 2008/48/EK and applies to the "cost of credit". With its approval, the amended Bill enters immediately into force and all financial institutions will be obliged to modify accordingly the Standardised European Information Sheet that they are compelled to provide to consumers at the pre-contractual stage.

Furthermore, on 14 November 2011, the Directive 2011/90/EE was published in the Official Journal of European Union, which modifies the Annex I (Part II) of the Directive 2008/48/EC on credit agreements to consumers. This amendment foresees for the inclusion of additional criteria concerning the calculation of the Annual Percentage Rate of Charge (APRC), that is, the total cost of credit expressed as an annual percentage. In light of the above publication, the MCIT intends to prepare a draft Bill so that the national legislation complies with the European amendment.

Proposal of the European Parliament and of the Council on credit agreements relating to residential property

The above Proposal was submitted to the Association by the Ministry of Finance for comments. Following a consultation with its member banks, the ACB submitted its suggestions on the Proposal to the Ministry of Finance. The Proposal in question covers credit agreements ensured by mortgages or other guarantee as well as loans for the acquisition of real estate. It includes, inter alia, provisions that concern pre-contractual information, advertisements, explanations to the consumers, the calculation of Annual Percentage Rate of Charge (APRC), the obligation for consumer creditworthiness, and many more.

Processing of Personal Data (Protection of Individual) Law of 2012

The proposed changes to the current law aim at clarifying the law and ensuring its compliance with the relevant EU Directive. The Association has expressed its views in Parliament and the majority of them have been accepted. As a result, the interconnection of registries will continue to be allowed subject to the approval of the Personal Data Commissioner. The interconnection

of registries containing sensitive personal data will be allowed only where this serves the public interest. Furthermore, banks will be allowed to send advertising material to their existing clients, unless they are opposed to this. The discussion continues in Parliament.

Bill named Limitation of Actions Law of 2011

A new draft Bill to replace the old Limitation of Actions Law is being discussed at Parliamentary level. It is expected to be voted into law before Summer 2012. The Association has forwarded its views both to the lawyer who prepared the Bill and to the Parliamentary Legal Committee where it is being discussed.

Cyprus Bankers Employers' Association

Renewal of Collective Agreement

The most important issue that the Association dealt with in 2011, was the renewal of the collective agreement between the Cyprus Bankers Employers' Association (CBEA) and the Union of Bank Employees (ETYK), which ended on 31.12.2010.

Last year was characterized worldwide by the worsening of economic conditions. Although the crisis was, and still is acute and multidimensional, the banks have not sought the dismantling of social benefits and salaries of their employees. The Union of Bank Employees (ETYK) realized the gravity of the situation and came to the negotiating table in a spirit of understanding and cooperation. Therefore, on 29.12.2011 at a joint press conference, CBEA and ETYK announced that after deliberation, they had reached a consensus regarding the renewal of the collective agreement for the years 2011, 2012 and 2013. Both sides agreed to freeze for a period of two years (2012 & 2013), bank employees' salaries at the levels they were on 31.12.2011. In addition, they introduced new salary scales and abolished the retirement gratuity plan (which was a defined benefit scheme) with the introduction of a mandatory Provident Fund (which is a de-

financed contribution scheme) that provides for contributions by both sides.

Both sides sent a clear message that their decisions concerning the renewal of the collective agreement aimed at enhancing the reliability of the financial system, thus benefiting the overall economy and society.

Measures to Increase the Physical Security of Bank Branches

The economic crisis and the resulting instability led to an increase in the number of robberies against the branches of financial institutions. The Tripartite Consultative Committee (among CBEA, ETYK and Police) was reactivated to tackle the issue. This resulted in the establishment of a Tripartite Technical Committee with the goal to propose measures to increase the physical security of bank branches. A number of these measures have already been implemented by banks, whereas the remaining ones will be put into action in the near future, according to agreed predefined timetables.

Training Seminars

CBEA, during 2011, successfully organized six seminars, in all districts controlled by the Republic of Cyprus. The main aim of the seminars was to educate and train bank employees on how to handle emergency situations especially relating to armed robberies against bank branches. Through the seminars, bank employees were given practical guidance and advice, focused on the protection of human lives of the staff and bank customers.

Consolidation of CBEA and ACB Personnel

The Boards of both CBEA and the Association of Cyprus Banks (ACB), unanimously decided the administrative unification of the two Associations under the general direction of Dr. Michael Kammas. The Boards also decided the relocation of both Associations under one roof, in offices located in a new building at the junction of Athalassa and Hadjiosif Avenues in Strovolos.



The ACB

Background

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

Mission

Following the formal accession of Cyprus 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, especially in relation to compliance with EU guidelines. 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 globalization process of the world markets 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.

Our mission is achieved by:

- Promoting the interests and cooperation of members with governmental bodies, the House of Representatives, various Ministries, the media and most importantly the Central Bank of Cyprus.
- Influencing the direction of the local regulatory and legislative framework concerning a broad range of issues relating to banking business and practices both in Cyprus and abroad.
- Collecting a regular flow of documentation and material from local and international organizations regarding economic and financial matters and keeping members informed of developments affecting banking policies and practices.
- Enhancing the relationship with other banking associations, the European Banking Federation, the Interbalkan Forum of Banking Associations and other influential global organizations in the financial sector. Our goal is for the domestic banking community to adopt international banking practices and know-how.
- Generating a better understanding of the value and quality of banking services and the significant contribution of the banking sector in the economic, social and cultural scene of the country.
- Promoting educational and consultative seminars and training courses to the professional staff of banks and encouraging participation in conferences and seminars organized locally and abroad.

Organizational Framework

Board of Directors: The Association of Cyprus Banks is governed by the Board of Directors, whose members are appointed by member banks.

Chairman and Vice-Chairman: The Association's Chairman and a Vice-Chairman are appointed yearly on a rotation basis by the Board of Directors. These positions are filled by Board Members appointed by the four largest member banks (according to the total number of employees).

Director General: The Director General 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 according to the Constitution of the Association.

Working Committees: In order to meet the needs of members and operate efficiently and proactively, the Association has established the following Permanent Interbank Advisory Committees.

1. Committee for Legal Affairs
2. Banking Operations & Policies Committee
3. Economic & Statistical Affairs Committee
4. Financial Markets Committee

5. ICC Committee
6. Fraud & Money Laundering Committee
7. Treasury & Risk Management Committee
8. Banking Supervision Committee
9. Consumer Affairs Committee
10. Communications & Crisis Management Committee
11. Compliance Committee
12. Accounts Committee

The Permanent Interbank Advisory Committees and Ad hoc Committees analyze 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. The ACB 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.



Professional Team of ACB



Michael Kronides, First Senior Officer



Maria Ioannou, Senior Officer



Demetra Valianti, Senior Officer



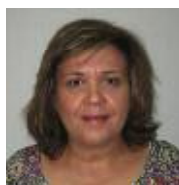
Elena Frixou, Senior Officer



Marios Nicolaou, Senior Officer



**Christina Antoniou Pierides,
Senior Officer**



**Skevi Demetriades,
Head of Secretariat and
Operations Support**



**Maria Varnava, Officer
Training Section**



Popi Antoniou, Archives



Andria Christodoulou, Secretariat



Maria Constantinou, Secretariat



Nicos Ttofi, Clerical / Messenger

Professional Team of the Cyprus Bankers Employers' Association



**Yiannos Rossides,
Senior Officer, Industrial Relations**



**Vasso Michaelidou,
Senior Officer, Industrial Relations**



**Skevi Sophocleous Kyriacou,
Officer, Administration**

ACB events in 2011 & 2012

16/06/2011	Annual General Meeting of the Association of Cyprus Banks
5 & 6/07/2011	Seminar – “Liquidity Risk Management”
13/09/2011	4th Banking Forum – Jointly organized by the Association of Cyprus Banks and the Cyprus Management Development Association
20/09/2011	Presentation of results and statistical analysis of the study on management of operational risk in Cyprus - Synectics Ltd and Frederick Institute of Technology
21/09/2011	Seminar – “Credit Risk Management with the use of Credit Scoring Systems and Credit Samples”
3 & 4/10/2011	Seminar – “Corporate Governance for banks and Financial Institutions ”
08/10/2011	Cyprus Retail Banking Conference – Jointly organized by the Association of Cyprus Banks and IMH
10/10/2011	Roundtable discussion: Cyprus as an international fund centre – Jointly organized by the Association of Cyprus Banks and the Cyprus Investment Promotion Agency (CIPA)
17 & 18/10/2011	Seminar – “Treasury Audit”
7 & 8/12/2011	Seminar – “Market and Liquidity Risk after the financial crisis”
20/02/2012	Seminar – “Regulatory Capital”
5 & 6/03/2012	Seminar – “Fraud Risk Management for Financial Institutions: Concentrated prevention, detection, auditing and investigation”
March 2012	Cyprus Banking Insight – Issue No. 8
18/04/2012	Presentation of NHTO (“Notes Held to Order”) System in Athens – Jointly organized by the Association of Cyprus Banks and the Hellenic Bank Association
23/04/2012	Seminar “Intermediate Derivatives”



