



ASSOCIATION OF CYPRUS BANKS

CODE OF CONDUCT BETWEEN BANKS AND SMALL & MEDIUM-SIZED ENTERPRISES (SMEs)



SME ORGANISATIONS



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1 Introduction

The development of good business relationships between Banks and Small & Medium-sized Enterprises (SMEs) will enable the Cypriot economy to become more competitive and more dynamic, so as to operate smoothly and effectively in the Single European market. Good business relationships between the Banks and SMEs come under the framework of the effort of the European Union (EU) in becoming the most competitive and dynamic economy in the world (Lisbon's European Council, March 2000).

Banks acknowledge that the SMEs contribute significantly in the economic development and the Employment Sector both within Cyprus and the EU. The operation of SMEs in a healthy financial environment and their access to sources of financing, constitute important factors that significantly enhance their success, as well as the formation of employment opportunities.

The effective and efficient relationship between Banks and SMEs is one of the most important factors that affect the development of the Cypriot and European economies, since borrowing is still the most important source of SME financing, both in Cyprus and the rest of Europe.

It is within this framework that the banking sector of Cyprus is determined to continue the provision of several types of services to the SMEs, throughout their operating life cycle. In this way, the banking sector enhances the competitiveness of the Cypriot economy in an increasingly globalised environment. The banking sector shall continue to be a reliable ally of the Cyprus SMEs. Additionally, it will continue to provide its support to the SMEs in relation to any challenge or opportunities presented, associated with the functioning of the Cypriot economy in the Single European economy, and the increasing globalised economy.

The Association of Cyprus Banks (ACB), representing its member Banks, has decided to adopt a voluntary Code of Conduct for the SMEs, which is the product of the input of the members of the ACB and the organizations representing the Cypriot SMEs [i.e. the Cyprus Chamber of Commerce and Industry (CCCI) and the Cyprus Employers and Industrialists Federation (OEB)], under the guidance and cooperation of the ACB.

The Code constitutes a measure that aims to strengthen the mutual trust and understanding between the Banks and the SMEs. It is not binding, and it is based on a common set of principles adopted by the Banking Organizations.

The Code comes into effect as of 01/09/05, and shall be reviewed whenever it is deemed necessary in accordance with its practical implementation and the suggestions submitted from the related parties, the CCCI and OEB.

2 Objective

The objective of the Code of Conduct is to enhance co-operation between Banks and SMEs through encouraging further mutual understanding of their respective roles and responsibilities.

The Code outlines a set of principles, which aim to ensure the establishment of a mutually beneficial, reliable and productive relationship between Banks and SMEs. Additionally, it defines the rules and boundaries that regulate the professional conduct of Banks vis-a-vis the SMEs.

3 Scope and Definitions

3.1 Scope

The Code of Conduct applies to the main transactions between the Banks and the SMEs, including loan financing. **This Code does not create a right to borrow in favor of the applicant, or an obligation to provide a loan by the Bank.**

The Code is applicable to all member-Banks of the ACB and covers all SME-related transactions in Cyprus. In particular the Code covers:

1. Current Accounts
2. Deposit Accounts
3. Card services and products
4. Business Loans and Overdraft facilities
5. Letters of Credit and Guarantee

The Code applies to all of the above services and products, irrespective of whether these are offered from the branches of the Banks or by telephone, internet service or by any other means.

3 Scope and Definitions

3.2 Definitions

According to the Recommendation of the European Commission dated 6 of May 2003, regarding the definition of micro, small and medium-sized enterprises (Official Journal no. L 124 of 20/5/03 p.0036-0041) a business is considered as an "SME" if it employs under 250 employees and its yearly annual turnover does not exceed 50 million Euro, or its Annual Balance Sheet total does not exceed 43 million Euro.

A "Bank" is defined as a Financial Institution which operates according to the Banking Law 66(I)/1997 as amended. The Code has been adopted by the Banking Organizations that are currently members of the ACB, and are the following:

1. Bank of Cyprus Public Company Ltd
2. Marfin Popular Bank Public Co Ltd
3. Hellenic Bank Public Company Ltd
4. Alpha Bank Cyprus Ltd
5. National Bank of Greece (Cyprus) Ltd
6. Emporiki Bank Cyprus Ltd
7. USB BANK PLC
8. The Cyprus Development Bank Public Company Ltd
9. Piraeus Bank (Cyprus) Ltd
10. Societe Generale Cyprus Ltd

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Main undertakings of Banks towards the SMEs

4.1 Principles regarding transactions with customers

Banks undertake to:

- abide by the principles of the Code in their transactions with customers
- act fairly and rationally in all transactions with their customers
- process all transactions for services and products according to the relevant legislation and regulations
- handle cases of customer financial difficulties with understanding
- endeavor to upgrade their products and services

4.2 Avoiding delays in transactions

SME-financing represents a large portion of the Banking sector's operating cycle and Banks consider their relationship with the SMEs as very important for the well-being and development of their business activities. The Banks also acknowledge that SMEs operate in a very competitive environment. In view of the above, they undertake to process their transactions with the SMEs as expeditiously as possible and **avoid unnecessary delays**.

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Main undertakings of Banks towards the SMEs

4.3 Transparency and information

Transparency contributes towards a continuous and balanced, long term business relationship. In the Bank-SME business relationship, the Banks will be transparent in their procedures and will forward all information and requests to SMEs **in a clear and understandable language**. This notification shall either be in oral form or through personal or telephone contact between the Banker and the SME, or in written form (by letter or electronically).

4.4 Open discussion

Banks acknowledge that an open discussion with SMEs greatly assists in the creation of a solid and continuous relationship. For the Bank this entails communicating all requested information and openly discussing any concerns of the SMEs.

4.5 Respect of confidentiality

According to the relevant legal provisions, Banks shall handle information concerning the SMEs with **discretion and confidentiality**.

4.6 No discrimination

The Banks will create **business relationships with businessmen, irrespective of their ethnic origin, gender, religion or nationality**, according to the business ethics and the relevant legislation.

Banks have the right to refuse the provision of services or products to certain customers when this is provided by law, or when it is against their business interests.

Furthermore, the following cases do not constitute discrimination:

- variations of prices of the offered products or services depending on the customers' reliability, the amount of the transaction, the security provided and the risk undertaken by the Bank.
- selective provision of information and offering of services or products to different categories of customers, depending on their business characteristics, status and needs.

5 Information

5.1 Bank's assistance in enabling customers to choose the products and services that correspond to their needs.

Before the signing of any agreement, the Bank shall:

- Provide the customers with sufficient and relevant information regarding the main features and characteristics of the product or service offered.
- Provide detailed information regarding the specific product or service for which the customers have already expressed an interest.
- Provide a **complete account of the products and services offered**, in order to enable the customers to make the most suitable choice that will satisfy their needs.

5.2 How is the service or product to be provided?

The Bank will inform the customers on all practical issues regarding the necessary procedures for the provision of the selected product or service.

5.3 Pricing, interest rates, charges

If requested by the customers, the Bank will be explicit in clarifying the calculations leading to the total cost of the product or service offered. The Bank shall issue a tariff guide containing the main products and services offered. The tariff guide will be made available to customers at all Branches of the Bank. Details regarding charges not included in the tariff guide shall be provided to the customers upon provision of the service, or upon request.

The Bank is obliged to inform the customers whenever the following changes occur: on the level of interest rates, on the way of their calculation, on the period within which the interest is to be paid or received, or on the amount of any other charges. This can be effected either through publication or by way of a written notice or any other means considered appropriate by the Bank.

Upon request, the Bank will notify the customers about the accumulated interest not yet charged to their account.

The Bank will notify the customers about the interest rates that apply to various accounts, as well as the formulas used to calculate the interest. It will also specify the period within which interest is to be paid.

The Bank will also inform their customers of the penalty rates applicable in the event of any excesses of overdrawn accounts without prior agreement.

5 Information

5.4 Validation of invoicing and charges

In cases where the customers believe that they have not been charged in accordance with the agreement made with the Bank, they can request an analysis and explanation of the charges made on their account from their Banker or the management of their Branch. The Banker or the management of the Branch will explain to the customers all charges imposed and the reasoning behind them.

In the event where a mistake has been made by the Bank, and both parties agree on a settlement, the Bank will make all necessary adjustments as soon as possible.

If the customers are not satisfied with the explanations provided by the Bank, they have the right to object and follow the dispute resolution process defined in Section 9 of the Code.

5.5 Advertisement and promotion of products

The promotional material made available to customers by the Bank, shall provide an objective view of the product or service offered without including any misleading information. All advertisements shall comply with the relevant legislation.

The Bank shall not send promotional material to customers that have not consented to it in writing.

6 Procedure of Credit and Account Opening

6.1 Transparent Credit application procedure

The Bank shall inform the SMEs of the approval procedure of their application. The SME will have the opportunity to provide additional information and explanations. The Bank will inform the SMEs of the scope of the relevant products or services offered and the relevant procedures involved. Prior to the approval procedure, the Bank will notify the SMEs of the **required data and information considered necessary** for examining their application. The approval or rejection of the application shall be notified in a comprehensive manner to the SMEs, and shall be reasoned.

6.2 Transparency in respect of the terms and procedures

Prior to the completion of the credit agreement or contract, and at the latest upon the submission of the written contract, the Bank will explain comprehensively the detailed information in respect of the terms and procedures of the Credit applied for. The information will also contain the rules under which the Bank may unilaterally change the terms and provisions of the contract. Legal and technical wording will be used only when considered necessary. The Bank will inform the SME of any future changes to be effected **in the terms and provisions**.

6 Procedure of Credit and Account Opening

6.3 Change of conditions and periods of financial difficulties

In cases where the SMEs begin facing financial difficulties or declining business, the exchange of dialogue between Banks and SMEs is of great importance. In such circumstances, the SMEs inform the Bank about their new financial position and the latter will openly discuss the situation in order to examine the available financial and credit options. **The Bank will avoid unnecessary delays regarding the announcement of its credit decision to the SME.**

In cases where the Bank detects financial difficulties which may affect the business relationship and transactions with the SME, the customers will be contacted. The Bank considers that breaching the terms and provisions of the signed agreement or contract by the customers, may create serious problems in their relationship.

Examples that may raise concerns to the Bank include inter alia the following:

- Exceeding the overdraft limit without any agreement with the Bank
- Large reduction of the turnover of the business
- Expanded liabilities or debts
- Sudden loss of a client or employee, that plays an important part for the success of the business
- Sale of part of the business
- Use of the Banks' services or products for purposes other than those agreed upon
- Avoidance or delays of loan repayments
- Refusing or negligently omitting to submit financial statements and /or other information.

The Bank shall deal with situations of financial difficulties and declining business with understanding. Once the SME informs the Bank about their new financial position, the Bank shall discuss and cooperate with the customers, in order to safeguard their common interests and ensure that their relationship is continued on good terms.

6.4 Examination of the application for financing

Before the completion of the credit agreement, the Bank shall examine the customers' capability of repaying the credit offered. In examining the application the Bank shall take into account the following:

- information regarding customers' identity and reason for financing
- the business plan of the customers
- the Bank account statements of the customers
- the cash flow of the business
- any personal financial position, which may affect the business
- the financial statements of the business
- the solvency and credibility of the customers, in view of past obligations with the bank
- any information from credit rating agencies
- credit assessment techniques
- any available security or guarantee

6 Procedure of Credit and Account Opening

6.5 Opening an Account

The Bank is obliged to protect the customers, the Banking system and the public, against any fraud and misuse including money laundering or any other illegal activity. In this context, the Bank shall apply the “Know your Customer” principle.

According to applicable law, the Bank shall verify the identity of customers and the nature of the business activities for which the account will be used.

6.6 Right of collaboration with other Financial Institutions

The Bank shall not enter into any restrictive agreement with its customers, which will restrict the collaboration with other Banking institutions or financial organizations.

7 Customer Protection

7.1 Confidentiality

The Bank shall treat all information concerning individuals or businesses as private and confidential, even in cases of termination of its collaboration with the SME. The Bank shall not disclose to anyone the name, address or account details without the customer's prior consent. It can only disclose information in certain exceptional circumstances, where it is required by law.

7.2 Control of Transactions

Customers are advised to check their account statements and transactions with the Bank regularly. In cases where the customers detect an entry which seems to be wrong, then they will have to contact the Bank as soon as possible, so as to enable prompt examination of the matter.

7.3 Customer Protection through Operating Systems and Technology

Banks shall ensure as much as possible that their operating systems and technology used, are reliable and offer the highest possible protection to customers.

8 Implementation and Monitoring of the Code

The ACB has assigned a Compliance Officer of each member Bank for the monitoring of the Code.

The Association's Monitoring Committee, which is composed of ACB member-Bank representatives, is the responsible body for the Code's monitoring, implementation, interpretation, amendments and completion. Member Banks are obliged to assign their representatives to the Monitoring Committee and provide the Association with their contribution and support, for the smooth functioning and performance of the Committee's undertakings.

The ACB and the Monitoring Committee shall consult with the SME-representative organizations (CCCI and OEB) and shall take into account their suggestions and proposals concerning any potential amendments or adjustments to the Code.

The Monitoring Council composed of representatives from the CCCI, OEB and the ACB shall also monitor the Code. The Council shall investigate and evaluate the general implementation of the Code and other related issues, through dialogue, annual meetings and supplementary reports.

9 Dealing with Customer Complaints

Each Bank shall have a set of internal procedures for the handling of customer complaints, which must ensure:

- a. simple and easy mechanisms for the reporting of complaints
- b. forthcoming and prompt investigation of complaints
- c. fair handling of complaints
- d. the right of reporting complaints to hierarchically superior personnel of the Bank, in cases where the customers feel that their complaint has not been dealt with in an appropriate manner.

In cases of disputes between Banks and SMEs concerning the implementation of the Code, these shall be resolved through the Bank's internal procedure mechanisms and the Customer Complaints Department, which each Bank is obliged to maintain. Such disputes shall be resolved within 12 months from the day the Bank was notified about an act or omission on its part which, in the customer's opinion, constitutes a breach of the Code.

The Bank's Complaints Department is obliged to reply to the customers within 3 months from the day it has received the complaint.

In cases where the Bank has not responded within the 3-month period, or if, the customers are not satisfied with the reply, then they may submit their complaint to the Financial /Banking Ombudsman (once the Scheme is implemented). The customers must submit the complaint to the Ombudsman: (a) within 6 months from the day of receiving the Bank's reply, or (b) if no reply was given, within 6 months of the expiry of the 3-month period within which the reply should have been given.

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