



Annual Report 2014-2015

1

MESSAGE FROM THE DIRECTOR GENERAL

4

2

ECONOMIC ENVIRONMENT

- The Cyprus Economy 7
- Main Economic Indicators 11
- Stock Market Developments 12

3

THE BANKING SECTOR

- General Overview 15
- Banking Developments During 2014 16
- Financial Intermediation 20
- Bank Credit by Sector 21
- Credit and Debit Card Transactions 21

4

YEAR UNDER REVIEW

- Banking Supervision Committee and Risk Management 23
- Anti - Money Laundering 24
- Governance and Management Regulatory Framework 25
- Signing of IGA for the Implementation of FATCA in Cyprus and CRS for the Automatic Exchange of Information 26
- Garnishing of Bank Accounts to Enforce Tax Collection 27
- Recent Legal Reforms in Cyprus 29
- SEPA – a New Era for Electronic Payments 30
- European Banking Authority's Guidelines on the Security of Internet Payments 30
- Creation of a Finance-enabling Mechanism for Businesses That Secure Grants by the Ministry of Commerce, Industry, Energy and Tourism (MCIET) 31
- Mediation Process for Loan Restructuring 32
- Implementation of the 2014-2016 Collective Agreement 33
- 50th, 51st, 52nd and 53rd EBF-BCESA Meetings 33
- IT Fraud-Cybercrime Committee 34
- Employment Reports 34
- Bank Robberies Report 34
- Artemis Bank Information Systems Ltd 35
- ACB's Training Activities 36
- Publications 37

5

THE ASSOCIATION

- Background 39
- Mission 39
- Organizational Framework 40
- The Member Banks 41
- Association's Events and Milestones in 2014 / 2015 44

1

Message from the Director General



2014 has been a challenging year for the economy as well as for the financial system of our country. Due to the known decisions made by the Eurogroup in March 2013 and the implementation of the rescue package (bailout) for the Cypriot economy, in 2014, numerous new adjustments and institutional changes have been promoted, which have contributed to the effective recovery of the economy and the strengthening of the financial system.

The government, in cooperation with the supervising authorities, has promoted and approved many new legislations and measures that constitute conditions for the enforcement of the Memorandum of Understanding between Cyprus and the Troika (European Union, European Central Bank and International Monetary Fund).

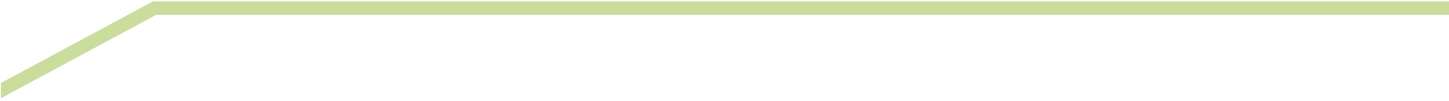
These legislations, in spite of the reactions of some collective and non-collective groups, have contributed positively so that the economy and the banking sector could manage to make important steps forward, have helped to stabilize the system and at the same time have created new positive prospects for the future.

As far as the banking sector is concerned, attention is drawn to the successful recapitalization of our systemic banks, the attraction of significant foreign investors, the positive results obtained in the stress tests of the European Central Bank and the European Banking Authority and the overall strengthening of liquidity and capital adequacy.

The positive developments observed during the past few months in the banking sector have restored to a large extent the credibility of the banking system, which is also evident through the trust that the citizens are starting to show once again to our banks. Currently, the banking system of Cyprus is restructured, recapitalized and strengthened.

The most pressing problem going forward, for the banking system as well as the economy, remains the containment of non-performing loans. According to the data from the Central Bank of Cyprus, non-performing loans represent about 50% of the total loans of the banking system and this causes huge problems, not only to the banks and the borrowers, but also to the economy in general.

Concentrating their efforts to address this phenomenon, the banks have shown good will and have cooperated with all relevant authorities for the implementation of the Central Bank's Directive regarding the management of loans in arrears. Among other things, this implementation entails changes in the banks' information systems, the use of new technologies, staff training, modification of forms and procedures as well as informing the public. The member banks of the Association of Cyprus Banks are expressing once more their will and determination with regards to the continuous restructuring of loans, following the relevant directions from the Central Bank of Cyprus.



The abovementioned issue is linked to the implementation of the new foreclosure regime. The implementation of foreclosures has remained pending throughout 2014. The delay concerning the vote of relevant bills resulted to the non-completion of the periodical assessment of the rescue package for the Cypriot economy.

Banks have repeatedly reassured the public that they are not going to abuse this right. As the Association of Cyprus Banks and the banks themselves have stated many times, mass foreclosures do not constitute an end in itself as they are not to the best interest of banks or the economy or society. However, this measure will provide banks with the necessary tools to address the deliberate refusal of lenders who do have the financial capacity to repay their debts and yet choose not to. We hope that the initiatives taken in 2015, will be effective in addressing this problem, allowing the banking system to strengthen its liquidity, to reduce the non-performing loans and to assist the people who have genuine problems in fulfilling their borrowing obligations. Furthermore, it will help in the provision of credit to viable sectors of the economy.

In the past year, there have been significant banking developments within the European Union, which have had a proportional positive effect on our own banking system. We are referring to the assigning of the supervision of the Eurozone banks and especially the systemic ones to the European Central Bank, a milestone for member countries including Cyprus, since it reinforces the trustworthiness of our banking sector.

In terms of our economy, in 2014 there have been overall positive developments, even though the real economy continues to suffer from various problems as a result of the consequences of the economic crisis and the events that took place from March 2013 onwards.

More specifically, the financial situation of Cyprus has improved, resulting in the decrease of the budget deficit to below the 3% limit of the GDP and the reduction of the national debt to 105% of the GDP. These two ratios are now considered to be manageable and indicate a return to stabilization of our economy. Additionally, in 2014 Cyprus has attained a small primary surplus, and managed to return to the International markets with two successful bond issues in 2014 and 2015.

On the other hand, unemployment continues to be extremely high (16%), while the desired outcome remains elusive on targets including the reinforcement of entrepreneurship, the improvement of competitiveness, the increase of consumption, the improvement in liquidity etc.

These problems dictate the direction in which we need to focus in 2015 onwards. In our opinion, emphasis needs to be given on healing the “wounds” in the real economy and on promoting the necessary reforms in the entire spectrum of the economy. Given that the economic situation of the Eurozone is unstable and that we also have our internal ongoing reforms, the challenges we are facing are big and significant. A high sense of responsibility, seriousness and commitment are required on our behalf. Without these prerequisites, it will be extremely difficult to pass safely through these obstacles.

The economic recovery and growth that we so much wish for will come only when we find a way to manage the economy with a spirit of understanding, consent and common efforts.

Despite various reactions, concerns and fears expressed by people, our common wish is the recovery of the economy towards a path of growth. We, at the Association of Cyprus Banks, strive to continue (as always) to show good will, understanding and cooperation towards all Cypriot and foreign interlocutors in order to strengthen the banking system and to assure the return of our economy to sustainable growth.

Dr. Michael Kammias

Director General



2

ECONOMIC ENVIRONMENT



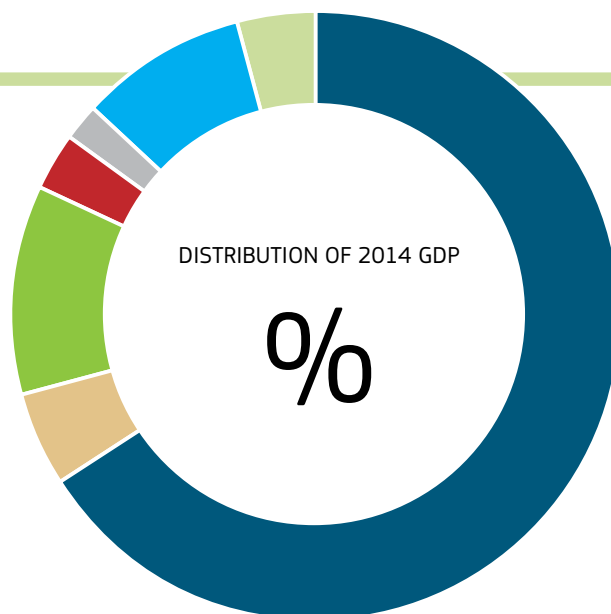
ECONOMIC ENVIRONMENT

The Cyprus Economy

As Cyprus is completing its second year under the macroeconomic adjustment programme ("Programme"), the economy is showing signs of stabilization. The Programme covers the period 2013-2016 and aims at addressing the financial, fiscal and structural challenges faced by the Cyprus economy.

In 2014 the recession has lost momentum and real GDP contracted by 2.3% compared to 5.4% in 2013. The year 2015 is expected to record a growth rate ranging between -0.5% and 0.5%. There are positive signs due to the continued resilience in private consumption, and boosted by the low energy prices, which manifested in positive levels of growth the first quarter of 2015, following 14 successive quarters of contraction.

The full lifting of capital controls together with the successful conclusion of the bank stress tests at the end of October 2014, have given a significant boost to economic sentiment. Confidence, according to the Economic Sentiment Indicator (published by the Economics Research Centre of the University of Cyprus), has reached six-year historic high levels. In April 2015, the Cyprus House of Representatives voted the package of five insolvency bills while the suspension of the foreclosure law was not extended. This development was significant as it allows the continuation of the Programme (which had been on hold since the summer of 2014) and provides a key tool for addressing the problem of non-performing loans. At the same time, it lifts the uncertainty and doubts about Cyprus's commitments to the adjustment program and creates a more robust regulatory framework which is expected to attract foreign direct investments. The voting of the insolvency regime, the implementation of the foreclosure law and the subsequent resumption of the Programme, are expected to further increase confidence.



PERCENTAGE DISTRIBUTION OF 2014 GDP

Services including tourism	66%
Manufacturing	5%
Transport & Communications	11%
Construction	3%
Agriculture	2%
Financial Intermediation	9%
Others	4%

Source: Statistical Service of Cyprus (provisional data for 2014)

Negative economic developments in Russia and the weak rouble have hurt the tourism sector in 2014. While tourist arrivals recorded an increase of 1.5% in 2014, revenues from tourism were down by 2.8%. For 2015, prospects appear promising as the losses from the Russian market appear to be contained while stronger growth in the UK together with the strength of the sterling are expected to offer an additional impetus. In the first quarter of 2015, tourist arrivals marked an increase of 16.2% compared to the first quarter of 2014.

The real estate sector has experienced a modest revival, as property prices throughout Cyprus continued to decline and the increased stability have stimulated interest from local and foreign investors. The total value of sale contracts recorded an annual increase of 25% for 2014 compared with 2013 based on figures from the Department of Lands and Surveys while the total transactions recorded an annual increase of 8%.

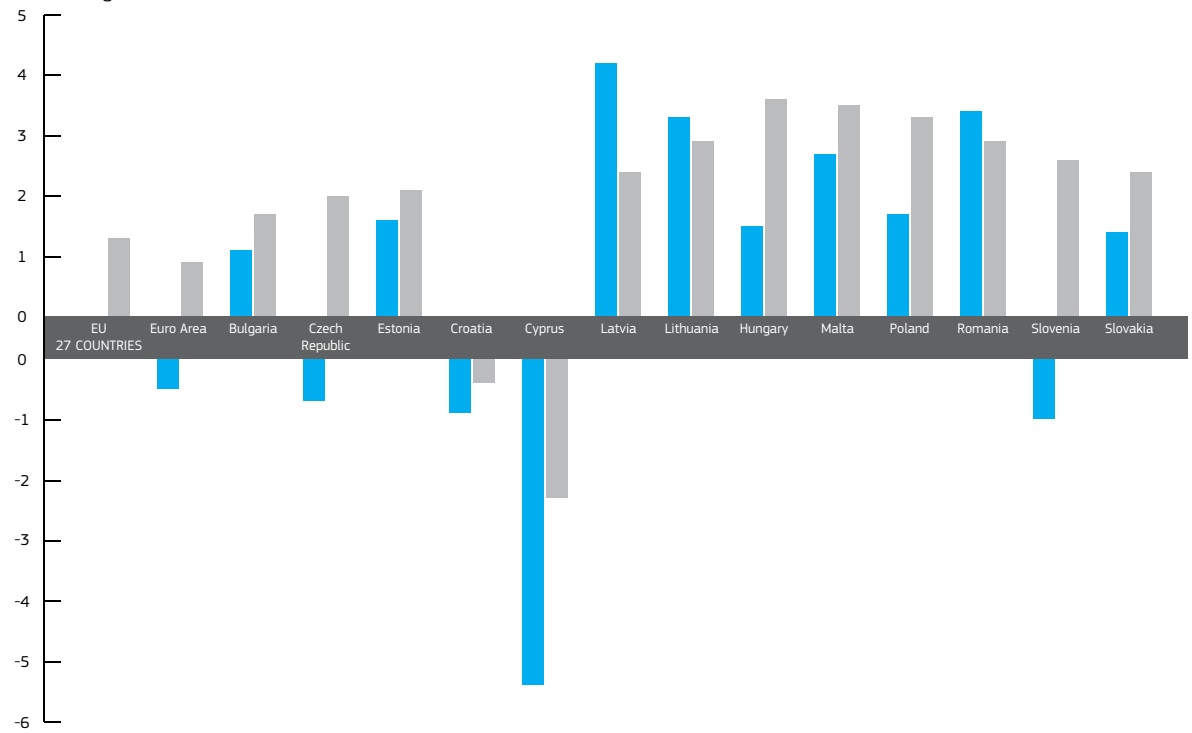
The fiscal consolidation efforts undertaken by the government have proven to be successful beyond expectations, generating a large primary surplus of nearly 2.8% of GDP in 2014 and an overall budget deficit of 0.3% of GDP (when adjusting for the €1.5 billion for recapitalizing the Coops, which has already been recorded in the figures for public debt of 2013). The debt-to-GDP ratio was also positively affected by the upward revision of nominal GDP by about 10% due to Eurostat statistical benchmark revisions. For 2014 the debt to GDP stood at 108%, which is at a level generally considered to be "sustainable", and it is expected to start declining after 2015. The fiscal progress made is reflected in the successive upgrades of Cyprus by the main credit rating agencies within the past year. This progress allowed Cyprus to return to the sovereign bond market in mid-2014 after a three year hiatus. The yields of the ten-year government bonds have reached historic lows by April 2015 (of around 3.8%).

Inflation as measured by the Harmonized Index of Consumer Prices, was negative in 2014 as domestic prices of goods and energy prices continued to fall (-0.3% compared to 0.4% in 2013). The labor market stabilized during 2014 with the unemployment rate steadying at 16% which, although high, did not reach the forecasted levels of 19%. The moderate pick up in domestic demand is expected to be reflected into improved labour market conditions and unemployment is expected to ease gradually in 2015. This has started to be reflected in the number of registered unemployed persons which is decreasing, while the monthly unemployment rate has been slowly receding since November 2014.

GDP REAL, % CHANGE							
	2010	2011	2012	2013	2014	2015F	2016F
Cyprus	1.4	0.3	-2.4	-5.4	-2.3	-0.5	1.4
EUR 28	2.1	1.7	-0.5	0.0	1.4	1.8	2.1
Euro Area	2.0	1.6	-0.8	-0.5	0.9	1.5	1.9
USA	2.5	1.6	2.3	2.2	2.4	3.1	3.0
Japan	4.7	-0.5	1.4	1.6	0.0	1.1	1.4

Source: Eurostat, European Commission

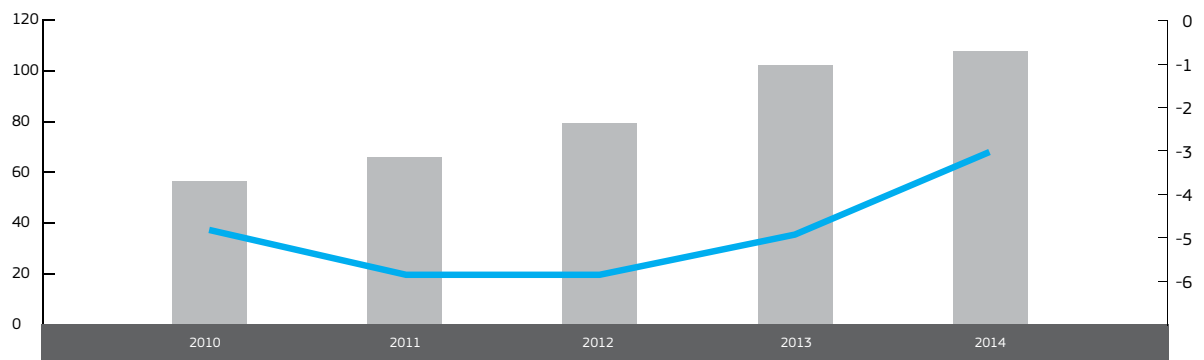
Real GDP growth rate



Source: Eurostat

■ 2013 ■ 2014

Public Debt & Fiscal Deficit (% of GDP)



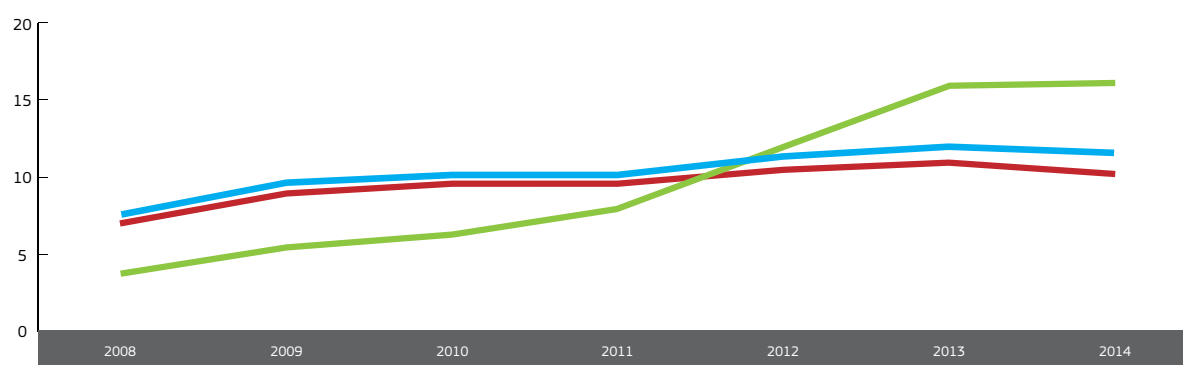
Source: European Commission, Eurostat, Ministry of Finance

■ Public debt ■ Fiscal Deficit (right scale)

According to the European Central Bank President Mario Draghi, Cyprus is on track to exit its economic adjustment programme sooner than 2016, however, there is no room for complacency.

While there are signs of stabilization in the domestic economy, and some improved growth prospects for the euro area as a whole due to lower oil prices and the depreciation of the euro, at the same time Cyprus faces a number of significant downside risks. These include the continuing uncertainty regarding a new funding agreement for Greece, a possible crisis in the euro area and further deterioration in the Russian economy. The high levels of private sector indebtedness and the high levels of non-performing loans will continue to weigh down growth. However, there are hopes for improved growth prospects stemming from foreign investments. New opportunities for foreign direct investments are expected to originate from future energy and other infrastructure projects, an upcoming license for casino development as well as from the privatization schedule which is part of the macroeconomic adjustment programme.

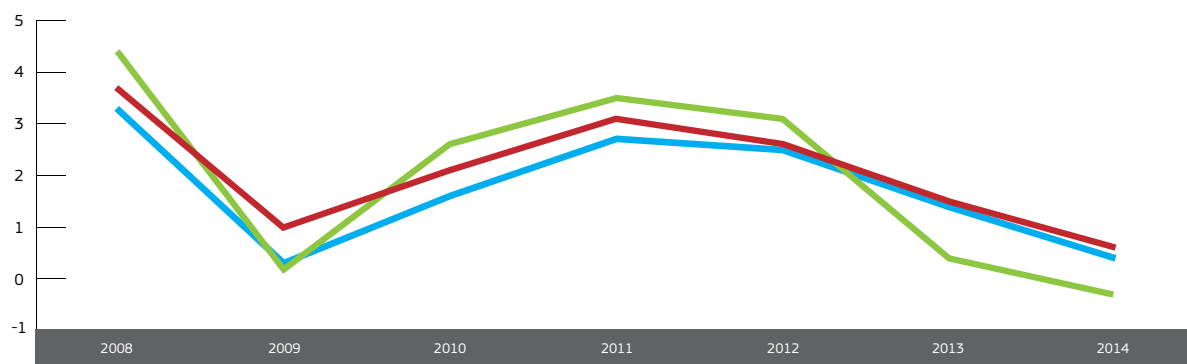
Unemployment in Cyprus, the Euro area & the EU28



Source: Eurostat

■ Euro Area ■ EU (28 countries) ■ Cyprus

Inflation in Cyprus, the Euro area & the EU28



Source: Eurostat

■ Euro Area ■ EU (28 countries) ■ Cyprus

Major Economic Indicators

CYPRUS MAJOR ECONOMIC INDICATORS		2011	2012	2013	2014	2015f
GDP (Real Growth)	% Change ⁽¹⁾	0.3	-2.4	-5.4	-2.3	-0.5
GDP (At Current Prices)	EUR mil.	19,487	19,411	18,119	17,506	N/A
GDP Per Capita (EURO)		23,192	21,849	20,378	19,741	N/A
GDP Per Capita (PPS)	EU - 27 = 100	96	93	89	N/A	N/A
Unemployment	%	7.9	11.9	15.9	16.1	16.2
Inflation Rate	% Change ⁽¹⁾	3.5	3.1	0.4	-0.3	-0.8
Current Account Balance	% of GDP	-3.0	-5.5	-2.0	-4.0	-3.9
Fiscal Deficit	% of GDP	-5.8	-5.8	-4.9	-3.0	-1.1
Total Public Debt ⁽²⁾	% of GDP	66.0	79.5	102.2	107.5	106.7
Total Public Debt ⁽²⁾	EUR mil.	12,869	15,430	18,484	N/A	N/A

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

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

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

- **Doing Business 2015 (World Bank):** Cyprus is ranked 64th out of 189 economies.
- **Global Competitiveness Index 2014-2015 (World Economic Forum):** Cyprus is ranked 58th overall out of 144 countries.
- **Index of Economic Freedom World Rankings 2015:** Cyprus is ranked 45th out of 178 countries

Stock Market Developments

The continuing recession and difficult economic conditions were reflected in the transaction volume of the Cyprus Stock Exchange (CSE) which remained in low levels. The total volume of trading in the CSE was around €75 million in 2014, compared to €63 million in 2013.

A significant development was the resumption of trading of the shares of Bank of Cyprus, following months of suspension.

Investment schemes

In July 2014, the Alternative Investment Funds Law was implemented, which regulates the authorization and operation of Alternative Investment Funds in Cyprus. This law replaces the International Collective Investment Schemes Laws of 1999 and 2000 and transfers the supervision from the Central Bank of Cyprus to the Cyprus Securities and Exchange Commission (CySEC).

The enactment and implementation of the Alternative Investment Funds Law has completed the regulatory framework for collective investments, creating a competitive environment to develop a market of collective investment schemes in Cyprus. The single supervisory authority which authorizes and supervises the operation of Alternative Investment Funds (AIF), of AIF managers, of Undertakings for Collective Investment in Transferable Securities (UCITS) and of UCITS managers is the Cyprus Securities and Exchange Commission (CySEC). CySEC implements the European Union regulations as well as best practice from other member-states that are already global investment fund jurisdictions.

With the prolonged downtrend of the Cyprus economy, the investment funds industry was identified as having significant potential to contribute towards economic growth and the attraction of foreign investment. As a result, the Cyprus Investment Funds Association (CIFA) was established, with the aim of promoting Cyprus as an international centre for the establishment and management of investment funds. Between other categories of investment funds, CIFA now aims to promote Cyprus as an international hub in the investment pension market. To update market participants, the CSE together with the Cyprus International Institute of Management, have organized a conference on Collective Investment Funds.

Additional products and services in Cyprus's capital market

- The Cyprus Stock Exchange, as part of its efforts of upgrading its services, has proceeded to make relevant amendments to the Cyprus Stock Exchange (Central Depository and Central Registry) Laws in order to be able to undertake the upkeep and maintenance of registries of non-listed companies, using the fully automated electronic system of the Central Depository / Central Registry.

This new service is now being offered to a number of non-listed companies that are registered in Cyprus, operate in various economic sectors and have a relatively wide capital structure. The offered services consist of the maintenance and updating of the registry and the provision of electronic services for the completion of corporate actions (such as share capital increase, share split, reinvestment of dividend etc).

- In October 2014 the CSE shortened its settlement cycle for transactions executed on listed securities that are traded on its markets from T+3 (completion of settlement within three working days after the execution of a transaction) to T+2 (completion within two working days). The change in the settlement cycle originated from a change in European Union regulations.
- The Cyprus Securities and Exchange Commission has signed an updated memorandum of understanding with the Central Bank of the Russian Federation, which is the capital markets supervisor. The memo strengthens cooperation between the two supervisory authorities and assists in the development of further business relations between Cyprus and Russia.
- The CSE together with other relevant authorities and interested organizations, is investigating the possible development of Islamic Financial instruments. Islamic Finance is an important sector in the Islamic financial world, providing finance to significant projects for economic development, as well as alternative options and tools for investments.



3

THE BANKING SECTOR



THE BANKING SECTOR

General Overview

The banking sector in Cyprus comprises of domestic banks, international banks with Cyprus based subsidiaries or branches and co-operative credit institutions (CCIs). Beyond the traditional deposit and lending services (to households, corporations, SMEs), banks in Cyprus operate under the “universal banking model” as they offer a diverse range of products and services. Deposits from customers have traditionally been the main source of funding for banks.

At present there are 60 authorized credit institutions in Cyprus, consisting of 4 local authorized credit institutions (with a fifth one, Ancoria Bank Limited, having recently secured approval), the Cooperative Central Bank and 18 affiliated Cooperative Credit Institutions (CCIs), 5 subsidiaries of foreign banks from E.U. member states, 3 subsidiaries of foreign banks from non-E.U. member states, 10 branches of banks from E.U. member states, 16 branches of banks from non-E.U. member states and 2 representative offices.

Banking Sector – Statistics (31/12/14)		
	Banks	Coops
Deposits (€ million)	33,732	12,393
Loans (€ million)	51,466	10,127
Branches	318	296
Personnel	8,222	2,694
Branches per 100,000 inhabitants	40	37

Source: Central Bank of Cyprus, Co-operative Central Bank

Banking Union

Within the framework of the EU Banking Union, since November 2014 the CCIs and Cooperative Central Bank, together with Bank of Cyprus, Hellenic Bank and RCB Bank, were among the European credit institutions that came under the direct supervision of the ECB, as part of the Single Supervisory Mechanism provisions. The three main elements of the Banking Union are:

- 1) The new regulatory framework with common rules for banks in the 28 member states, ensuring that deposits up to €100,000 (per depositor, per bank) are protected at any time throughout the E.U.
- 2) Direct supervision by the ECB for systemic banks. Smaller banks will be under the supervision of the national supervisory authorities, however, the ECB may at any time decide to supervise directly one or more of the smaller credit institutions in order to ensure the consistent implementation of regulation.
- 3) The Single Resolution Mechanism and Single Resolution Fund to address problems with banks that require resolution.

Comprehensive Assessment of the ECB

One of the most positive developments of the past year was the successful completion of the Comprehensive Assessment by the European Central Bank and the European Banking Authority. Four banks in Cyprus took part in the Assessment which consisted of an asset quality review and a stress test and they were tested using the same methodology as the one applied to other major banks of Europe. It should be noted that the starting reference date to which the series of stress scenarios was applied was the 31st December 2013, which marked the end of the most turbulent year of the Cypriot banking sector. Nevertheless, the outcome was positive, with only one bank requiring additional capital which it managed to raise from private sources shortly after the completion of the Assessment.

This development indicates that the systemically important credit institutions in Cyprus are well capitalized, while at the same time the banking regulatory and supervisory regime has been significantly strengthened.

Recapitalization and Restructuring of the Banking Sector

In June 2012, Cyprus became the fifth EU member state to request an international financial assistance. As a precursor to the provision of economic assistance to Cyprus by the Troika, a decision was taken by the Eurogroup in March 2013 that resulted in a substantial reduction in the size of the banking system in relation to the economy as well as in the resolution of the second largest bank in Cyprus and the restructuring and recapitalization of the largest bank in Cyprus, which took place through a controversial bail-in of uninsured depositors.

The state acquired 99% of the cooperatives using €1.5 billion of state aid as part of the Troika programme and subsequently the sector was consolidated from 93 into 18 institutions. Within 2014, the two largest banks were recapitalized using private sources, including foreign participation, and without use of state support. It should be noted that the €1 billion buffer provided within the €10 billion Troika programme was not used to cover any capital shortfalls in the banking system and it remains available for any potential future recapitalization needs.

As a result, the ECB's Comprehensive Assessment of the Cypriot significant credit institutions concluded in October 2014 that capital buffers of the Cypriot banks, including the recapitalization amounts that took place or were announced during 2014, more than cover the capital needs which were calculated for the asset quality review and the baseline scenario of the stress test. Measures designed to fill small capital needs that arose in the adverse scenario were successfully completed shortly thereafter.

By early 2015 the CRD IV was transposed and, as a result, all banks including cooperative credit institutions have minimum capital requirements of 8% in line with the harmonised benchmark applied under the baseline scenario of the ECB Comprehensive Assessment. Additionally, according to CRD IV, the Central Bank of Cyprus (CBC) may request significant banks to maintain capital buffers in excess of the minimum Pillar 1 requirement based on conservative assumptions and to take prompt action if needed.

According to the latest data of the CBC, the common equity tier 1 Capital ratio for the Cyprus banking sector was 14.8% in September 2014 (core tier 1 capital ratio at Sept. 2013: 11.6%).

Banks and coops are progressing with the implementation of their restructuring plans. The cost-to-income ratio has been reduced to 39% (CBC Sept 2014), which is well below the European average.

Financial Sector Supervision and Regulation

Regulation and supervision have been strengthened to ensure a more credible, robust and resilient financial sector.

The main steps undertaken in this area are:

- The Central Bank of Cyprus (CBC) published an arrears-management framework (AMF) and Code of Conduct (CoC) to guide the loan restructuring process and developed a supervisory framework to monitor banks' capacity and progress against operational and restructuring indicators.
- As at the end of September 2014, the Central Credit Register became operational and the two comprising credit bureaus have begun to collect positive data (performing credit facilities) as well as additional categories of negative data (Non performing credit facilities, terminated accounts of credit facilities).
- Within 2014, banks had to fully implement new guidelines on asset impairment and provisioning and on the treatment of collateral in provisioning, which bring our current accounting practices up to the most conservative international level. Banks have implemented the new provisioning and disclosure directive of the CBC in their published 2014 annual accounts.
- The Governance and Management Arrangements Directive was revised in July 2014, specifying, among others, the roles and responsibilities of management and the interaction between banks' internal audit units and bank supervisors, in line with European regulations and international best practices.
- The authorities have begun work to transpose the Bank Recovery and Resolution Directive and the Deposit Guarantee Scheme Directive into national law.
- In November 2014, the Financial Ombudsman began addressing calls for mediation over loan restructurings, and in February 2015 he began examining complaints for financial products and services.
- Within 2015, authorities will establish a comprehensive insolvency framework, establishing appropriate corporate and personal insolvency procedures.

Restrictive Measures

Immediately after the decisions of the two Eurogroup Summits in March 2013, restrictive measures on domestic and foreign transactions were imposed, in cooperation with the European Committee, the European Central Bank and the IMF. By April 2015 all restrictive measures have been lifted and now there are no restrictions whatsoever to domestic or cross-border movement of capital. The lifting of the final restrictions came about as a result of the positive outcome of the Comprehensive Assessment and the stabilization of deposit outflows, which indicate a reinstatement of confidence in the banking system.

Financial Transparency

Cyprus has been handed a clean bill of health according to independent evaluations, which discredited accusations of a weak anti-money laundering (AML) system. The two parallel audits, conducted during April 2013, by Deloitte Financial Advisory (Italy) and Moneyval of the Council of Europe, which were set as a precondition for the international bailout, evidence the island's commitment to strict implementation of effective anti-money laundering measures. The outcome of the assessments indicates a solid level of compliance across the sector. The findings made no reference to systemic deficiencies, according to the Central Bank of Cyprus. On the contrary, the reports indicated that the standard building blocks are in place, the AML preventive measures and procedures in banks are sound, and in general, the banks have a high level of compliance with the statutory and regulatory requirements, which in some areas are more demanding than the EU and international requirements. During the past year, to address concerns that Cypriot corporations and trusts might be misused, trust registers have been established by supervisory authorities.

The AML regime in Cyprus will continue to apply, and to follow the FATF and EU recommendations on AML; it will be strengthened where and when necessary.

Liquidity and Loan Restructuring

The most pressing challenge remains the reduction of the excessive levels of non-performing loans (NPLs) in the banking sector, which is seen as key in restoring bank intermediation functions and supporting investment growth. As at November 2014, the total NPLs amounted to 49.7% of total loans. Banks have set up restructuring units to manage NPLs through specialized units with dedicated staff focusing on collections and restructuring. These restructurings are done within the context of the arrears framework and Code of Conduct of the Central Bank of Cyprus, as well as the framework of mediation which is currently being implemented. In this regard, two key measures are the proper implementation of the foreclosure law and a modern insolvency framework for individuals and companies.

The gradual reduction of NPLs together with the quantitative easing program of the ECB are expected to have numerous benefits for Cyprus and to contribute towards the increase in liquidity in the economy and the further reduction of lending interest rates.

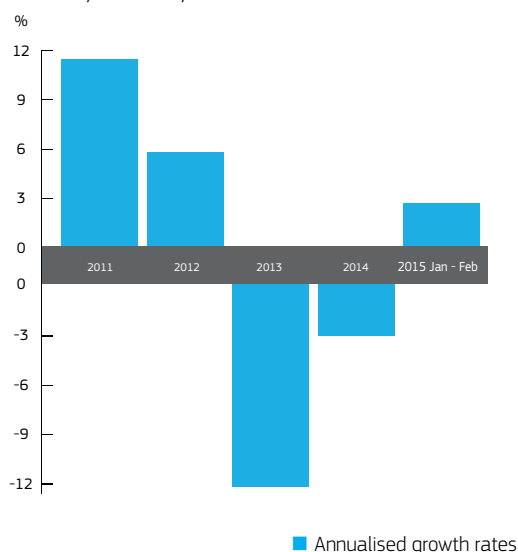
Financial Intermediation

In 2014, deposits held with all monetary financial institutions were reduced by 1.8%, compared to a reduction of 33.0% in 2013 which came about as a result of the bail in of deposits as well as the loss of confidence following the decision of the Eurogroup. In the fourth quarter of 2014, and in particular following the successful completion of the EU-wide Comprehensive Assessment in November 2014, deposit outflows started to stabilize. In the first two months of 2015 deposits were at the same level as in the first two months of 2014 (0.2% increase).

During 2014, total lending in Cyprus declined by 3.2% compared to a decline 12.2% in 2012. The reduction in lending was due to the decreased demand from households and businesses arising from the negative prevailing macroeconomic conditions, whereas financial institutions are wary of extending new loans due to the uncertain economic prospects and stricter regulatory environment and mainly offer restructuring of existing facilities.

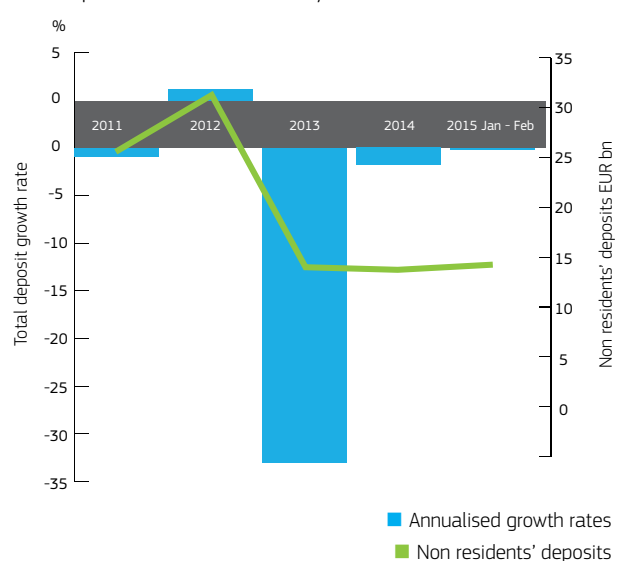
Latest data from the Central Bank of Cyprus show that lending has increased by 2.7% during the first two months of 2015 compared to the same time period in 2014. According to the latest Bank Lending Survey carried out by the Central Bank of Cyprus, the expectations of the participating banks for 2015Q1 indicate that the demand for loans by enterprises and households for house purchase is expected to increase, while demand for consumer credit is expected to remain unchanged. However, while credit standards for loans to households and enterprises have tightened within the past year, these are not expected to significantly ease.

Loans by Monetary Financial institutions



Source: Central Bank of Cyprus

Deposits held with Monetary Financial Institutions



Source: Central Bank of Cyprus

Bank Credit by Sector

As the table below shows, deleveraging took place throughout most of the loan categories during 2014, with lending to non-financial corporations reduced by 10.4% and lending for housing loans reduced by 2.0%.

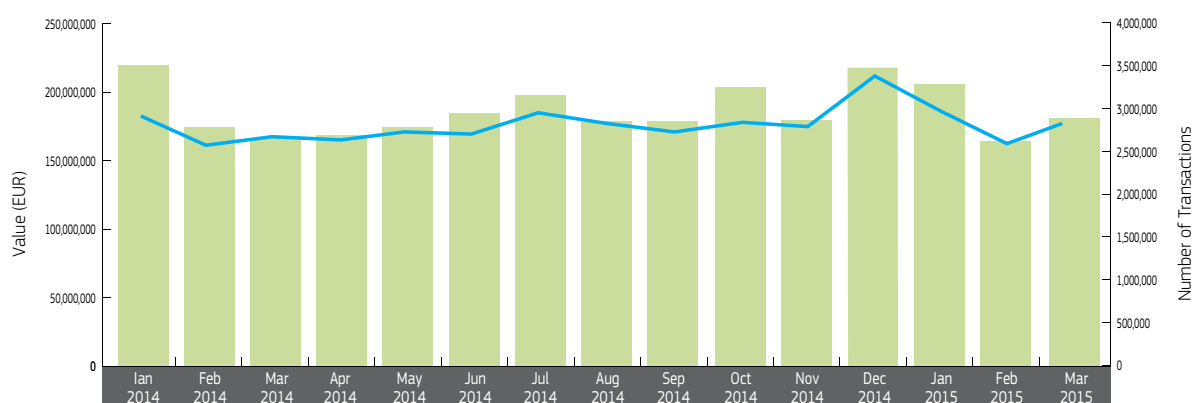
	End of period balances €million		Outstanding amount as a % of total		Annual % change
	2013	2014	2013	2014	
General Government	1,315	1,125	2.1%	1.8%	-14.5%
Other financial intermediaries	6,878	9,604	10.8%	15.6%	39.6%
Insurance corporations & pension funds	1,079	68	1.7%	0.1%	-93.7%
Non-financial corporations	28,990	25,974	45.6%	42.2%	-10.4%
Consumer credit	3,154	2,925	5.0%	4.7%	-7.3%
Housing loans	14,016	13,735	22.0%	22.3%	-2.0%
Other household loans	8,166	8,163	12.8%	13.3%	0.0%
Totals	63,598	61,593			-3.2%

Source: Central Bank of Cyprus

Credit and Debit Card Transactions

During 2014, the total value of card purchases in Cyprus by holders of credit and debit cards issued in Cyprus increased by 4.2% to a total of €2.25 billion (2013: €2.16 billion). Within the year, the total number of transactions increased by 7.4%, while the average value of transactions was €67 per transaction (2013: €69). During the first quarter of 2015, the total value of transactions decreased by 2% compared to the first quarter of 2014.

Card Transactions



Source: JCC

■ Number of Transactions ■ Value



4

YEAR UNDER REVIEW





YEAR UNDER REVIEW

Banking Supervision Committee and Risk Management

2014 was a year full of challenges for the banking sector in Cyprus. Two were the biggest challenges, of which one has been completed with absolute success and the second is still on-going.

The first challenge concerned the Comprehensive Review, stress-test and Asset Quality Review (AQR), carried out by the European Central Bank (ECB) and the European Banking Authority (EBA). The Single Supervisory Mechanism (SSM) and the direct prudential supervision of eurozone banks by the ECB (November 2014) required a priori comprehensive review of the four Cypriot systemic banks, that are now supervised directly by the ECB. As is well known, the remaining non-systemic banks are supervised indirectly by the national supervisory authority, the Central Bank of Cyprus (CBC).

The comprehensive review, apart from the stress test exercise, included an asset quality review exercise of the banks. Actions taken by the four banks and the timely recapitalization completed by Bank of Cyprus and Hellenic Bank by the end of summer 2014 played a major role towards the successful completion of the comprehensive review of the four systemic banks in Cyprus. This demonstrates that Cypriot banks are in a position to confront future risks that may arise from a possible deterioration of economic conditions.

The direct supervision of banks by the ECB has further boosted the credibility and the stability of the Cypriot banking system and has restored the confidence of depositors in Cypriot banks. This fact is expected to play an important and prominent role in collective efforts for the recovery, growth and further development of the Cypriot economy.

The second challenge concerns the management of the non-performing loans (NPLs). Following the events of March 2013, there was a steep shrinkage of economic activity which, in conjunction with the stringent amendment of the definition of non-performing and forborne loans by the CBC (July 2013), led to a sharp rise of NPLs (above 50%). Throughout the year 2014, the Association and its member banks worked intensively towards the effective adoption and implementation of the Arrears Management Directive issued by the CBC. Loan restructuring consists of a painstaking and complicated process that demands specialized knowledge. During 2014 banks concentrated their efforts on organizing and setting up specialized units dealing exclusively with the restructuring of viable and cooperative borrowers. Loan restructuring is not a one-way process but includes the following: specific actions at various stages and different time periods (depending on days in arrears), the submission by the borrower of economic/financial data to the bank, the evaluation by the bank of the borrower's financial condition and viability, the formulation of a restructuring proposal, and the presentation and discussion of the proposal with the borrower. All banks aim to find a commonly accepted solution to the benefit of both parties. The CBC has issued an amended "Arrears Management" Directive which is expected to improve further the restructuring process.

The recent establishment of a loan restructuring Mediator service, the new Insolvency Regime and the new legislation on foreclosure are expected to expedite loan restructurings, for the benefit of both the banks and the borrowers. It is extremely important to reduce the percentage of NPLs as it affects negatively the balance sheets of banks due to the obligation to recognize losses, form provisions and incur considerable operating expenses relating to the management of the NPL portfolio. Provided that the attempt to reduce NPLs is successful then there will be a considerable boost to recovery prospects and further growth of the economy. The reduction of NPLs will enhance conditions for credit expansion, which has remained weak due to the high level of NPLs and the over indebtedness of households and corporations.

Michalis Kronides
First Senior Advisor

Anti - Money Laundering

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

Recent matters dealt with by the Association and the Anti-Money Laundering Committee of the Association:

1. Update of the Questionnaire given by the Banks to the Professional Intermediaries and other third parties ('Questionnaire'). The Questionnaire requests from the latter, information on their internal procedures in relation to the prevention and the suppression of money laundering and terrorist financing activities.

The Questionnaire has been drafted for the fulfillment of the relevant provisions of the latest Central Bank's Directive issued according to the provisions of the Prevention and Suppression of Money Laundering Activities Law and it is in the form of a De minimis base line for the member banks to apply.

2. The Anti-money Laundering Committee has completed the update of a common document published by the Association, containing simplified general information in relation to due diligence procedures in the 'opening of bank accounts'. The said document is in the form of a brochure placed in the branches of the member banks for clients' use.
3. The Association, being a member of the Anti-Money Laundering Committee of the European Banking Federation and the National Advisory Authority for Combating Money Laundering, participates in the consultation process of the proposed 4th AML EU Anti-Money Laundering Directive.

Governance and Management Regulatory Framework

The Association has participated in the consultation procedure in relation to the following Central Bank Directives issued in 2014:

1. Governance and Management Arrangements Directive of 2014

The Directive sets requirements on the governance structures of credit institutions, on the roles and responsibilities of the management body and senior management and on the development, implementation, and effective oversight of compliance, risk management and internal control frameworks.

2. Directive on the assessment of the fitness and probity of the members of the management body and managers of authorized credit institutions

The Directive was issued for the purposes of harmonization of the regulatory framework of assessment of the fitness and probity of members of the management body and managers of Authorized Credit Institutions (ACIs) with the relevant Guidelines issued by the European Banking Authority.

The Directive contains provisions to be followed when assessing the suitability of all members of the management body and extend also to key function holders. In addition, the Directive sets out the criteria for the assessment of experience and reputation and documentation requirements for credit institutions.

Elena Frixou
Senior Advisor

Signing of Intergovernmental Agreement for the Implementation of FATCA in Cyprus and Common Reporting Standard for the Automatic Exchange of Information

On December 2, 2014 the Republic of Cyprus and the United States of America signed an agreement to improve international tax compliance and to implement FATCA (Foreign Account Tax Compliance Act). The agreement (IGA) was ratified through legislation voted by the House of Representatives on 5 December 2014 (N. 19(VII)/2014).

This agreement, the preparation for which began in 2012, is aimed at the automatic exchange of information of financial institutions, through the relevant tax authorities of the two countries, with the aim of combating offshore tax evasion by US persons. The Association, within the framework of complying with international transparency requirements, has taken specific initiatives in order to support the Ministry of Finance from the early stages of preparation for the signing of this important agreement. It can be argued that this agreement enhances the reliability and international image of our banking system.

Our member banks have begun the implementation of the various FATCA provisions through the relevant changes in their procedures, account opening documents and IT systems. Among other things, during the latest months the relevant committee of the Association has prepared a Frequently Asked Questions document that is available through the websites of member banks and of the Association and is aimed at providing briefing for bank customers on FATCA issues (personal data questions etc). Additionally, the Association has submitted suggestions for FATCA guidelines to be issued by the Tax Department, with the aim of clarifying details and harmonizing FATCA implementation.

Next steps:

The preparation for FATCA implementation comprises the first part of a broader transformation on cross border tax information reporting that banks are called to implement. The ratification of intergovernmental agreements with the USA for FATCA purposes has boosted the efforts of other states for an automatic exchange of information aimed at combating cross-border tax evasion. As a consequence of FATCA, the G8 / G20 have given a mandate to the Organization of Economic Cooperation and Development (OECD) to develop a global reporting standard (Common Reporting Standard – CRS), with FATCA Model I IGA serving as an example.

For EU member states, the CRS is the evolution of the European Directive on Savings Taxation. The countries that will implement the CRS will automatically exchange information on financial account holders who are tax residents of another country that implements CRS. Cyprus, together with most of the EU member states, has committed to implement the new account opening procedures of CRS as from January 2016 and to begin the automatic exchange of information in 2017.

In order for bank members to receive information and begin preparations in due time, the Association has organized a relevant workshop in March 2015 titled: «From FATCA to CRS – What should banks be prepared for».

Garnishing of Bank Accounts to Enforce Tax Collection

On March 30, 2015 Cyprus licensed credit institutions and the Tax Department (TD) have begun implementing in pilot mode the procedure for garnishing of bank accounts to enforce tax collection. Garnishing is the process of collecting overdue payments of tax by means of direct transfers from taxpayers' bank account(s) according to certain constraints. This method of tax collections is governed by legislation that was passed in the third quarter of 2014 (amendment of the Law on Tax Receipts). The legislation gives the Tax Department, subject to approval for each case from the Attorney General's office, the authority to request LCIs to reserve/block specific amounts in given taxpayer(s) bank accounts and if necessary, after a specific interval, to request that the said amounts are transferred to the government's tax collection bank account as specific payments. There is a statutory requirement for the LCIs to comply and participate in the Garnishing scheme.

During the preparation of the relevant legislative amendments, the Association participated in a series of meetings with officers of the Tax Department, in order to include the necessary safeguards to maintain the reliability of the banking system. The Association explained its positions in the relevant Parliamentary Committee meeting and submitted specific proposals for a problem-free implementation of the measure. Later the Association took part in the consultations with the TD during the preparation of the implementing guidelines, which specify procedural matters relating to the garnishing process. In accordance to a suggestion by the Association, it was agreed to carry out the process through a digital exchange of files.

The members of the relevant committee of the Association had a meeting with representatives of the Tax Department and of the IT Department of the Ministry of Finance, where members were informed of technical issues affecting the connection of banks to the TD and the sending of data, and additionally, the format of files and content of messages were presented.

Following the initial implementation of the measure, member banks and the Association continue their efforts to resolve the various technical and procedural issues that came up.

Christina Antoniou Pierides

Senior Advisor

Recent Legal Reforms in Cyprus

New Insolvency Framework

The new Insolvency Framework was voted by the Cypriot Parliament in April 2015 via five separate laws comprising of around 300 pages relating to the restructuring of loans of natural and legal persons and bankruptcy and liquidation procedures. The most important changes are summarized below:

- The profession of the Insolvency Practitioner (IP) is established, which will be subject to mandatory professional registration and regulation. In order to be approved, an IP needs to have relevant work experience and pass exams. Accountants and Lawyers wishing to act as IPs will be required to obtain the relevant certification provided they comply with the required criteria and will be regulated by their existing Regulatory Bodies (i.e. the Institute of Certified Public Accountants of Cyprus and the Bar Association). A code of conduct is also expected to be put in place soon.
- The Insolvency Service is established, which will be responsible for the certification of the IPs and will undertake bankruptcy and liquidation procedures.
- In relation to natural persons, the new Framework aims at restructuring the indebtedness for such borrowers. An IP is involved in the process and will develop a restructuring plan, following an application by the debtor. A moratorium of 95 days is imposed (imposed stay on enforcement proceedings by creditors), during which period the IP must come up with a restructuring plan.
- The write off of small amounts of debt (€25K irrespective of the amount of their total debt) of debtors with no assets and no income (Debt Relief Order – DRO) is established. This concept did not exist before. The DRO process enables eligible insolvent debtors to write off their debts where they can prove they are not in a position to repay them. The process will go through the IS and the final DRO will be issued by court.
- In relation to Companies, the new framework amends the Company law and introduces the Examinership scheme based in the Irish model. Any creditor, or the management of the company, can file to the Court to ask for the appointment of an examiner. The Court evaluates the prospects of viability of the company and if it decides that there are prospects, it appoints an examiner. The company is placed under the protection of the Court for a period of 4 months. During the protection period, the Examiner must conduct an examination of the affairs of the company, and report to the Court a proposal which has been previously agreed by the majority of creditors in number and value. If approved by the Court, the scheme becomes legally binding on all parties. The Court may approve the scheme even if the majority of creditors did not vote for its implementation on the ground that the proposal is fair and just.
- The bankruptcy and liquidation procedures are modernized and become more simple and shorter.
- Mortgaged property is added in the property that can be sold by the receiver, while until now this property was not

included in the bankruptcy and liquidation procedures.

- The amended bankruptcy law allows for the fresh start of reinstated natural persons. Bankrupt persons will be allowed to be automatically reinstated after three years, while all of their remaining debts not satisfied by their property will be written off.

Foreclosures

In September 2014, a new law in relation to foreclosures of mortgaged property was voted but was immediately postponed and put into force and effect in April 2015 with the enactment of the Insolvency Law described above.

The new law allows for the private auctions on behalf of mortgagees although the procedure is set out step by step in the law. This is summarized below:

- The procedure may be initiated by a mortgagee when the debtor has defaulted for a period not less than 90 days.
- The debtor may request a restructuring according to the Arrears Management Directive of the Central Bank of Cyprus. The debtor may also appeal to Court for any reason (but essentially only to dispute the amount he owes to the creditor).
- After the 90 day period, the mortgagee creditor sends a notice to the debtor calling for the payment of the amount due, within a period of 30 days from the date of the notice, otherwise the mortgage creditor may exercise the right to schedule and conduct a foreclosure. Again, during this 30 day period the debtor may appeal to Court disputing the amount the creditor claims and/or raising any other issue.
- When the debtor has not paid the amount due within the 30 day period notice, as stated above, a second notice is sent, informing the debtor that the foreclosure process will start (date and time). This notice has to be sent at least 30 days before the date of the auction.
- Debtors, within not more than 30 days from the date of the receipt of the second notice, may apply to Court to challenge the foreclosure procedure.
- The following step is the valuation of the property in order to set the reserve price, which is done via the appointment of valuers on behalf of the mortgagee and the mortgagor.
- The property is taken to auction. If the property is not sold through the first auction, the law sets the timing for the next auctions and the reduction of the reserve price.

Dr. Demetra Valianti Plati

Senior Advisor

SEPA – A New Era for Electronic Payments

The pan-European adoption of the Single Euro Payments Area (SEPA) in August 2014, was considered as the second most ambitious initiative towards the unification of the European payments market, after the introduction of the Euro currency. Full SEPA adherence led to faster, safer and cheaper payments for all European citizens and is expected to generate savings up to €123 billion from the whole European Community, within the next six years.

The geographic region of SEPA covers the 28 member states of the European Union, as well as Iceland, Switzerland, Lichtenstein, Norway, Monaco and San Marino.

By adopting the SEPA payment products (i.e. Credit Transfers, Direct Debits and Payment Cards), users are able to effect electronic payments within the SEPA-zone countries, with the same convenience, time, and cost as for domestic payments.

Over the last year, the Association and its member Banks intensified their efforts and enabled all stakeholders (i.e. businesses, consumers and the Public sector) to achieve a timely and efficient SEPA adherence, within the deadline set by the relevant European Regulation.

European Banking Authority's Guidelines on the Security of Internet Payments

The rising levels of internet payment fraud is an issue that concerns many European Institutions, including the European Banking Authority (EBA). Latest pan-European figures showed that fraud on card internet payments alone caused €794 million of losses in 2012 (up by 21.2% from the previous year).

Bearing in mind the importance and urgency of the matter, the EBA decided to draft a set of "Guidelines on the security of Internet Payments" (the Guidelines) due for adoption on the 1st of August 2015. Although the Guidelines do not form official Regulation, they will eventually be incorporated into the upcoming Payment Services Directive 2, in 2018.

The Guidelines are based on the following guiding principles: (i) Banks should request strong authentication in order to verify their customer's identity before proceeding with an on-line payment, (ii) Banks should implement effective processes in order to identify abnormal customer payment patterns and prevent fraud and (iii) Banks should perform specific assessments of the risks associated with providing internet payments, which should be regularly updated in line with the evolution of internet security threats and fraud mechanisms.

In Cyprus, the competent authority responsible for endorsing and monitoring the implementation of the Guidelines is the Central Bank of Cyprus. The Association and its member banks are currently working towards implementing the Guidelines, ideally within the EBA's deadline.

Creation of a Finance-enabling Mechanism for Businesses That Secure Grants from the Ministry of Commerce, Industry, Energy and Tourism (MCIET)

The Association, in co-operation with its members and the MCIET are currently in the final stages of creating a Mechanism targeting businesses that have been approved for the receipt of grants through any scheme launched by the MCIET. Through this Mechanism, the aforementioned businesses will improve their chances of receiving finance by banks. Bank finance will be provided in order to complete the investment proposal on which MCIET's grant was offered. It should be noted that the provisions of the Mechanism are not binding for banks, since the final financing decision will depend on each bank's criteria and parameters.

The Mechanism is comprised of an informative document which will be provided to the applicants by the MCIET or the banks, (describing the Mechanism's main provisions and steps), and a "Funds Transfer Notification", which will be submitted by the applicant to the MCIET. Through the said Notification, the MCIET will be authorized to transfer all the installments of the approved grant, into the Loan account of the bank that will provide finance for the completion of the investment.

The Mechanism is expected to be put into use before the summer of 2015. Its adoption will enable businesses that have liquidity shortages to complete their investment projects, thereby contributing towards restarting the economy and boosting the country's growth.

Marios Nicolaou
Senior Advisor

Mediation Process for Loan Restructuring

As from the 28th November 2014, the Office of the Financial Ombudsman (FO) has started its operations and accepts consumer applications for mediation on the restructuring of non-performing loans (NPLs). According to the existing law, for this purpose, the Financial Ombudsman appoints a competent mediator who undertakes the role of mediation between financial institutions and consumers who cannot service their loans.

Under the relevant procedures, the Financial Ombudsman assesses the application for the appointment of a mediator for loan restructuring based on specific criteria as set down below. If the application meets the applicable criteria, then the FO proceeds with the appointment of the mediator.

- (a)** Mediation applies in cases of credit facilities up to €350,000 (loan, overdraft or credit card facilities), provided that none of the parties has resorted to any legal procedures and the lender has not initiated the foreclosure procedure.
- (b)** Consumers should submit their application to the office of the FO within specified timeframes. According to Article 14C of the legislation, the application to the FO's office must be submitted (i) within 14 working days from the date of submitting all relevant financial information to the financial institution or (ii) within 14 working days of the submission of the last loan restructuring proposal by the financial institution to the customer.
- (c)** The credit facility should have been provided using as a mortgage the main residence of the consumer (main residence being defined as the residence which is used for the accommodation of the owner for a period of six months within a year).

If the above criteria are met, the Ombudsman appoints a mediator from a Special Catalogue within 3 working days. Once the mediator is appointed, the mediation process should be completed within one month. It should be noted that the mediator does not impose his decision on the parties but acts for a mutually acceptable solution. Only if the two parties agree with the solution proposed, the restructuring agreement becomes finalized and the negotiation process is successfully completed.

The remuneration of the mediator does not exceed the amount of €500, of which 20% is paid by the consumer and 80% by the financial institution involved. In particular, for the restructuring of credit facilities up to €100,000, the consumer pays €80 and the remaining €320 is paid by the financial institution. For credit facilities of over €100,000 euro, the consumer pays €100 and the financial institution €400. Furthermore, with the submission of the application at the Office of the Financial Ombudsman, the consumer has to pay a fee of €20.

It is also important to mention that on the 17th February 2015, the second and final phase of the operation of the Office of the Financial Ombudsman began. According to this stage, consumers may submit written complaints (other than loan restructuring applications) to the Office of the Financial Ombudsman aiming for the out-of-court settlement of disputes arising with their financial institution.

Maria Ioannou
Senior Advisor

Implementation of the 2014-2016 Collective Agreement

The new collective agreement, covering the period 1st January 2014 to 31st December 2016, was signed, under the auspices of the Department of Labour Relations of the Ministry of Labour, Welfare and Social Insurance, between the Cyprus Bankers Employers' Association (KEST) and the Union of Bank Employees (ETYK), on 17th March 2014.

Most of the provisions of this agreement have been fully implemented. However, two items remain outstanding, namely the adjustment of banks' working hours (which does not comprise an increase in employee's working hours) and the adjustment of interest rates charged on staff loans. ETYK unilaterally has linked the conclusion of these two items with the implementation of a modified evaluation system for bank employees, which was clearly referred to in the agreement as an issue of consultation and not of negotiation between the employers and the union, thus creating a deadlock. Several meetings between the Association and the union were held, under the auspices of the Department of Labour Relations until the end of 2014, but no progress has been made. The issue remains outstanding at the Department of Labour Relations, which is expected to mediate with the parties to reach a compromise.

50th, 51st, 52nd and 53rd EBF-BCESA Meetings

The Association took part in the above meetings of the European Banking Federation – Banking Committee for European Social Affairs (EBF-BCESA). Dr. Kammas serves as the Vice-chairman of this committee for a 3-year term. The meetings dealt with social affairs issues, especially with the state of play of the social dialogue in the banking sector at the European level. Specifically, the committee tried to agree on a common text with the UNI Europa-Finance, regarding the Lifelong Learning (LLL) project conclusions and recommendations. Moreover, the committee worked to advance the common project on the "impact of the banking regulations on employment". It can be seen that presently the social partners are striving to reach an agreement to first proceed with a mapping exercise to gather data that will help them decide on how to best approach the project. The mapping exercise is expected to be the main issue on the agenda for 2015 and, if the European social partners agree on the implementation of the common project, it will be the main item of the common work program for the period 2015-2017.

IT Fraud-Cybercrime Committee

The Association, echoing the importance placed by the European Banking Federation (EBF) on the issue of cybercrime and IT Fraud, has called upon member banks to form a committee that will follow these issues in Cyprus. The committee has been formed in late 2014 and held two meetings by the end of the first quarter of 2015.

In addition, the relevant department of the police has approached the Association and its member banks with a proposal for co-operation aimed at the exchange of information on cyber attacks and IT fraud incidents. The relevant committee and the Association are currently working with the police department to establish a working relationship that will benefit all parties concerned.

Employment Reports

The Association gathered and analyzed data to produce employment reports covering the great majority of bank employees. The Association prepares annually three reports on employment figures. These are:

- a)** An overview of employment figures in the banking sector (information on demographic variables, academic and professional qualifications of bank employees, etc.)
- b)** A report on selected items of bank employees' salaries and salary structure
- c)** A report on the annual sick leave days in the banking sector

The above reports are available to all banks that submitted relevant data.

Bank Robberies Report

The Association collected and analyzed data to prepare its annual report presenting an overview of the physical attacks (e.g. bank robberies) against bank branches occurring in Cyprus within the year. The data collected were transmitted to the Physical Security Working Group of the European Banking Federation, which subsequently prepares a report presenting the current situation and trends regarding bank robberies and other physical attacks in the European banking sector.

As the report prepared by the EBF is highly confidential, it is not available to interested parties. However, an executive summary and selected tables from the report are made available to the member banks of the Association.

Dr. Yiannos Rossides

Senior Advisor

Artemis Bank Information Systems Ltd

The year 2014 was a milestone in the company's history since its register was significantly enriched with the addition of positive data which are considered very important in the evaluation of a customer's creditworthiness. The addition of positive data was part of the implementation of the Central Credit Register project, upon the mandate of the relevant Directive of the Central Bank of Cyprus. This important project was implemented using the infrastructure of Artemis in conjunction with the related infrastructure of Aiantas, the Credit Bureau of the Cooperative Credit Institutions.

The project was due on September 30, 2014 and although the parties involved, namely the two Credit Bureaus and the banking institutions had only nine months to implement the project, the goal of timely implementation was met. The timely completion of the project was of high importance, considering that the implementation of the Central Credit Register was an obligation of the Cyprus Government within the Memorandum of Understanding signed with the Troika.

The goal of the timely execution of the project was met through the cooperation of all parties involved: the Central Bank of Cyprus, the banks, the cooperative credit institutions, the Credit Bureaus "Artemis" and "Aiantas" and the companies which undertook the development of the project's technical infrastructure i.e. the Cooperative Computer Society (S.E.M.) for Aiantas and JCC Payment Systems Ltd as the subcontractor of Artemis on technical issues.

As part of the project's implementation, the pre-existing Artemis data categories (Legal actions, Court decisions, Bankruptcies and Dissolutions of companies and issuers of dishonoured cheques of the Central Information Registry of the Central Bank of Cyprus), have been enriched with the addition of new Negative Data categories (Non performing credit facilities, Terminated accounts of credit facilities) as well as Positive data (Performing credit facilities).

The Central Credit Register project entails the electronic interconnection of the registries of the two Credit Bureaus under the permit granted from the Office of the Commissioner for Personal Data Protection to exchange data of economic behavior of physical and legal entities. The operation of the Artemis registry requires the participation of all banks operating in Cyprus (32 in total) while the operation of the Aiantas registry of all the cooperative credit institutions. In this way, the Central Credit Register covers fully the Cyprus financial system and contributes substantially towards the evaluation of existing and potential borrowers' creditworthiness by the banks. At the same time, Artemis, being fully aware of the importance of its mission and the responsibility undertaken, places high importance on the protection and respect of individual rights and provides efficient service to the public with regards to the provision of information held in the Central Credit Register. The company complies fully with the provisions of the "Processing of Personal Data (Protection of Individuals)" Laws and follows strictly the relevant instructions of the Commissioner for Personal Data Protection.

Already positive messages are received from users of the Artemis System with regards to the range of information, since the information helps them substantially in evaluating the creditworthiness of customers. The banks, having an overview of the customer or potential customer, are now in a better position to adhere to the European Union's guidelines for responsible lending. At the same time, the borrower, through the Central Credit Register, knows his/her total liabilities either

as principal owner or as a guarantor to other borrowers and consequently is encouraged to practice responsible borrowing. The implementation of the above will help in addressing the phenomenon of households' over-indebtedness.

In the long run, at the macroeconomic level, the operation of the Central Credit Register is expected to have positive impact on the enhancement, modernization and evolution of the local banking system. Consequently, it shall contribute to the smoother functioning of the Cyprus economy, which is exactly what is required for tackling the challenges Cyprus faces due to the prolonged financial crisis.

The Association's Training activities

Under the introduction of the evaluation and certification system for training agents by the Human Resource Development Authority (HRDA), the Association has been certified as a Vocational Training Centre as well as for Vocational Training Structures. The certification was a high priority objective, given that only certified Vocational Training Centres and certified Vocational Training Structures will be able to cooperate with the HRDA to implement subsidized, partially financed and / or HRDA proclaimed training activities.

During 2014/5, the Association of Cyprus Banks organized a number of training seminars for bank employees, including the following:

- The institution of the Financial Commissioner / Banking Ombudsman is prevalent in most European countries for many years and the activation of their services in Cyprus was a very important development. The Financial Ombudsman Mr. Pavlos Ioannou, held three presentations during 2015, with participants from our member banks and representatives from the Office of the Financial Ombudsman. Some of the important issues discussed in these presentations included an introduction to the institutions of dispute mediation between consumers and financial firms, the role of the Ombudsman to appoint mediators for the purposes of loan restructuring, the procedure for submitting complaints to the Ombudsman and the application process for restructuring of credit facilities.

- Within the framework of the agreement made with the Police to implement prevention and handling of robberies in banks and having regard to the obligation of banks to provide training to their staff, the Association held a total of nine seminars on the subject of “Security against armed robberies” and covered the needs of all cities.
- During 2014, the Association organized a number of training seminars which were addressed to meet the continuous professional training requirements regarding the Certification of persons in the public register (CySEC certification). The seminars covered issues relating to legislation of the Cyprus Securities and Exchange Commission. The Association aims to continue organizing for its members similar seminars in order to help them maintain their relevant certifications.

Publications

The Association of Cyprus Banks publishes the monthly Newsletter and the biannual 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. It is also sent to the European Banking Federation and its members. Every issue of the Cyprus Banking Insight contains articles provided by the Association's Senior Officers, member banks and guest contributors from the broader financial sector.



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THE ASSOCIATION





THE ASSOCIATION

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.

Our Mission

To be the voice of the Cyprus banking sector domestically and abroad. We achieve this by being a reliable and effective interlocutor, whose positions are being taken seriously into account by all relevant decision-makers who impact banking, legal and regulatory developments.

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, and other influential European or 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-Chairmen: The Association's Chairman is appointed yearly on a rotation basis by the Board of Directors. This position is filled by Board Members appointed by the four largest member banks (according to the total number of employees). There are three Vice-Chairmen, whereby one Vice-Chairman is the Board Member of the largest member bank (or the second-largest, in the years that the Board Member of the largest member is appointed Chairman), and two Vice-Chairmen who are assigned yearly out of the remaining Board Members.

Executive Committee: The Chairman and three Vice-Chairmen together with the Director General, form the Executive Committee. The Executive Committee decides on pressing matters that require urgent response, represents the Association in meetings with government officials and institutions and implements the general policy, as defined by the Board of Directors.

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 Articles of Association of the ACB. The Director General is a non-voting member of the Executive Committee.

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. Organization & Methods 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. Retail Committee
10. Communications Committee
11. Compliance Committee
12. Accounts Committee
13. Ethics Committee
14. Internal Audit Committee
15. Payments Committee / SEPA
16. Financial Education Committee
17. Physical Security Committee
18. IT Fraud – Cybercrime 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 through the Director General 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.

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.

Within 2015, the Association welcomed the Cooperative Central Bank as its newest Regular Member.

	BANK OF CYPRUS PUBLIC COMPANY LTD
	Number of branches: 130 Number of ATM: 168 Number of employees: 4,012 Head Office: 51 Stasinou Street, Ayia Paraskevi, 2002 Strovolos P.O.Box 21472, 1599 Nicosia Tel: 22122100, Fax: 22378111, www.bankofcyprus.com
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	HELLENIC BANK PUBLIC COMPANY LTD
	Number of branches: 63 Number of ATM: 69 Number of employees: 1,304 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

ALPHA BANK CYPRUS LTD

Number of branches: 25
 Number of ATM: 28
 Number of employees: 741
 Head Office: Alpha Bank Building, 3 Lemesou Avenue,
 2112 Aglantzia, Nicosia, P.O.Box 21661, 1596 Nicosia
 Tel: 22888888, Fax: 22773788, www.alphabank.com.cy



**NATIONAL BANK
OF GREECE (CYPRUS)**

NATIONAL BANK OF GREECE (CYPRUS) LTD

Number of branches: 12
 Number of ATM: 16
 Number of employees: 243
 Head Office: 15 Makarios III Avenue, P.O.Box 21191, 1597 Nicosia
 Tel: 22840000, Fax: 22840010, www.nbg.com.cy



Emporiki Bank

EMPORIKI BANK - CYPRUS LTD

Number of branches: 4
 Number of ATM: 4
 Number of employees: 154
 Head Office: 4 Ionos Street, 2406 Engomi, P.O. Box. 25151, 1307 Nicosia
 Tel: 22696650, Fax: 22663923, www.emporikicyprus.com

Note: On 27 March 2015, following a relevant ruling of the District Court of Nicosia, the merger of Alpha Bank Cyprus Ltd and Emporiki Bank Cyprus Ltd was finalized, through the absorption of the latter by the former.



USB BANK PLC

Number of branches: 14
 Number of ATM: 18
 Number of employees: 230
 Head Office: 83 Digeni Akrita Avenue, 1070 Nicosia
 P.O.Box 28510, 2080 Nicosia
 Tel: 22883333, Fax: 22875899, www.usbbank.com.cy



CDBBANK

Number of branches: 2
 Number of ATM: 2
 Number of employees: 83
 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

Number of branches: 4
 Number of ATM: 5
 Number of employees: 111
 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

Number of branches: 14
 Number of ATM: 14
 Number of employees: 309
 Head Office: 1 Spyrou Kyprianou Aven., 1065 Nicosia
 P.O.Box 25700, 1393 Nicosia
 Tel: 800 11 800 (24 hours), Fax: 22760890
www.piraeusbank.com.cy



EUROBANK CYPRUS LTD

Number of branches: 7
 Number of ATM: 0
 Number of employees: 227
 Head Office: 41 Arch. Makariou III Ave., 1065 Nicosia
 Tel: 22208000, Fax: 22776722, www.eurobank.com.cy



RCB BANK LTD

Number of branches: 2
 Number of ATM: 3
 Number of employees: 203
 Head Office: 2 Amathuntos Street, 3105 Limassol,
 P.O.Box 56868, 3310 Limassol
 Tel: 25837300, Fax: 25342192, www.rcbcy.com



COOPEARATIVE CENTRAL BANK LTD

Number of branches: 4
 Number of ATM : 4
 Number of employees: 334
 Head Office : 8, Gregoris Afxentiou Str. 1096 Nicosia,
 P.O.Box 24537, 1389 Nicosia
 Tel: 22743000, Fax: 22670261, www.ccb.coop.com.cy

Associate Members

A. JSC "TRASTA KOMERCBANKA" CYPRUS BRANCH

B. ASSOCIATION OF INTERNATIONAL BANKS

- | | | |
|-----------------------------------|--|--|
| 1. ARAB JORDAN INVESTMENT BANK SA | 10. BYBLOS BANK SA | 18. IBL BANK SA |
| 2. AS EXPOBANK | 11. CENTRAL COOPERATIVE BANK PLC | 19. LEBANON & GULF BANK SA |
| 3. BANKMED SA | 12. CREDIT LIBANAIS SA | 20. OPEN JOINT-STOCK COMPANY AVTOVAZBANK |
| 4. BANK OF BEIRUT SA | 13. FBME BANK LTD | 21. OJSC PROMSVYAZBANK |
| 5. BANQUE BEMO SA | 14. FIRST INVESTMENT BANK LTD | 22. PRIVATBANK COMMERCIAL BANK |
| 6. BANQUE SBA | 15. JORDAN AHLI BANK PLC | 23. RUSSIAN COMMERCIAL BANK (CYPRUS) LTD |
| 7. BARCLAYS BANK PLC | 16. JORDAN KUWAIT BANK PLC | 24. SAXO BANK A/S |
| 8. BBAC SA | 17. JSC TRASTA KOMERCBANKA CYPRUS BRANCH | |
| 9. BLOM BANK SA | | |

ASSOCIATION'S EVENTS AND MILESTONES IN 2014 & 2015

June 2014	Cyprus Banking Insight – Publication No. 11
18/06/2014	Annual General Meeting of the Association of Cyprus Banks
August 2014	Full adoption of Single Euro Payments Area by banks in Cyprus (SEPA)
15/10/2014	Seminar: "Introduction to MiFID II" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
23/10/2014	Seminar: "Applied Risk Management" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
30/10/2014	Seminar: "European Market Infrastructure Regulation (EMIR)" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
31/10/2014	The Association participated in "The Annual Arab Banking Conference for 2014 - Challenges Faced by Financial Institutions in implementing International Regulations & Legislations", which was organized by the Union of Arab Banks & the World Union of Arab Banks – Introduction by Mr. Kammass and presentation by Ms. Frixou
06/11/2014	Seminar: "The Alternative Investment Fund Managers Law (2013)" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
20/11/2014	Seminar: "Introduction to MiFID II" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
04/12/2014	2o Cyprus Banking Forum – Organized in association with IMH and Gold Magazine
05/12/2014	Seminar: "Applied Risk Management" (regarding the continuous professional training requirements of persons in the public register - CySEC certification)
15/12/2014	Seminar: "Money Laundering Compliance Officer – MasterClass"
09/01/2015	Presentation by the Financial Ombudsman: "Mediation process for purposes of loan restructurings"
February 2015	Signature of Protocol of cooperation between the Association and the Enterprise Europe Network Cyprus
27/02/2015 & 05/03/2015	Presentations by the Financial Ombudsman on: (A) Out of court settlement of disputes and (B) Mediation process for purposes of loan restructurings
17/03/2015	Common Reporting Standard (CRS) Workshop: "Transition from FATCA to the Common Reporting Standard: What should banks be prepared for?"
March - April 2015	Seminar: "Security against armed robbery" (4 Nicosia, 2 Larnaca, 2 Limassol, 1 Pafos)
06/05/2015	Seminar: "Representing your bank in Mediation"



ASSOCIATION OF
CYPRUS BANKS

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