



ASSOCIATION OF
CYPRUS BANKS



ANNUAL REPORT

2010-2011

ASSOCIATION'S ADDRESS

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Message from the Director General



During 2010, economic conditions have started to stabilize in Cyprus and the economy has exhibited modest growth, following a recession in 2009. However, growth levels are not robust enough to halt a rise in unemployment, while risks remain elevated due to Europe's contin-

uing sovereign debt crisis. Undoubtedly, the biggest challenge facing policy makers at the current juncture is to set ambitious and concrete policy measures so as to emphasize the credibility of fiscal consolidation targets, as well as to introduce measures to boost productivity and improve growth.

Even though in the past years our member banks have operated in an increasingly difficult and unstable economic environment, they continue to serve as a source of stability in the local economy. The financial services sector exhibited positive growth in 2010. Even in 2009 when GDP declined by 1.7%, the financial services sector remained the single engine of growth in Cyprus's economy, as it was the only private economic sector that managed to exhibit positive growth. Moreover, Cyprus banks have remained profitable and managed to raise new capital, thereby strengthening their capital base and enabling themselves to continue providing lending to their customers. This is significant, since a continuing credit expansion at the levels of 2010 will help set the country back into its growth course. The successful capital issues together with the sustained inflow of deposits also underline the confidence investors place on the Cypriot banking system.

Given the volatile economic and regulatory forces affecting our members, the Association had to be active on a number of fronts during the past year. A significant milestone achieved in 2010 has been the introduction of a legal framework for covered bonds which is expected to provide local banks with an alternative funding source and strengthen further the local banking system.

The Association and its members have worked extensively with local authorities to arrive at the final laws and regulations.

Following the Association's initiative, an electronic method for the clearing and settlement of cheques was implemented in November 2010, with the aim of reducing the clearing cycle as well as operating costs. After the implementation of Basel II, we are now assisting our members to tackle Basel III as well as comply with the new European regulatory framework for banks, and we have assisted our members with the introduction of SEPA Direct Debits on November 2010. The Association participated in the discussions on a number of legislative proposals, such as the revised consumer credit and housing credit legislation, transposition of UCITS IV, financial leasing, building permits and title deeds and settlement of payment systems. In addition, the Association has taken active part in the consultations on the legislation to combat tax evasion and has successfully lobbied for the adoption of OECD guidelines on banking secrecy as well as necessary safeguards to prevent possible breaches of personal data protection. Furthermore, we have taken a leading role in the consultations for a special bank tax and the subsequent introduction of a financial sector stability fund. As part of our ongoing activities we support our members with matters regarding money laundering prevention and provide training to member banks covering new developments in banking.

In the coming months, banks will be faced with, and must be able to adopt, even more regulatory changes aimed at promoting a new and more stable European financial sector. At the same time, they must weather the European sovereign debt crisis and overcome lower levels of domestic demand. In the face of these challenges, the Association is set to support its members in their goal to sustain disciplined growth based on strong foundations with a view to continue providing benefits to their clients, employees, shareholders, as well as to society at large.

Dr Michael Kammas
Director General

Economic Environment

The Cyprus Economy

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

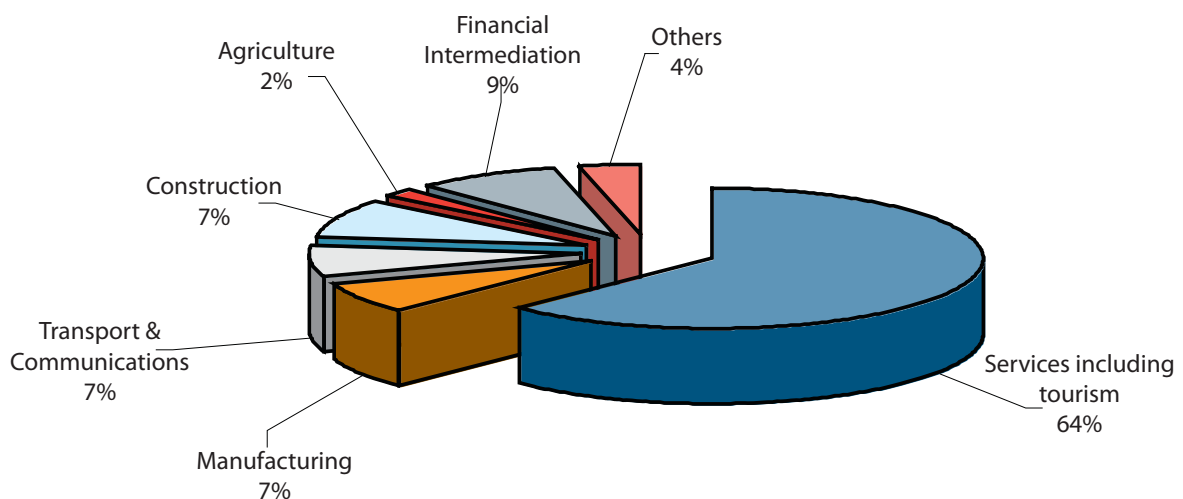
The island's increasing attractiveness as an International Financial Centre is supported by the following:

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

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

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

Percentage Distribution of 2010 GDP



Source: Statistical Service of Cyprus (provisional data for 2010)

In 2009 the Cyprus economy contracted by 1.7%, and in 2010 it managed to emerge from the recession, with a growth of 1.0%. Growth is due to the positive performance of the service sector (tourism, transport, financial intermediation and trade), whereas the manufacturing and construction sectors continue to contract.

GDP Real, % Change							
	2006	2007	2008	2009	2010	2011F	2012F
Cyprus	4.1	5.1	3.6	-1.7	1.0	1.5	2.2
EUR 27	3.2	3.0	0.5	-4.2	1.8	1.7	2.0
Euro Area	3.1	2.9	0.4	-4.1	1.8	1.5	1.8
USA	2.7	1.9	0.0	-2.6	2.9	2.1	2.5
Japan	2.0	2.4	-1.2	-6.3	3.9	1.3	1.7

Source: Eurostat

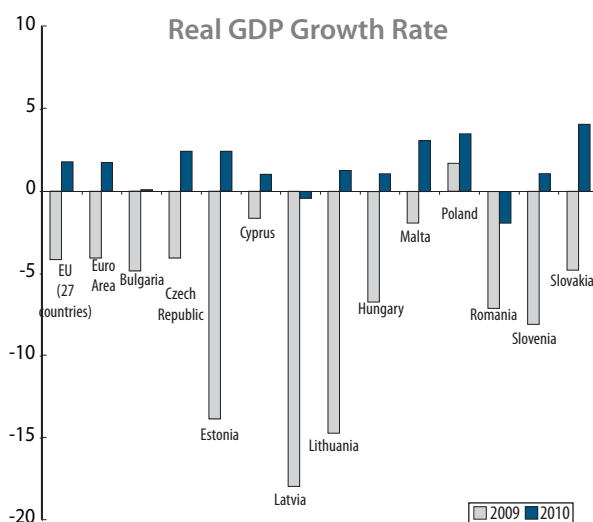
Cyprus's milder recession enabled its GDP per capita in purchasing power standards to reach 98% of the EU average (2009). However, the slow growth of the fourth quarter (0.5% from the previous quarter) is an indicator that pre-crisis growth rates will not be attainable for some time. Growth in 2011 is expected to be subdued, at levels of 1.5%. Investor confidence remains low, as indicated by a survey of the Economics Research Centre of the University of Cyprus.

The tourism sector recorded a mild recovery in 2010. Arrivals were up by 1.5% in 2010 to 2.17 million, following a slump of 10.9% to a 12-year low of 2.14 million in 2009. The key driver was the sharp increase in tourists from Russia which reflects the recovery in the Russian economy, whereas arrivals from the UK continued to decline. Tourist receipts have increased by 3.8%. These trends are continuing in 2011 with tourism revenue up by 4.9% for the first two months of the year. The positive momentum is expected to continue, in line with the improving global economic outlook, especially in Russia and the UK.

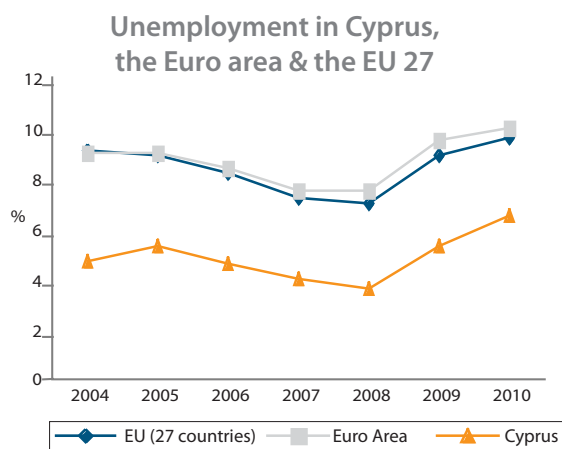
The construction sector's woes have continued in 2010 and the sector decreased by 5.5%. Prospects in this area remain bleak, as evidenced by the fall of 7.0% in the total area of real estate licenses in 2010, whereas cement sales in February 2011 are down by 0.7% compared to twelve months ago. In the first quarter of 2011, sales contracts filed at the Land Registry Department declined by 15.0% and the capital gains tax receipts (payable upon disposal of real estate) were down by 20.0% in the first two months of 2011 compared to the equivalent period last year.

Private consumption remains stagnant and the wholesale and retail sector marginally increased by 0.2% in 2010. During the first two months of 2011, vehicle registrations were down by 7.3% compared to the same period in 2010. VAT revenues during the first two months of 2011 have increased by 5.9% which is more reflective of the introduction of VAT to food and pharmaceuticals rather than an increase in the level of consumption.

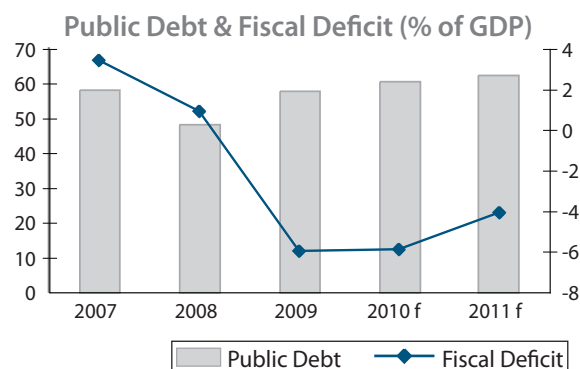
The international business services sector is showing signs of slowdown, as evidenced by a slight decline of 1.9% in company registration applications during the first quarter of 2011. The sector is mainly driven from business from Russia, whereas the Ukraine and other eastern European economies are also significant. The Cyprus Investment Promotion Agency is working to develop business activity from China and India.



Unemployment has continued to rise in 2010 to 6.5% (2009: 5.3%). Promised reductions in the public payroll and anticipated freeze in public sector hiring, combined with a muted growth outlook, will prevent any significant fall in unemployment during the coming months. High unemployment is a source of budgetary strain and is negatively impacting the government's attempts to reduce the budget deficit.



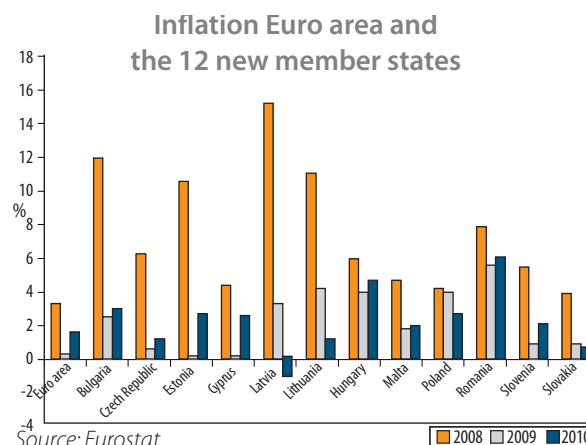
In 2010, the Cyprus economy was placed under ECOFIN supervision for exceeding the fiscal deficit threshold of the Stability and Growth Pact. The largely revenue-based



Source: Ministry of Finance, Eurostat

fiscal consolidation delivered a budget deficit of 5.3% GDP in 2010, compared to 6.0% in 2009. The official government target, approved by the European Commission, is to further reduce budget deficit to below 3% of GDP in 2012. However, fiscal consolidation measures have yet to be agreed with the public sector union. In addition, the recent sovereign credit rating downgrades have increased the required return on government debt issues, making fiscal consolidation harder.

Price energy pressures have had a comparatively higher impact in Cyprus than the rest of the EU as it imports nearly all of its energy. Consequently inflation in 2010, as shown by the harmonized index of consumer prices, reached 2.6% in Cyprus compared to average inflation of 1.6% in the Euro area.

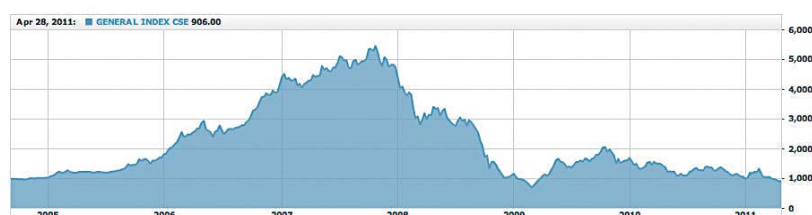


Stock Market Developments

During 2010, the Cyprus Stock Exchange (CSE) was greatly affected by the fiscal crisis in the eurozone and the CSE General Index ended the year with losses of 33.6%, effectively wiping out the entire gains of 2009 (2009: gains 44.2%). The fall was accompanied by a reduction in the total volume of transactions by 35.5%, compared to 2009.

In the beginning of March 2011, the CSE had total capitalization (excluding bonds) of €4.9 billion, compared to €7.3 billion at the end of 2009.

CSE General Index



The banking sector accounts for around 57% of total market capitalization. The shares with the largest market capitalization as at the beginning of March 2011 were as follows:

Source: Stockwatch

	Company	Market	Market Capitalisation (€)	Weight (1)%
1	Bank of Cyprus Public Company LTD	Main	1,583,986,471	32.5%
2	Marfin Popular Bank Public Co LTD	Main	805,222,025	16.5%
3	Aristo Developers PLC	Alternative	269,704,260	5.5%
4	Hellenic Bank Public Company LTD	Main	255,688,161	5.2%
5	USB Bank PLC	Parallel	112,500,000	2.3%
6	Woodland Designs PLC	Alternative	84,241,296	1.7%
7	Vision International People Group Public Ltd	Alternative	75,000,000	1.5%
8	Pandora Investments Public LTD	Alternative	63,665,281	1.3%
9	Cyprus Trading Corporation PLC	Alternative	58,746,497	1.2%
10	Globalvalue Plc	Alternative	56,664,214	1.2%
	Total		3,365,418,205	69.0%

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

Source: XAK.com

As of March 2010, the ECM Market (Emerging Companies Market) operates in the CSE, which is a non-regulated market and as such offers various advantages to companies that list their securities on it. To date, six companies listed securities in the ECM while 22 Organizations / Companies have registered as Nominated Advisers for listing companies in this market.

The CSE, in cooperation with the Athens Stock Exchange (ASE) introduced at the Athens Derivatives Exchange a new product (futures contract) on the Common ATHEX-CSE Banking Index. The possibility of listing a derivative product exclusively on Cypriot securities listed on the CSE is under consideration.

Since July 2010, over the counter transactions (OTC) can be performed, while at the same time plans are under way for the introduction of the Market Maker role and securities lending, measures that are expected to increase liquidity in the market.

The CSE as part of its strategy of promoting regional collaborations has recently signed a memorandum of association with Malta Stock Exchange.

In June 2010, the CSE was approved as a recognised Stock Exchange by the relevant authority responsible for capital market issues in the Russian Federation (FFMS). This was preceded in 2009 by the approval of the CSE as a recognised Exchange by the taxation authorities of the United Kingdom.

Additionally, the CSE managed to be upgraded by the FTSE within the country categorisation (FTSE Global Index Series) and particularly in the category of Frontier Markets, which will serve to increase its visibility internationally.

Ever since 2008 there have been repeated reductions in the CSE's fee policy which introduced substantial reductions in the trading fees for the CSE Markets and the initial Member registration fees have been waived. At the same time, the internal procedures of the CSE have been simplified and the technological upgrade of services provided by the CSE is pursued, with measures such as the introduction in December 2010 of a new CSE website for mobile devices which aims to improve information flow to investors.

In regard to the Bonds Market, following the recent undertaking of the Public Debt Management by the Ministry of Finance, the CSE has successfully undertaken the relevant procedures that concern the listed Government Bonds and Treasury Bills registries.

As part of its efforts to develop new products and services, the CSE is promoting the following:

- Regulations for the promotion of Global Depositary Receipts (GDR's) were formulated. For this product, a promotion campaign abroad is being planned.
- The CSE has recently introduced changes to the legislation so that it can undertake in its Central Registry the registries of unlisted companies. Consequently, companies that are public but for any reason have not yet listed titles on the CSE can henceforth cede their registry for handling to the Stock Exchange.
- The Cyprus Stock Exchange has recently introduced a service to its Members as well as to Investment Companies that are not Members, for hosting their equipment for data recovery and resumption of operations after a disaster (business continuity).

Major Economic Indicators

- **Doing Business 2011 (World Bank):** Cyprus is ranked 37th out of 183 economies.
- **Global Competitiveness Index 2010-2011 (World Economic Forum):** Cyprus is ranked 40th overall, while in the “Financial Market Development” category it is ranked 15th.
- **Index of Economic Freedom World Rankings:** Cyprus is ranked 18th.

CYPRUS MAJOR ECONOMIC INDICATORS						
		2007	2008	2009	2010 f	2011 f
GDP (Real Growth)	% Change (1)	5.1	3.6	-1.7	1.0	1.5
GDP (At Current Prices)	EUR mil.	15,879	17,248	16,947	17,465	N/A
GDP Per Capita (EURO)		20,254	21,748	21,180	21,728	N/A
GDP Per Capita (PPS)	EU - 27 = 100	93.6	95.9	98	N/A	N/A
Unemployment	%	4.0	3.6	5.3	6.5	7.0
Inflation Rate	% Change (1)	2.2	4.4	0.2	2.6	3.2
Current Account Balance	% of GDP	-11.7	-17.7	-8.5	-6.0	-5.5
Fiscal Deficit	% of GDP	3.4	0.9	-6.0	-5.3	-4.0
Total Public Debt (2)	% of GDP	58.3	48.4	58.0	60.9	61.6
Total Public Debt (2)	EUR mil.	9,262	8,347	9,820	10,626	N/A

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

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

Source: Eurostat, Ministry of Finance

CREDIT RATINGS FOR THE REPUBLIC OF CYPRUS	
Fitch	AA- (negative)
Moody's	A2 (stable outlook)
Standard & Poor's	A / negative / A-1

As at April 2011. Source: Fitch, Moody's, Standard & Poor's

The Banking Sector

General Overview & Key Figures

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

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

As can be seen from the table below, banks dominate the domestic financial system, holding an 80% share of loans and an 81% share of deposits.

Banking Sector – Statistics (31/12/10)		
	Banks	Coops
Deposits (€ million)	56,415	13,523
Loans (€ million)	48,973	12,515
Branches	488	422
Personnel	10,323	2,442
Branches per 100,000 inhabitants	61	53

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

Commercial Banking

In 2010, the profitability of our members was impacted due to the slowdown in domestic activity as well as due to the adverse external macroeconomic environment. Return on equity was reduced to an average of 7.3%, compared to 11.1% in 2009, while return on assets decreased to 0.5% (2009: 0.8%). Banks managed to marginally increase their operating income by 1.9%, while they have increasingly relied on income from interest sources as income from trading of financial products and foreign exchange has declined. Despite increases in the cost of financing, banks maintained their net interest margins at the levels of 2009. Operating costs, on the other hand, have increased and the cost to income ratio amounted to 54.3%, up from 50.1% in 2009.

Banks have striven to increase their capital adequacy through successful rounds of capital issues. In October 2010, Bank of Cyprus Public Co Ltd successfully raised capital of €345m through the issue of 172.6 million new shares. Also in October 2010, Hellenic Bank Public co Ltd issued new convertible bonds of €141.4 million. In February 2011, Marfin Popular Bank Public Co Ltd increased its share capital by €488.2 million and it also plans to issue convertible bonds up to €660 million. As a result, the capital adequacy and Tier 1 ratios of our members have increased throughout 2010 and, at 12.5%, the capital adequacy ratio remains higher than the regulatory minimum of 8.0%. In addition, liquidity remains satisfactory with an average loans to deposit ratio of 1.02.

Key Banking Ratios			
	Cyprus		EU-27 average
	31/12/10	31/12/09	31/12/09
Profitability:			
Return on equity	7.3%	11.1%	0.3%
Return on Assets	0.5%	0.8%	0.0%
Net interest margin (NII / Interest bearing Assets)	2.20%	2.12%	1.3% ¹
Cost to Income	54.3%	50.1%	59.80%
Dividend payout ratio	25.6%	42.1%	N/A
Provision charge / loans (gross)	1.1%	0.9%	N/A
Growth:¹			
CAGR of operating income	1.9%	12.0%	N/A
% income on non-interest income sources	26.7%	34.0%	30.0%
Loan quality:			
Non Performing loans / Total loans	7.8%	6.0%	4.2%
Non performing loans coverage	55.2%	62.7%	50.5%
Liquidity:			
Loans to deposits ²	1.02	1.04	1.53
Capital:			
Capital Adequacy Ratio	12.5%	12.2%	13.2%
Tier 1 Ratio	10.8%	9.3%	9.9%
Leverage (shareholders' capital / total assets)	6.9%	6.9%	5.0%
Overseas assets as % of total assets	38.7%	42.6%	N/A

¹ Net interest income / Assets

² Cyprus banks: Gross loans / Deposits, EU-27 average: Net loans / Deposits

Source: Information collected from 11 member banks, European Central Bank "EU Banking Sector Stability", Sept 2010

Financial Intermediation

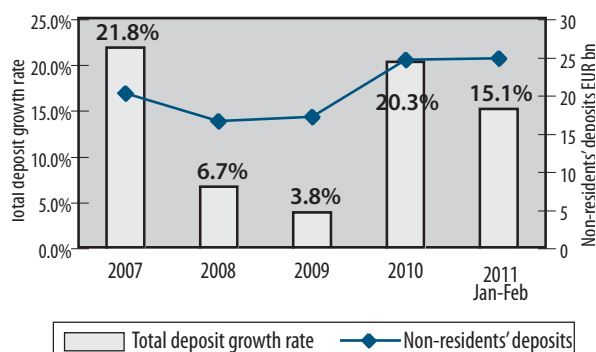
In 2010, deposits held with all monetary financial institutions grew significantly by 20.3% (2009: 3.8%). This increase is mainly due to the inflow of deposits from foreign residents, who, in the midst of the eurozone sovereign crisis, value the stability of Cyprus as a regional financial centre. During 2010, the deposits of foreign residents have increased by 43.2%. The annualised growth in deposits during the first two months of 2011 was 15.1% compared to the first two months of 2010.

During 2010, credit expansion has remained at the same levels of 2009 and amounted to 6.2%. Latest data from the Central Bank of Cyprus show that annualised credit expansion was 6.6% during the first two months of 2011. The low level of lending reflects mostly the sinking demand for loans, as can be seen from the Bank Lending Survey carried out by the Central Bank of Cyprus. According to the Survey, household demand for loans is seen to be decreasing since the second quarter of 2010 and is expected to decrease further in the first quarter of 2011, whilst demand for loans by enterprises is showing an increase in the last quarter of 2010 and is expected to stay at those levels in the first quarter of 2011. As far as loan supply is concerned, the Survey concludes that credit standards for consumer and enterprise loans have remained the same during the fourth quarter of 2010 and are expected to stay the same whereas credit standards for housing loans were tightened in the last quarter of 2010 and are anticipated to remain unchanged.

Loans / GDP		
	Dec 2009	Jun 2010
Household	131%	141%
Corporate	137%	144%

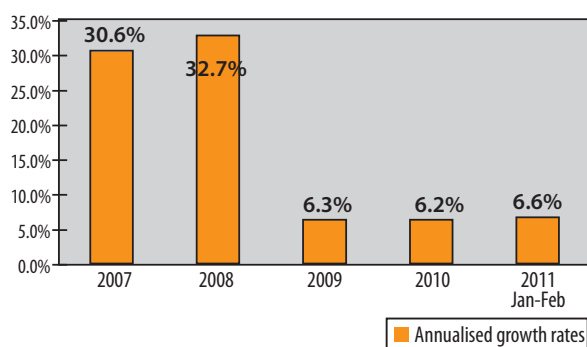
Source: Central Bank of Cyprus

Deposits held with
Monetary Financial Institutions



Source: Central Bank of Cyprus

Loans by Monetary Financial Institutions



Source: Central Bank of Cyprus

Bank Credit by Sector

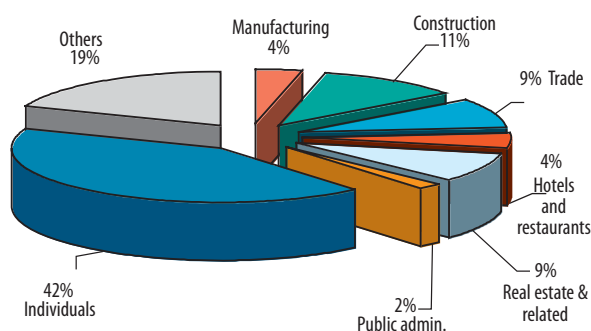
As the table below shows, total household lending has increased mostly due to housing loans (increase of 14.8%), while the reduction in consumer loans was offset by the increase of other household loans. Lending to enterprises has increased modestly by 2.8%.

	End of period balances €million		Outstanding amount as a % of total		Annual % change
	2009	2010	2009	2010	2010
General Government	1,563	1,078	2.7%	1.8%	-31.0%
Other financial intermediaries	5,333	6,305	9.2%	10.3%	18.2%
Insurance corporations & pension funds	21	69	0.0%	0.1%	228.6%
Non-financial corporations	27,441	28,205	47.4%	45.9%	2.8%
Consumer credit	4,857	3,484	8.4%	5.7%	-28.3%
Housing loans	12,616	14,477	21.8%	23.5%	14.8%
Other household loans	6,043	7,871	10.4%	12.8%	30.2%
Totals	57,874	61,488			6.2%

Source: Central Bank of Cyprus

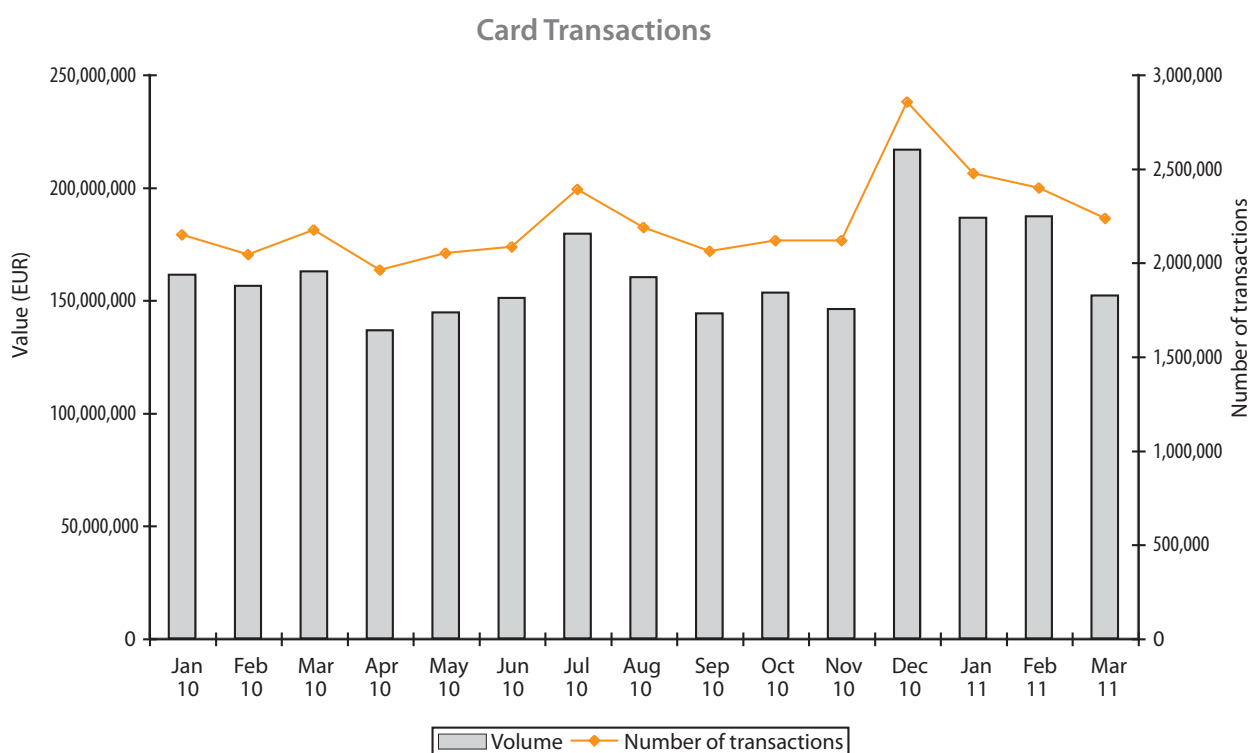
Loans to individuals amount for the largest portion of outstanding loans (42%). As a consequence of the continuing slowdown in the construction sector, the percentage of loans to construction and real estate has decreased to 20% of the financial institutions' lending portfolio from 25% in 2009.

Bank Credit by Economic Sector



Source: Central Bank of Cyprus, data as at Sept 2010

Credit and Debit Card Transactions



Source: JCC

Following the tentative economic growth in 2010, the total value of credit and debit card transactions in Cyprus by holders of credit cards issued in Cyprus grew by 3.5% to a total of €1.91 billion (2009: €1.85 billion). Within the year, the total number of transactions increased by 6%, while the average value of transactions continued to decline to €73 per transaction (2009: €75). The increase continued in the first three months

of 2011, whereby the total value of transactions increased by 9.5% compared to the first quarter of 2010.

During 2010, Cypriot card-holders spent abroad a total of €1.18 billion using Cyprus issued cards (2009: €1.05 billion). The average value of transactions was €137 (2009: €139).



The Member Banks

Membership of the Association is open to any institution which is legally authorized to operate as a registered bank, whether local or foreign, in Cyprus, and which can provide banking services. Applications are also accepted by other legal entities such as associations or unions, which are non-profit organizations and whose own members are banking institutions. Participation to the ACB can be either in the form of Regular or Associate membership. Applications for new membership are subject to approval by the members of the Board of Directors of the Association and subsequently by the General Meeting.

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

Member banks of the ACB are financially sound, they have

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

Realizing that the home market offers limited opportunities, banks have sought expansion beyond the boundaries of the island. Today, the banking sector is characterized by an extensive network abroad having established branches, subsidiaries and representative offices in Greece and other European countries, Russia, Canada, Australia and Africa.

New members

The Association welcomed two new Regular Members: Russian Commercial Bank, which became a Regular Member in 2010 and Eurobank EFG Cyprus which joined in 2011. In addition, the Association of International Banks has joined ACB as Associate member.



BANK OF CYPRUS PUBLIC COMPANY LTD

Founded in 1899, the Bank of Cyprus Group is the leading financial services organisation in Cyprus, with a dynamic presence in Greece and Russia and operations in the United Kingdom, Australia, Romania, Ukraine and the Channel Islands. Bank of Cyprus also has ten representative offices in Russia, Romania, Ukraine, Canada, India, Serbia and South Africa.

The Group offers a wide range of financial products and services, which include banking services, leasing, factoring, brokerage, fund management, investment banking, general and life insurance services.

At 31 December 2010, the Group's Total Assets amounted to €42.64 bn and the Shareholders' Funds were €2.74 bn. The Group operates through a total of 567 branches, of which 216 operate in Russia, 166 in Greece, 143 in Cyprus, 18 in Ukraine, 10 in Australia, 11 in Romania, 2 in the United Kingdom and 1 in the Channel Islands.

The Bank of Cyprus shares are listed on the Cyprus and Athens Stock Exchanges. Additional information can be found on the Group's website www.bankofcyprus.com.

The Group has also received the following awards:

- Best Developed Market Bank 2010, Global Finance

- Best Foreign Exchange Provider in Cyprus 2008, 2009, 2010, 2011, Global Finance

- Best Bank In Cyprus 2010, Global Finance

- Financial and Business Excellence Award 2009 (Cyprus Employers and Industrialists Federation)

- Morgan Chase Quality Recognition Award 2010, JP Morgan

- IIP – Investors In People 2009, 2010

Number of branches: 567 (in Cyprus 143)

Number of ATM: 143

Number of employees: 12,021 (in Cyprus 3,279)

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



MARFIN POPULAR BANK PUBLIC CO LTD

Marfin Popular Bank is the outcome of a triple merger, in 2006, of Marfin, Egnatia and Laiki Groups.

The strategic aim of Marfin Popular Bank is to become a leading regional force in the field of financial services, and at the same time achieve high returns for its shareholders.

Marfin Popular Bank has a presence in 11 countries: Cyprus, Greece, United Kingdom, Australia, Ukraine, Russia, Romania, Serbia, Estonia, Malta and Guernsey.

It provides services to Private Individuals, Enterprises and Large Organisations, Private Banking Services, Electronic Banking, Factoring, Leasing, International Banking Services, Treasury Services, Shipping Services, Insurance Services, and Investment and Capital Management Services.

The "Banker" magazine of Financial Times has voted, yet once again in 2010, Marfin Laiki Bank as Bank of the Year for Cyprus. The Bank has been honoured with the quality recognition Award of JP Morgan Chase for the tenth consecutive year.

The international magazine Global Finance elected Marfin Laiki eBank as the best internet bank in Cyprus.

Number of branches: 463 (in Cyprus 115)

Number of ATM: 613 (in Cyprus 130)

Number of employees: 9,456 (in Cyprus 2,435)

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P.O. Box 22032, 1598 Nicosia
Tel: 22552000 Fax: 22811489
www.laiki.com



HELLENIC BANK PUBLIC COMPANY LTD

Hellenic Bank commenced operations in 1976. In a relatively short period of time it managed to establish itself as one of the largest banking and financial institutions in Cyprus. The Group enjoys a network of 70 branches in Cyprus, 20 in Greece and 1 in Moscow. It operates Representative Offices in Russia, Ukraine and South Africa.

Alongside traditional banking operations, the Group also provides a wide range of financial services including leasing facilities, factoring, brokerage services, insurance, private banking, custodian services and electronic banking.

Apart from the wide range of product and services offered, Hellenic Bank provides an efficient service and satisfies customer needs, either personal or professional. The high quality of its services has been recognized and Hellenic Bank has been awarded with

a series of international awards over the years.

The success of the Group is based on exemplary customer service, the wide range of products and services offered and on the use of the latest technology in information and control systems.

Number of branches: 91 (in Cyprus 70)

Number of ATM: 96 (in Cyprus 75)

Number of employees: 1,997 (in Cyprus 1,432)

Head Office: Corner Limassol Avenue & 200 Athalassa Avenue,
2025 Strovolos, Nicosia
P.O.Box 24747, 1394 Nicosia
Tel: 22500000, Fax: 22500050
www.hellenicbank.com



ALPHA BANK CYPRUS LTD

Alpha Bank Cyprus Ltd was registered in Cyprus in 1960 as a limited company according to Company Law, Cap. 113. Its commercial name is 'Alpha Bank'.

The Bank is a subsidiary of Alpha Bank A.E., which is registered in Greece. Alpha Bank Group is one of the leading banking and financial services groups in Greece, with international presence in Romania, Bulgaria, Serbia, Ukraine, Albania, F.Y.R.O.M. and the United Kingdom.

The Bank offers a wide range of banking services for retail and commercial customers. It operates a network of 36 branches as well as specialized Business Units and International Banking Services Units, which are effectively supported by alternative networks such as ATM, Internet Banking and Mobile Banking.

Alpha Bank Cyprus Ltd has been repeatedly recognized for its excellent service in processing international payments by being awarded the Deutsche Bank quality awards EUR STP Excellence Award and USD STP Excellence Award for several years. These distinctions rank Alpha Bank Cyprus among approximately 130 banks throughout Europe, Middle East and Africa that satisfy the high quality standards set by these awards.

Number of branches: 36

Number of ATM: 38

Number of employees: 755

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



NATIONAL BANK OF GREECE (CYPRUS)

NATIONAL BANK OF GREECE (CYPRUS) LTD

The presence in Cyprus of the biggest and most powerful financial services Group in Greece, the Balkans and South-Eastern Europe, the National Bank of Greece, dates since 1910.

National Bank of Greece (Cyprus), on the basis of the Business Plan, aims at a dynamic development of its operations. The constant improvement of the services it offers to its customers as well as the provision of new services holds an important place in the strategy of the Bank.

The share of National Bank is listed on the Athens Stock Exchange in which it has by far the first place as to capitalization and it is also listed on the New York Stock Exchange since October 1999.

It ranks 30th in Market Capital and 34th in total assets amongst Banks in Europe.

Awards of the National Bank of Greece Group:

- Top 100 Best Banking Brands
- Global Dow – Top 150
- FT Global 500
- Best Investor Relations in Greece
- Social Responsibility Prize
- Best Bank for Regulatory Capital
- Best Private Banking in Greece
- Top Performer Award
- Best Bank for shipping financing
- Top rated for custodian services
- Famous Brand Award.

Number of branches: 21

Number of ATM: 22

Number of employees: 288

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



Emporiki Bank
CRÉDIT AGRICOLE GROUP

EMPORIKI BANK – CYPRUS LTD

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

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

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

Number of branches: 12

Number of ATM: 12

Number of employees: 193

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



USB BANK PLC

After the creation of the new corporate identity for USB BANK PLC as part of a new strategic plan on February 2008, on 17 February 2011, following the public offer for the acquisition of up to 100% of the market share of the Bank, BLC Bank SAL acquires 93,85% of the Bank's market share.

The satisfactory capital adequacy and the strong liquidity of the bank, the increase of productivity and the expansion of the bank's operations to offer a broad range of banking services for national and international clients, represent important strategic priorities of the bank for its future development and profitability.

As a member of the BLC Bank Group, usbbank is expecting to gain expertise and know how from an international organisation as well as exploit opportunities arising from the international network of the BLC Bank clients.

BLC Bank operates in Lebanon with a network of 34 branches and is a member of the FRANSABANK Group. As at June 30 2010, BLC Bank posted Total Assets of US\$2.85 billion, Total Deposits of US\$2.34 billion and Total Loans of US\$538 million.

Number of branches: 16

Number of ATM: 16

Number of employees: 195

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



CDBBANK

The cdbbank, with a modern corporate structure, a dynamic management team which is gradually enriched and expanded, coupled with a commercial orientation and high professional culture, proceeded in 2010 with certain developmental transactions which will enhance its position both in Cyprus and Russia.

The cdbbank Group was strengthened by the acquisition of PCM Advisers Ltd (a licenced investment services firm), thus gaining increased capabilities in the areas of private banking and provision of investment services. At the same time, the Group strengthened its capabilities in the provision of investment banking services and asset management through its subsidiary cdbglobal capital in cooperation with the Greek company Alpha Trust.

The Group's activities are also expanding in Russia where it operated its first branch in the city of Krasnodar and with immediate plans to open two more new branches. Moreover the Group will very soon open a Representative Office in Moscow.

Number of branches: 1

Number of ATM: 1

Number of employees: 69

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



SOCIETE GENERALE BANK - CYPRUS

SOCIETE GENERALE BANK - CYPRUS LIMITED

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

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

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

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

Number of branches: 7

Number of ATM: 7

Number of employees: 144

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



PIRAEUS BANK (CYPRUS) LTD

Piraeus Bank (Cyprus) Ltd is a member of the Piraeus Bank Group, with total assets exceeding €57 billion and approximately 900 branches in 11 countries. The Piraeus Group has entered the Cypriot market with the acquisition of the Arab Bank local network, in January 2008. It offers a complete range of products and services covering Retail, Corporate, International and Investment Banking, Wealth and Asset management, Insurance, Custodian and Treasury Services.

Since inception, the bank has significantly increased the size of its balance sheet. Piraeus Bank (Cyprus) Ltd currently employs more than 300 members of staff while its network consists of 21 branches and business centres across Cyprus. The primary strategic objective of the bank is to contribute towards developing the local market into a financial centre for South-Eastern Mediterranean. In this respect, the group's activities in Egypt,

Russia and New York are under the supervision of the Managing Director & CEO of Piraeus Bank (Cyprus) Ltd.

Number of branches: 21, including 4 business centres and 2 International Banking Units

Number of ATM: 15

Number of employees: 308

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



RUSSIAN COMMERCIAL BANK (CYPRUS) LTD

The Russian Commercial Bank (Cyprus) Ltd (RCB) was incorporated in Cyprus under license from the Central Bank of Cyprus in 1995. RCB as at 31 December 2008 was a wholly owned subsidiary of VTB Bank which in turn is 77.47% owned by the Russian government.

RCB specializes in financing investments into the Russian economy. The Bank provides its clients with a banking environment that is securely based in the EU and is in touch with the realities of doing business in Russia. RCB's business in Cyprus is growing steadily in terms of both income and total assets.

The Bank aims at establishing its image as a socially responsible financial institution and active member of the local community life by participating in several activities of cultural, sport and charitable nature.

Number of branches: 2

Number of ATM: 2

Number of employees: 127

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



EUROBANK EFG CYPRUS LTD

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

Applying a different approach and strategy from its competitors, Eurobank EFG Cyprus focuses entirely on Wholesale Banking services namely:

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

Eurobank EFG Cyprus is a crucial ally in accomplishing the clients' financial and business objectives, offering superior service that is timely, flexible and customised. Despite the benefit obtained by the Group's extensive international network and its open architect strategy, the touchstone of Eurobank EFG Cyprus' success is the commitment to Relationship Management. The Bank's professionals are carefully selected for their knowledge and understanding of the market and enhance their skills through on-going training. They offer high

quality, quick, discreet and well thought out solutions to their clients and act as a liaison between the client and the specialised units of the Bank.

Proof of the high level of service provided and the constant efforts applied to maintain and improve the Bank's performance, are the two consecutive awards received as the "Best Private Bank in Cyprus" (2010 & 2011) by Euromoney Magazine.

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

Number of branches: 6

Number of ATM: 0

Number of employees: 167

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

ASSOCIATE MEMBERS

JSC “TRASTA KOMERCBANKA” CYPRUS BRANCH

ASSOCIATION OF INTERNATIONAL BANKS:

ARAB JORDAN INVESTMENT BANK SA

AS LTD BANK

BANCA TRANSILVANIA S.A.

BANKMED SAL

BANK OF BEIRUT SAL

BANQUE BEMO SAL

BANQUE SBA SA

BARCLAYS BANK PLC

BBAC SAL

BLOM BANK SAL

BYBLOS BANK SAL

CENTRAL COOPERATIVE BANK PLC BULGARIA

CREDIT LIBANAIS SAL

FBME BANK LTD

FIRST INVESTMENT BANK LTD

JORDAN AHLI BANK PLC

JORDAN KUWAIT BANK PLC

JOINT STOCK COMPANY AKCIJU KOMERCBANKA BALTIKUMS

JSC TRASTA KOMERCBANKA CYPRUS BRANCH

LEBANON & GULF BANK SAL

OPEN JOINT-STOCK COMPANY AVTOVAZBANK

OJSC PROMSVYAZBANK

PRIVATBANK COMMERCIAL BANK

RUSSIAN COMMERCIAL BANK (CYPRUS) LTD



Year under review



Artemis Bank Information Systems Ltd

Having completed its first year of operation, Artemis Bank Information Systems Ltd (Artemis) has succeeded in establishing itself as the first fully-fledged Credit Bureau in Cyprus. By the end of February 2011, a total of eight (8) members of the Association of Cyprus Banks had access to the Artemis database. All participating banks in Artemis adhere to the Principle of Reciprocity, whereby in order for an institution to be able to view information about the economic behaviour of individuals and companies in the Artemis database, it should keep the Artemis Database updated with its own respective data.

The Artemis data recipients have already started reaping the tangible benefits of having access to a comprehensive database system of economic behaviour. The Artemis data, although playing a purely supportive role, enable banks to arrive at a more informed, and hence objective, decision whether the applicant for a credit facility duly fulfils the criteria for having his application approved. Banks, therefore, need no longer to base their decision on loan or facility applications exclusively on the information provided by the applicant, as was the case in the past.

At the same time, the Artemis Customer Service Office is fully operational, receiving and responding to queries and

applications for accessing own information, in accordance to the "The processing of Personal Data (Protection of Individuals)" Law 138 (I) 2001.

The recent developments in the area of legislation, namely the publication of the Central Bank of Cyprus Directive to the banks for data correctness and completeness (September 2010), are expected to further enhance Artemis' role as the most reliable and comprehensive source of credit information in Cyprus.

Already into its second year of operations, Artemis has proven beyond any doubt that it is fully capable of safeguarding commercial credit, mitigating credit risk and promoting the reliability of transactions. In the long-run it will contribute to the full enhancement, modernization and evolution of the local banking system which, in turn, will continue to support the smooth functioning of the Cyprus economy.

ACB's Training Activities

The Association of Cyprus Banks continued successfully to organize training seminars for middle and high level management bank employees, as part of its efforts to enhance and enrich the services offered to its members. Our aim is to further the knowledge of participants on

issues, activities and trends in the modern financial services industry, including risk management, audit, supervision, compliance, prevention of money laundering and other.

The seminars are approved and partly subsidized by the Human Resource Development Authority of Cyprus. During the past year the Association organized 14 seminars, inviting high level speakers from the Hellenic Bank Association, Bank of Greece, PwC, Risk Reward Ltd UK, Institute of Operational Risk, PHI Trading Academy, Synectics Consulting Ltd and others, and the number of participants reached 452 persons. Additionally, the Association organized in cooperation with IMH the first «Cyprus Retail Banking Conference» where experienced speakers from Cyprus and abroad presented specialized topics related to the local and international trends in retail banking.

Publications

The Association of Cyprus Banks continues to publish the monthly Newsletter and the six- monthly Cyprus Banking Insight. The Newsletter is addressed only to member banks and aims to inform and update the reader about the Association's main activities, the Director General and the Senior Officers' meetings with various authorities concerning the discussion of matters relating to the banking sector, the European Banking Federation meetings that the Director General and the Senior Officers participate, and the meetings of the Association's different Committees. The Cyprus Banking Insight is a specialized publication addressed to member banks as well as other individuals or organizations that are interested in current issues relating to the banking sector, both local and overseas. Every issue of the Cyprus Banking Insight contains articles provided by the Association's Senior Officers, member banks and guest contributors from the greater financial sector.

Main Activities carried out by the Association

Covered Bonds

In December 2010, the preparations for the creation of the necessary legal and regulatory framework for the issuance of Covered Bonds were completed. The House of Representatives voted the «Law for the Issuance of Covered Bonds by Approved Institutions and the conduct of Covered Bonds Business by Institutions with Covered Bonds». Additionally, the Central Bank of Cyprus

issued a Directive that regulates the conduct of Covered Bonds business by banks, supervisors and administrators. The Association participated actively in the consultation process and the actual preparation of the Law. At the same time, the Association worked on a series of other Laws which needed amendment (Banking Law, Transfer of Banking Business Law, Land Registry Laws, and Companies Law etc). The relevant amendment legislations are presently being checked by the Attorney General's office and they are expected to be presented to Parliament soon. In the meanwhile, Parliament has voted the relevant modification on Companies Law, so that registration of covered bonds with the Registrar of Companies is not required.

Throughout the procedure for the formation of a legal and regulatory framework for the issuance of Covered Bonds, the Association and its member banks were in constant consultation with the Ministry of Finance and the Central Bank of Cyprus. The content and provisions of the Law and the Directive respectively, were extensively studied as the procedures governing the conduct of Covered Bond business are quite complicated and affect a wide range of banking business. The Association and its member banks would like to thank the Ministry of Finance and the Central Bank of Cyprus for their superb cooperation during the consultation process. The capability of issuing Covered Bonds will provide local banks with an alternative funding source, thus contributing to the farther strengthening of the local banking system.

Banking Supervision Committee

The Basel Capital Accord is an international initiative that sets rules in relation to the risks that banks are exposed to. It consists of three mutually reinforcing pillars: Pillar 1 sets the minimum capital requirements for credit, market and operational risk, Pillar 2 requires banks to assess their capital requirements in relation to these risks, and Pillar 3 improves market discipline by requiring banks to publish certain details regarding their capital and risk management.

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

trading book risks and build-up of additional regulatory capital during good times. It should be mentioned that the adoption of Basel III has significant consequences on the banks' regulatory capital as well as the funding cost of capital.

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

- Liquidity Management (Euro and Foreign Currencies).
- Capital Requirements and Large Exposures Directive (Basel III).
- Internal Governance, Policies and Remuneration Practices (CRD III).
- Disclosure Guidelines.
- Stress Testing.
- Concentration Risk.
- Management of operational risk in relation to trading activities.

Apart from Basel III, the issue of the new European regulatory framework for banks is under strong focus. The Association of Cyprus Banks considers the issue as extremely important since it lays down the parameters of the future supervisory models within a consolidated European banking sector. For this reason, member banks are regularly updated on the different proposals and suggestions discussed within the European Commission and European Banking Federation.

The Association will continue to support its members in their efforts to comply with the current and upcoming regulatory framework, and will continue to be actively involved in shaping the local banking industry's future.

Special Bank Tax and Financial Sector Stability Fund

In April 2011, the Parliament voted for a law whereby a special bank tax will be levied on financial institutions. Under this law, all financial institutions will be liable for a special annual tax of 0.095% on deposits.

The taxation amount for each financial institution for the years 2011 and 2012 cannot exceed 20% of its taxable income for that period. For the years 2011 and 2012, a portion of 35/60 of the tax amounts raised will go towards the general budget, whereas the remaining 25/60 will be deposited in a special account with the Central Bank of Cyprus. The amounts deposited in the special account will be transferred by March 2013 to the independent Financial Sector Stability Fund, which will be established in the coming months. The Fund's purpose will be to fund any necessary support and resolution of financial institutions. According to the Law the Fund will continue to operate after 2013 and the financial institutions will continue to pay a special tax at a rate that will be determined by the relevant regulations which will be prepared by the Central Bank of Cyprus and approved by Parliament. From 2013 onwards, all tax amounts raised will go towards the Financial Sector Stability Fund. It is expected that in 2011, the total taxation amount raised will be about €60 million.

UCITS

The public consultation of the Cyprus Securities and Exchange Commission on this Bill has been concluded. The proposed legislation seeks to harmonize national law with the UCITS IV Directive. The Association participated in the consultation process. The main suggestion of market participants was to allow more types of institutions to act as managers of UCITS, with the purpose to render the Cyprus model more competitive than other fund domicile destinations.

New electronic method for the clearing and settlement of cheques

On 26 November 2010, an electronic method for the clearing and settlement of cheques was implemented. The project is being handled by NCR (Cyprus) Ltd, in cooperation with JCC Payment Systems Ltd. The new procedures have been implemented following an initiative of the Association and were approved by the

Central Bank of Cyprus. The electronic procedures were adopted by almost all member-banks of the Association - Bank of Cyprus, Marfin Laiki Bank, Hellenic Bank, Alpha Bank, National Bank of Greece (Cyprus), USB Bank, Piraeus Bank, Societe Generale (Cyprus) - the Cooperative Credit Institutions as well as Eurobank. In 2011, Emporiki Bank – Cyprus Ltd and cdbbank will join the system, while it is expected that more banks will join in the future.

Within this framework, physical cheques are no longer exchanged between financial institutions, but data and images of cheques are transferred electronically between banks through a central body. The role of the central body is being carried by JCC Payment Systems Ltd. The introduction of the new system is expected to reduce the clearing cycle of cheques and customers will receive their money sooner than the traditional method. In other words, this modernization aims to benefit bank customers, businesses and the financial system in general. Such systems have been adopted by many financial institutions worldwide and have been reported to offer significant benefits to both banks and customers. Some of these benefits are the reduction of the operating costs for the handling, processing and clearing of cheques, enhanced security in transactions as well as the reduction of the clearing cycle.

Financial Leasing

The Attorney General's office has completed the background check of the draft legislation on Financial Leasing. The completion of the background check of other related amending legislations (which concern the Land Registry and the Department of Internal Revenues) is still pending. Upon their completion, the entire set of draft laws will be forwarded to Parliament.

Legislation to combat tax evasion and reduce tax avoidance

Following several months of negotiations in which the Association was actively involved, in December 2010 the Parliament voted for amendments to a number of laws with the aim of combating tax evasion and reducing tax avoidance. The most important amendments that directly affect banks are the following:

- 1) Lifting of banking secrecy: For the purposes of imposition of taxation on Cyprus tax residents, the new law provides for certain requirements and procedures that should be followed by the Inland Revenue Department for the lifting of banking secrecy through the Attorney General. The Director of Inland Revenue should send a written notification to the person under review and submit a written request to the Attorney General (following the OECD guidelines) about the following:
 - The identification of the person under investigation
 - The nature and the form of information requested
 - The reasons the Director believes that the bank is in possession of the information
 - The period to which the information relates
 - A statement that the tax authorities exhausted all available means for collecting the information
 - The justified tax reasons for which the information is requested.

In cases where information is requested on joint accounts of two or more persons, a separate request should be submitted to the Attorney General for all the entities mentioned on the joint accounts. The Parliament has approved all safety valves proposed by the Association to prevent possible breaches of personal data protection.

- 2) Field audits: The Director of Inland Revenue has the right to inspect establishments (but not private resi-

dences) provided that this is done during the normal hours of operation of a business.

3) Documentation for deduction of expenses: Expenses carried out for business purposes will only be tax deductible for income tax purposes in cases where they are supported by invoices, receipts or any other documents approved under the relevant regulations.

4) Imposition of notional interest on receivables from directors or shareholders: Until recently, notional interest at the rate of 9% could be imposed on receivables from directors and shareholders of companies. With the present amendments, this provision will not apply in the case where the directors or shareholders are companies. In these cases, the Director of Inland Revenue can impose notional interest based on article 33 relating to arm's length conditions in transactions between related parties.

5) Amendment of deemed distribution provisions: for the purpose of calculating the profit subject to deemed distribution, the special defence contribution, capital gains tax and any foreign taxes will be subtracted.

6) Rents: Companies (including banks) and partnerships will withhold defence contribution on the rents they pay and submit the relevant amounts to the State every six months.

Limitation of Actions Law

Parliament has suspended the application of the Limitations of Actions Law until the end of 2011. This will give time for the completion of the new law which will replace the existing one.

Sale of Land (Specific Performance) Law

Parliament voted an amendment in the Sale of Land (Spe-

cific Performance) Law. Now buyers of houses or flats from developers of land can deposit their agreement (of Sale of Land with the Developer) at the Land Registry and this will take the form of a legal charge over the property. In addition, the legal charge may take priority over a previous mortgage over the land, provided certain conditions are met. To do that buyers will have to pay directly the previous mortgagee creditors the amount of the seller's loan that corresponds to the value of their flat or house.

Draft Law which amends the Financial Collateral Law

The Association has participated in the public consultation of the draft legislation which will amend the Financial Collateral Law. The Directive and the proposed amending Law will harmonize national law with Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims.

The Directive and the amending Law seek firstly to introduce a number of simplifications and clarifications to facilitate application of the financial collateral arrangements (FCD) and secondly to broaden the scope of the protection provided by both directives by including credit claims eligible for the collateralisation of central bank credit operations in order to facilitate their use throughout the Community.

Draft Legislation which amends the Settlement Finality Law

The Association has participated in the public consultation on the proposed legislation which will amend the Settlement Finality Law. The main changes in the Directive and the amending Law concern the explicit protec-

tion of the securities settlement systems (SFD) as regards night-time settlement and linked systems.

Consumer Credit

On 11 November 2010, the House of Representatives passed the draft bill which was prepared by the Ministry of Commerce, Industry and Tourism (MCIT) for the harmonization of the national legislation with the provisions of the European Directive 2008/48/EC on consumer credit. The new national legislation covers credit agreements between €200 and €75,000, while mortgage credit agreements are excluded from its scope.

Based on the provisions of the European Directive, the new legislation foresees a set of new requirements for financial institutions. One essential requirement is the obligation to provide pre-contractual information to consumers before the conclusion of the credit agreement. This pre-contractual information is provided to consumers in a European standardized form. Furthermore, the consumer has a right of withdrawal that is, without giving any reason, he/she may cancel the credit agreement within fourteen days. In addition, consumers have the right to repay all or part of the credit agreement at any time (right of early repayment).

In order to provide consumer protection in the field of mortgage credit (exempted from the above legislation), the Consumer Credit Acts of 2001-2009 (previous national legislation) were modified by the MCIT accordingly. This amendment was also passed by the House of Representatives on 11 November 2010 and covers housing credit agreements up to €200,000, as well as hire purchase credits up to the amount of €35,000.

Regulatory Regime for 'Gaming'

The Government has submitted for approval by Parliament a Draft 'Law on Gaming'. The Draft Law intends to

formally regulate 'betting' except horse racing betting, for which a separate legislation is to be prepared.

More specifically, the Draft Law legalizes electronic betting which includes online betting on sports but bans online casino gambling, online roulette games, online poker games and slot machines.

Anti - Money Laundering

The Anti-money Laundering Committee is currently preparing a common document to be published by the Association in relation to due diligence procedures in the 'opening of bank accounts'.

Single Euro Payments Area (SEPA) and SEPA Direct Debits

The SEPA Direct Debits Scheme (SDD) was launched on a voluntary basis by the SEPA countries, in November 2009. As with the other SEPA payments schemes (SEPA Credit Transfers and SEPA for Cards), SEPA Direct Debits were developed by the European Payments Council (EPC), which is the European decision making and coordinating body in relation to payments. The Association is a member of the EPC and participates in EPC's plenary meetings.

EU Regulation 924/2009, (which replaced "EU Regulation 2560/2001 on cross-border payments in Europe"), incorporated a provision which stipulated that every Bank in the euro area must be reachable for SEPA Direct Debits by the 1st of November 2010. Hence, on 1st November 2010, nine member banks of the Association and two non-member banks adhered to SDD through the Association, which is the National Adherence Support Organization for SEPA (NASO).

In view of the low SEPA usage rate in Europe, the European Commission decided to issue another Regulation (the

“Regulation”) which will implement an obligatory “SEPA Migration end-date” i.e. a date where all domestic payment schemes will be abolished and SEPA will be used throughout Europe for both domestic and cross-border payments. The Regulation has not been finalized yet, as it is still under consultation. It is expected to be voted by the European Parliament by the end of 2011, whereby the end-dates for SEPA migration will become known.

Deposit Protection Scheme

The Association of Cyprus Banks is a member of the Deposit Protection Scheme (DPS) Management Committee and participates in the meetings with two representatives. Additionally, a representative of the Association participates in a DPS Working Group that studies the Action Plan related to the activation of the DPS.

The global financial crisis has led the European Union to prepare a new Directive in order to harmonize the operating regulations of all national DPSs. The proposed amendments include, among others, recommendations for the reduction of the pay-out time, the removal of set-off arrangements, the funding mechanism, the risk-adjustment of contributions and the co-operation of the various DPSs. The Management Committee is considering these proposed amendments as well as other changes to the regulations of the current DPS, specifically the basic capital of the fund, the member banks' contributions, the categories of accounts excluded from compensation and the risk-based contribution model.

Property Index

The application of the Capital Requirements Directive has rendered necessary the creation of property indices. The existence of scientifically produced property indices will allow banks to monitor changes in the value of res-

idential and commercial property and improve credit risk management. The initiative by the Association of Cyprus Banks and the Central Bank of Cyprus to create Immovable Property Indices (IPI) begun in 2009 and is expected to be completed in the second quarter of 2011. The Central Bank of Cyprus coordinates the project, collects and processes data from the banks and calculates the IPI. The work done so far has reached a significant stage and it is expected shortly that the first IPI for the Cypriot real estate market will be published.

Amendment of the “Out-of-court Traffic offences Law”

In December 2010, the Parliament's Plenary approved an amendment of the “Out-of-court Traffic offences Law”, which enables the payment of out-of-court traffic fines through the internet. According to the amended Law, the payment of internet fines will be effected by payment cards, through the “JCC Smart” system, which is the exclusive system provider chosen by the Republic of Cyprus. The fine payments can either be reimbursed by cards through the internet, or by cash at the counter of any bank's branch, or by a personal bank cheque. Following an intervention made by the Association (during the consultation period of the draft Law), the final legislation gives the ability to banks to choose whether to accept, either or all of the above mentioned methods of payment.

Laws on the approval of buildings and the publication of updated property deeds

The Parliament has voted three amending Bills into laws, which reform the legal framework on the approval of buildings and the issuing of updated property deeds in the context of an amnesty on building permit irregularities.



The ACB

Background

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

Mission

Following the formal accession of Cyprus in the European Union and the consequential harmonization of the domestic financial sector, the major objective of the Association is the coordination of banking policies and the formulation of common positions on several legislative and financial issues, especially in relation to compliance with EU guidelines. In this sense, the mission of the Association is to become a major player on the part of the private sector in evaluating and formulating suggestions on the economic, monetary and financial developments in the light of the globalization process of the world markets and the increasing intensity of competition anticipated in the financial sector. The constant changes in the structure of international banking render the role of the Association essential in evaluating, on time, the impact of global reforms on the domestic banking sector and in promoting the expanding needs of the local banking community.

Our mission is achieved by:

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

Organizational Framework

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

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

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

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

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

5. ICC Committee

6. Fraud & Money Laundering Committee

7. Treasury & Risk Management Committee

8. Banking Supervision Committee

9. Consumer Affairs Committee

10. Communications & Crisis Management Committee

11. Compliance Committee

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

Professional Team of ACB



Michael Kronides, First Senior Officer



Skevi Demetriades,
Head of Secretariat and Operations
Support



Maria Ioannou, Senior Officer



Maria Varnava, Officer
Training Section



Demetra Valianti, Senior Officer



Popi Antoniou, Archives



Elena Frixou, Senior Officer



Andria Christodoulou, Secretariat



Marios Nicolaou, Senior Officer



Maria Constantinou, Secretariat



Christina Antoniou Pierides,
Senior Officer



Nicos Toffis, Clerical / Messenger

ACB events in 2010 & 2011

23/06/2010	Annual General Meeting of the Association
28/06/2010	Seminar – “ Preventing of Money Laundering and Terrorist Financing: A practical approach ”
27/09/2010	Seminar – “ IFRS for Banks and other Financial services companies ”
04/10/2010	Seminar – “Stress Testing”
08/10/2010	Cyprus Retail Banking Conference - Jointly organized by the Association of Cyprus Banks and IMH
25/10/2010	Seminar – “Operational Risk Management in Banking”
02/11/2010	Seminar – “Consumer Credit Directive”
8, 10 & 12/11/2010	Seminar – “Technical Analysis, Level 3”
26/11/2010	The electronic method for the clearing and settlement of cheques was implemented
01/12/2010	Meeting with the press
December 2010	Cyprus Banking Insight – Issue No 6
24/01/2011	Seminar – “ Compliance: Best practices and practical analysis”
17/02/2011	Seminar – “Credit Institutions obligations in relation to advertisements to Consumers”
21/02/2011	Seminar – “Best practices in automated Debt Recovery Systems”
25/02/2011	Seminar - “From Basel I to Basel III and from CRD I to CRD IV”
06/04/2011	Informative seminar – “Electronic Signature” – Jointly organized by the Association of Cyprus Banks and the Cyprus Organization for Standardization (CYS)
June 2011	Cyprus Banking Insight – Issue No 7





Trends of the main markets



Customers Segmentation



Capacity dynamics



Nb	a	b	c
1	1127	27	17
2	2328	8	18
3	4336	58	19
4	5414	14	20
5	6587	87	21
6	7623	23	22
7	1020	497	23
8	10346	13	24
9	8175	46	25
10	1834	32	26
11	1986	11	27
12	2013	28	28
13	2136	29	29
14	2223	30	30
15	2246	34	31
16	44230	5	32
17	2346	1	33
18	9135	2	34
19	2434	3	35
20	5356	4	36
21	4013	5	37
22	5736	6	38
23	6823	7	39
24	7845	8	40
25	1038	9	41
26	8113	10	42
27	9125	11	43
28	1372	12	44
29	1489	13	45
30	1527	14	46
31	1497	15	47
32	1813	16	48
33	2846	17	49
34	1036	18	50
35	1132	19	51
36	1211	20	52
37	1356	21	53