

UNOFFICIAL CONSOLIDATION AND TRANSLATION OF LAWS 66(I) OF 1997, 74(I) OF 1999, 94(I) OF 2000, 119(I) OF 2003, 4(I) OF 2004, 151(I) OF 2004, 231(I) OF 2004, 235(I) OF 2004, 20(I) OF 2005 AND 80(I) OF 2008.

REPUBLIC OF CYPRUS

THE BANKING LAWS OF 1997 TO 2008

This translation and consolidation of laws is not official. It has been prepared by The Central Bank of Cyprus to assist users and it comprises the grouping of the text of the basic law and of the amendments to the law in one consolidated, but unofficial document and its subsequent translation into the English language, to serve as a reference tool. The Central Bank of Cyprus is not responsible as to its content.

INDEX

PART I PRELIMINARY

Section

- 1 Short title
- 2 Interpretation

PART II LICENSING OF BANKS

- 3 No banking etc except on licence
- 4 Licence
- 4A Withdrawal of authorisation

PART III USE OF THE WORD "BANK" AND ADVERTISEMENTS

- 5 Restriction of use of the word "bank"
- 6 Prohibition of advertising for deposits

PART IV ESTABLISHMENT AND CLOSURE OF BRANCHES AND AMENDMENT OF CONSTITUTION

- 7 Place of business outside the Republic
- 8 Representative offices of overseas institutions
- 9 Termination of activities of a branch
- 10 Changes in Memorandum and Articles of Association
- 10A Freedom of establishment and provision of services by a bank or electronic money institution or financial institution which is a subsidiary of a bank incorporated in another member state
- 10B Responsibilities of the Central Bank as regards branches of banks from a member state
- 10C Establishment and cross border provision of services by a bank in a member state
- 10D No compliance with the provisions of this Law by a bank having a branch or providing services in the Republic
- 10E Take of precautionary measures
- 10F Take measures
- 10G Branches of banks from third countries

PART V
LIMITATIONS AND PROHIBITIONS ON CERTAIN
BUSINESS ACTIVITIES AND TRANSACTIONS

- 11 Limitation on credit facilities
- 12 Limitations on holdings of immovable property
- 13 Limitations on shareholdings
- 14 Prohibition of trading
- 15 Prohibition of dealing in own shares
- 15A Opening of account and client identification records

PART VI
OWNERSHIP AND MANAGEMENT OF BANKS

- 16 Amalgamation
- 17 Limitation on large shareholdings in banks
- 18 Persons disqualified to act as directors etc, without approval
- 19 Management of a bank and a financial holding company
- 19A Strategies and processes of banks and their internal review

PART VII
CAPITAL

- 20 Minimum Capital
- 21 Capital Adequacy
- 22 Computation of capital
- 22A Recognition of external credit assessment institutions

PART VIII
LIQUIDITY

- 23 Maintenance of liquidity

PART IX
RETURNS AND ACCOUNTS

- 24 Submission and publication of balance sheet etc
- 25 Returns and information by banks

PART X
SUPERVISION AND INSPECTION

- 26 Supervision and inspection by Central Bank
- 26A Disclosure of information by the Central Bank
- 27 Cooperation with other competent authorities
- 27A Exchange of information

- 27B Exchange of information with the authorities responsible for overseeing the bodies involved in the liquidation and bankruptcy of credit institutions or for overseeing persons charged with carrying out statutory audits
- 27C Communication of information
- 27D Announcing of information
- 28 Communication between the Central Bank and Auditors
- 28A Professional secrecy
- 28B Use of confidential information
- 28C Disclosure of certain information

PART XI BANKING SECRECY

- 29 Duty to maintain bank secrecy

PART XII POWERS OF THE CENTRAL BANK

- 30 Powers to take measures
- 31 Consequences of revocation of a licence
- 32 Liability of Central Bank

PART XIII REORGANISATION MEASURES, WINDING-UP AND DISSOLUTION

- 33 Reorganisation measures
- 33A Winding-up
- 33B Dissolution and appointment of liquidator
- 33C Information for the competent authorities of other member states
- 33D Voluntary winding up
- 33E Opening of winding-up proceedings
- 33F Publication
- 33G Effects on certain contracts and rights
- 33H Third parties' rights
- 33I Reservation of title
- 33J Set Off
- 33K Protection of third parties under special circumstances
- 33L Proof of liquidators' appointment
- 33M Powers of the liquidator

PART XIV DEPOSIT PROTECTION SCHEME

- 34 Compensation of depositors

PART XV MISCELLANEOUS

- 35 Application of this Law to Co-operative Societies
- 36 Housing Finance Corporation
- 37 Repeal (Section 4 of Law 74(I) of 1999)
- 38 Repeal (Section 35 of Law 80(I) of 2008)
- 39 Consolidated Supervision
- 39A Announcement by the mixed activity holding company of information relevant for the purposes of supervising subsidiary banks and verification of information received
- 39B Full consolidation of all the credit institutions and financial institutions which are subsidiaries of a parent undertaking
- 40 Banks unable to meet obligations
- 41 Power to issue directives
- 42 Administrative fine
- 42A Administrative fine

PART XVI OFFENCES, PENALTIES AND PROSECUTIONS

- 43 Offences and penalties
- 44 Prosecutions by or with the consent of the Attorney-General of the Republic

PART XVII TRANSITIONAL PROVISIONS

- 45 Former licenses deemed to be licenses under this Law
- 46 Compliance with this Law
- 47 Extension of period for compliance with this Law
- 48 Repeal

ANNEX I – List of investment services and activities and financial instruments

ANNEX II – Recognition of external credit assessment institutions – ECAs and mapping of their credit assessment

ANNEX III – Technical criteria and assessment by the Central Bank

THE BANKING LAW

PART I Preliminary

- Short title. 1. This Law may be cited as the Banking Laws of 1997 to 2005.
- Interpretation. 2. (1) In this Law, unless the context otherwise requires -
- | | |
|--|---|
| <p>"Ancillary services undertaking"</p> | <p>means an undertaking the principal activity of which consists in owning or managing property, managing data-processing services, or any other similar activity which is ancillary to the principal activity of one or more banks;</p> |
| <p>Cap. 113
9 of 1968
76 of 1977
17 of 1979
105 of 1985
198 of 1986
19 of 1990
41(l) of 1994
15(l) of 1995
21(l) of 1997
82(l) of 1999
149(l) of 1999
2(l) of 2000
135(l) of 2000
151(l) of 2000
76(l) of 2001
70(l) of 2003
167(l) of 2003
92(l) of 2004
24(l) of 2005
129(l) of 2005
130(l) of 2005
198(l) of 2006
124(l) of 2006
70(l) of 2007
71(l) of 2007
131(l) of 2007
186(l) of 2007.</p> | <p>"approved auditor"</p> <p>means a person qualified under section 155 of the Companies Law to be an auditor of a company other than an exempt private company and who is expressly authorised for this purpose by the Central Bank;</p> |
| <p>"asset management company"</p> | <p>means a management company as defined in section 41 of the Open Ended Type Collective</p> |

200(I) of 2004.

	Investment Organisations (U.C.I.T.S.) Law, as well as an undertaking having its registered office in a third country and which would require authorisation in accordance with the provisions of section 43 of the said Law if it had its registered office in another member-state;
"associate company"	means a company in which a bank holds directly or indirectly through related companies not less than twenty per cent (20%) or more of the voting rights or of the company's capital or where the parent or other company of the group exercises over the company significant influence or where the companies are or have been arranged under a single administration or have administrative, management or other bodies the majority of each body consisting mainly of the same persons.
"bank"	means a body corporate licensed to carry on banking business under the provisions of this Law;
"banking business"	means business carried on in the Republic or abroad from within the Republic consisting of lending of funds acquired from the assumption of obligations to the public, in the form of deposits, securities or other evidence of debt;
"books or records"	means accounts, securities, deeds, forms and documents however produced and includes "books or records" stored in a computer;
"branch"	means a place of business of a bank, at which banking business or the business of accepting deposits is carried on;

"business of accepting deposits"	means the business of accepting deposits from the public in the Republic or the business of accepting deposits in the Republic from abroad;
"Central Bank"	means the Central Bank of Cyprus;
"chief executive"	means a person who either alone or jointly with others is responsible under the immediate authority of the board of directors for the conduct of the business of a bank, and in the case of a bank other than a bank incorporated in the Republic, includes a person who either alone or jointly with others is responsible for the conduct of the business of the bank in the Republic or the conduct of the business of the bank abroad from within the Republic;
"close links"	<p>means a situation in which two or more natural or legal persons are linked in any of the following ways:</p> <p>(a) participation in the form of ownership, direct or by means of control, of 20% or more of the voting rights or capital of an undertaking;</p> <p>(b) means of control; or</p> <p>(c) the fact that both or all natural or legal persons are permanently linked to one and the same third person by a means of control relationship;</p>
"Commission"	means the Commission of the European Communities;
"competent authorities"	means the national authorities which are empowered by law or regulation to supervise credit institutions;

"computer"	means any electronic device for storing and processing information;
"control"	means in relation to a company: <ul style="list-style-type: none"> (a) beneficial ownership by a person of its share capital or of its holding company which carries ten per cent or more of the voting power at any general meeting of the company or its holding company, or (b) ability by a person to determine in any manner the election of a majority of the directors of the company or of its holding company;
'credit institution' -	means <ul style="list-style-type: none"> (a) a business whose activity consists of accepting deposits or other repayable funds from the public and the lending of funds for own account and which possesses a banking licence from the competent authority of a member state or of a third country and includes – <ul style="list-style-type: none"> (i) a bank, and (ii) a cooperative credit institution, as such term is defined in the Cooperative Companies Law, or (b) an electronic money institution

68 of 1987
 190 of 1989
 8 of 1992
 22(l) of 1992
 140(l) of 1999
 140(l) of 2000
 171(l) of 2000
 8(l) of 2001
 123(l) of 2003
 124(l) of 2003
 144(l) of 2003
 5(l) of 2004
 170(l) of 2004
 230(l) of 2004
 23(l) of 2005

49(l) of 2005
 76(l) of 2005
 29(l) of 2007
 37(l) of 2007
 177(l) of 2007.

14(l) of 1993 “Cyprus Stock Exchange” herein after referred to as
 32(l) of 1993 ‘C.S.E.’, means the stock
 91(l) of 1994 exchange which was formed
 45(l) of 1995 pursuant to section 3 of the
 74(l) of 1995 Cyprus Stock Exchange Laws of
 50(l) of 1996 1993 to (No.4) 2002.
 16(l) of 1997
 62(l) of 1997
 71(l) of 1997
 83(l) of 1997
 29(l) of 1998
 137(l) of 1999
 19(l) of 2000
 20(l) of 2000
 39(l) of 2000
 42(l) of 2000
 49(l) of 2000
 50(l) of 2000
 136(l) of 2000
 137(l) of 2000
 141(l) of 2000
 142(l) of 2000
 175(l) of 2000
 9(l) of 2001
 37(l) of 2001
 43(l) of 2001
 66(l) of 2001
 79(l) of 2001
 80(l) of 2001
 81(l) of 2001
 82(l) of 2001
 105(l) of 2001
 119(l) of 2001
 120(l) of 2001
 1(l) of 2002
 87(l) of 2002
 147(l) of 2002
 162(l) of 2002
 184(l) of 2003
 205(l) of 2004
 43(l) of 2005
 99(l) of 2005
 115(l) of 2005
 93(l) of 2006
 28(l) of 2007.

"deposit"

means a sum of money paid or received on terms :

(a) under which it will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it, but

(b) which are not related to the sale or the supply of property or the provision of services or to the issue of debentures or shares;

Official Gazette of E.E.: "Directive 2006/48/EC"
L 177, 30.06.2006,
page 1.

L87,
28.03.2007,
page 9.

means the European Union act entitled 'Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)' as amended by Directive 2007/18/EC of the European Parliament and of the Council as regards the exclusion or inclusion of certain institutions from its scope of application and the treatment of exposures to multilateral development banks and as it may further be amended or replaced.

"director"

means a person occupying the position of director of a bank or a person empowered to carry out substantially the same functions in relation to the management of the bank as those carried out by a director of a company and includes a person who has control over a bank or its holding company or a person in accordance with whose directions or instructions the directors of the bank or any of them are accustomed to act.

However, a person is not

	deemed to be a director by reason only that the directors act on directions or instructions given by him in his professional capacity;
“electronic money”	<p>means monetary value as represented by a claim on the issuer which is:</p> <p>(i) stored on an electronic device;</p> <p>(ii) issued on receipt of funds of an amount not less in value than the monetary value issued;</p> <p>(iii) accepted as means of payment by undertakings other than the issuer.</p>
“electronic money institution”	means a legal person, other than a bank, which issues means of payment in the form of electronic money;
"EU parent credit institution"	means a parent bank in the Republic which is not a subsidiary of a credit institution authorised in any Member State, or of a financial holding company registered in any Member State;
"EU parent financial holding company"	means a parent financial holding company in the Republic which is not a subsidiary of a credit institution authorised in any Member State or of another financial holding company registered in any Member State;
"EU parent investment firm"	means a parent investment firm in the Republic which is not a subsidiary of another institution authorised in any Member State or of a financial holding company registered in any Member State;
"financial holding	means a financial institution, the

company"	subsidiary undertakings of which are either exclusively or mainly credit institutions or financial institutions, at least one of such subsidiaries being a bank, and which is not a mixed financial holding company;
"financial institution"	means an undertaking other than a credit institution, the principal activity of which is to acquire holdings or to carry on one or more of the activities listed in paragraphs (a) to (j) of subsection (3) of section 13;
"financial instrument"	means any contract that gives rise to both a financial asset of one party and a financial liability or equity instrument of another party;
"holding company" "subsidiary company"	have the meaning assigned to them respectively by section 148 of the Companies Law, and additionally a company shall be deemed to be the subsidiary of another where in the opinion of the Central Bank the latter exercises substantial control over the former;
"home Member State"	means the Member State in which a bank has been authorised in accordance with the provisions of Directive 2006/48/EC;
"host Member State"	means the Member State in which a bank has a branch or in which it provides services;
148(l) of 2002 214(l) of 2002 6(l) of 2003 86(l) of 2003 194(l) of 2003 195(l) of 2003 145(l) of 2004 238(l) of 2004.	"investment firm" herein after referred to as "I.F." has the meaning attributed thereto by the Investment Services Laws of 2002 to (No. 2) of 2004;

"institution"	means a bank or an electronic money institution or an investment firm.
"insurance company"	has the meaning attributed thereto by the Insurance Company Laws of 2002 to (No. 6) of 2004;.
"legal person"	includes a company or any association of persons incorporated either in the Republic or elsewhere;
"licence"	means a licence to carry on banking business issued under this Law;
"liquidator"	shall have the meaning given to this term in Part V of the Companies Law and for the purposes of this Law, the term includes the 'receiver and the 'administrator' within the meaning of sections 334 and 344 of the Companies Law;
"manager"	means the chief executive of a bank and any other person employed by it, who under the immediate authority of a director or of the chief executive exercises managerial functions or is responsible for maintaining accounts or other records of the bank;
"means of control"	means the relationship between a parent and a subsidiary undertaking, in the situations stated in section 148 of the Companies Law, or a similar relationship between any natural or legal person and an undertaking;
"Member State"	means a member-state of the European Union or other state which is party to the Agreement for the European Economic Area, which was signed in Oporto on 2 May 1992, and

	adapted by the Protocol signed in Brussels on 17 May 1993, as this Agreement may further be amended;
“Minister”	means the Minister of Finance;
“mixed-activity holding company”	means a parent undertaking, other than a financial holding company or a credit institution or a mixed financial holding company, the subsidiaries of which include at least one bank;
“mixed financial holding company”	means a mixed financial holding company as defined in the Central Bank of Cyprus Directive on the supplementary supervision of banks which belong in a financial conglomerate;
“operational risk”	means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk;
“parent bank in the Republic”	means a bank which has a bank or a financial institution as a subsidiary or which holds a participation in such an institution, and which is not itself a subsidiary of another bank authorised in the Republic, or of a financial holding company registered in the Republic;
“parent financial holding company in the Republic”	means a financial holding company which is not itself a subsidiary of a bank authorised in the Republic, or of a financial holding company registered in the Republic;
“parent investment firm in the Republic”	means an investment firm which has an institution or financial institution as a subsidiary or which holds a participation in one such entity or entities, and which is not itself a subsidiary of another institution authorised in

Official Gazette of E.E.: 'Regulation (EC) No.
L 344, 285.12.2001, 2560/2001'
page 13.

the Republic or of a financial holding company registered in the Republic;

means the European Union act entitled 'Regulation (EC) No. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro', as amended or replaced.

"reorganisation measures" shall mean measures which are intended to preserve or restore the financial situation of a bank and which could affect third parties' pre-existing rights, including measures involving the possibility of a suspension of payments, suspension of enforcement measures or reduction of claims of creditors or shareholders of the bank, as well as the measures provided for in sections 198 to 202 of the Companies Law;

"representative office" means an office from which the interests of the entity to which it belongs are in any way promoted or assisted but at which no banking business or the business of accepting deposits is carried on;

"third country" means a State other than a Member State.

"trading book" is the portfolio of a bank which consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged;

Cap. 193. "Trustee" has the meaning assigned to this word by the Trustee Law;

"winding-up"	shall have the meaning given to this term in Part V of the Companies Law;
"winding-up proceedings"	shall have the meaning given to this term in Part V of the Companies Law.

(2) Reference in this Law of amounts denominated in euro is up to and including 31 December 2007 deemed to refer to pounds, at the prevailing at the time exchange rate.

PART II

Licensing of Banks

No banking business etc except licence.

3.(1) Subject to the provisions of subsections 3(2) and 3(3) below, the provisions of Part IV and subsection 35(1), no person, other than a bank, shall engage in banking business or in the business of accepting deposits.

(2) Subsection (1) above shall not apply to the acceptance of a deposit by a person specified by the Central Bank subject to conditions and restrictions determined by the Central Bank:

It is provided that an exemption may only be granted to a person which can demonstrate that it was engaging in the business of accepting deposits before the 18th of July, 1997:

It is provided furthermore, that these activities are subject to regulations and controls intended to protect depositors and investors.

It is provided moreover, that the Central Bank may revoke an exemption granted to a specified person or amend or extend or impose any condition.

(3) The Central Bank is empowered to exempt certain transactions from the definition of "deposit" by reference to any factors appearing to it to be appropriate and, in particular, by reference to all or any of the following –

- (a) the amount of the deposit
- (b) the total liability of the person accepting the deposit to his depositors or to any other creditors
- (c) the circumstances in which or the purpose for which the deposit is made
- (d) the number of, or the amount involved in, transactions of any particular description carried out by the person accepting the deposit or the frequency with which this person carries out transactions of any particular description.

(4) Whenever the Central Bank has reasonable grounds to believe that any person, other than a bank, is carrying on or holds himself out as carrying on banking business or is engaged in the business of accepting deposits of money from the public, may, by a written notice to such person call upon him, to produce to an authorised officer of the Central Bank, within the period specified in the notice, any books or records specified in the notice to enable such officer to ascertain whether any business has been carried on which is prohibited in accordance with subsection (1).

Licence.

4. (1) (a) Subject to the provisions of section 10A, a bank must obtain authorisation from the Central Bank before the commencement of its activities.

(b)(i) Subject to the provisions of Part IV, authorisation is granted only to a legal person established in the Republic pursuant to the provisions of the Companies Law or of any other Law or to a legal person established in a country other than the Republic pursuant to the corresponding legislation of that country:

(ii) A bank which is registered in the Republic must have its head office in the Republic.

(c) the Central Bank shall not grant authorisation for the taking-up of the business of a bank unless it has been informed of the identities of the shareholders or members, natural or legal persons, that have directly or indirectly control and the percentage of that control.

For calculating control for the purposes of this paragraph, the voting rights defined in section 169 of the Cyprus Stock Exchange Law shall be taken into account.

(d) The Central Bank shall not grant authorisation if, taking into account the need to ensure the sound and prudent management of the bank, it is not satisfied as to the suitability of the shareholders or members

(e) Where close links exist between the bank and other natural or legal persons, the Central Bank shall grant authorisation only if those links do not prevent the effective exercise of its supervisory functions.

(f) The Central Bank shall not grant authorisation if the laws, regulations or administrative provisions of a third country governing one or more natural or legal persons with which the bank has close links, or difficulties in the enforcement of those laws, regulations or administrative provisions, prevent the effective exercise of its supervisory functions.

(g) The Central Bank shall require banks to provide it with the information it requires, in order to be able to monitor compliance with the conditions referred to in this subsection on a continuous basis.

(2) (a) Applications for authorisation submitted by or on behalf of the applicant shall be accompanied by the memorandum and articles of association or any other incorporation document or determinative for the establishment of a legal person, the programme of operations setting out, inter alia, the types of business envisaged and the structural organisation of the bank and any other documents and information that the Central Bank may require.

(b) Without prejudice to other general conditions laid down in any other law, the Central Bank shall not grant authorisation when the bank does not possess separate own funds or in cases where initial capital is less than 5 million euro.

(c) For the purposes of paragraph (b), the term “initial capital” comprises of:

(i) The issued and paid up capital of the bank, including ordinary share capital and irredeemable non-cumulative preference shares,

(ii) The share premium arising from the issue of shares of the bank at a premium,

(iii) The reserves of the bank, excluding revaluation reserves, and

(iv) The undistributed profits of prior years, years which have been brought forward and recorded through the profit and loss account, after deducting foreseeable dividends, irrespective of whether they have been declared or not, as well as interim profits provided they have been verified by authorised auditors and it is proved to the satisfaction of the Central Bank that the amount thereof has been evaluated in accordance with the principles set out in the International Financial Reporting Standards and is net of any foreseeable charge or dividend.

(d) Subject to the provisions of the European Union acts in force in the Republic, the Central Bank may define, with the issue of directives, the term “own funds” which is referred to in this Law;

(3) The Central Bank may, under this Law, with an adequately reasoned decision -

(a) grant a licence without any conditions or subject to such conditions as the Central Bank may consider proper to impose; or

(b) refuse to grant a licence.

It is provided that the refusal shall be notified to the applicant within six months from the date of receipt of the application for a bank licence. Should the application be incomplete, a refusal is notified to the applicant within six months of the applicant's sending the information required for a decision. A decision shall, in any case, be taken within a year of the receipt of the application.

(4) Notwithstanding the provisions of subsection (3) the Central Bank may, amend or cancel whenever, either permanently or temporarily, any condition imposed on a licence, or impose any new conditions thereto.

(5) The Central Bank shall not take into consideration the economic need criterion for purposes of granting a licence.

(6) (a) A licensed bank may voluntarily surrender its licence by written notice to the Central Bank.

(b) A surrender shall take effect on the giving of the notice or, if a later date is specified in it, on that date; and where a later date is specified in the notice the bank may by further written notice to the Central Bank substitute an earlier date, not being earlier than that on which the first notice was given.

(c) The surrender of a licence shall be irrevocable unless it is expressed to take effect on a later date and before that date the Central Bank by notice in writing to the bank allows it to be withdrawn.

(7) The policy with respect of the granting of licence is determined by the Central Bank.

(8) "The Central Bank requests the opinion of the competent authority of the other member state before granting the authorisation of a bank which is -";

(i) a subsidiary of a bank authorised in another member state;

(ii) a subsidiary of the parent undertaking of a bank authorised in another member state or

(iii) controlled by the same persons, whether natural or legal, as control a bank authorised in another member state.

(9) The competent authority of a member state involved responsible for the supervision of insurance companies or investment firms the Central Bank shall consult prior to granting an authorisation to a bank which is-

(a) a subsidiary of an insurance company or investment firm authorised in a member state or

(b) a subsidiary of the parent undertaking of an insurance company or investment firm authorised in a member state or

(c) controlled by the same persons, whether natural or legal, as control an insurance company or investment firm authorised in a member state.

(10) The relevant competent authorities referred to in subsections (8) and (9) shall in particular consult each other when assessing the suitability of shareholders, and the reputation and experience of directors involved in the management of another entity in the same group, they shall inform each other of any information regarding the suitability of shareholders and the reputation and experience of directors, which is of relevance to the other competent authorities involved for the granting of an authorisation, as well as for the ongoing assessment of compliance with licencing conditions.

(11) The name of each bank to which authorisation has been granted shall be entered by the Central Bank in a list. The Central Bank shall disclose every authorisation granted in accordance with this Law and the aforementioned list to the Commission.

Withdrawal of authorisation.

4A. (1) The Central Bank may withdraw the authorisation granted to a bank only where such a bank -

(a) does not make use of the authorisation within one year, expressly renounces the authorisation or has ceased to engage in business for more than six months;

(b) has obtained the authorisation through false statements or any other irregular means;

(c) no longer fulfils the conditions under which authorisation was granted;

(d) no longer possesses sufficient own funds or can no longer be relied on to fulfil its obligations towards its creditors, and in particular no longer provides security for the assets entrusted to it; or

(e) falls within one of the other cases where national law of the Republic provides for withdrawal of authorisation.

(2) Reasons shall be given for any withdrawal of authorisation and those concerned informed thereof by the Central Bank.

(3) Such withdrawal shall be notified to the Commission by the Central Bank.

PART III

Use of the word "Bank" and Advertisements

Restriction of use of the word "bank".

5. (1) No person, other than a bank, shall use in any language the word "bank" or any grammatical variation thereof of the word "bank" in connection with any trade or business carried on by him unless the Central Bank has granted its prior written approval and subject to any conditions which the Central Bank may consider proper to impose.

(2) For the purposes of exercising their activities, banks may, use the same name throughout the territory of the Community as they use in the Republic. In the event of there being any danger of confusion, the Central Bank may, for the purposes of clarification, require that the name be accompanied by certain explanatory particulars.

Prohibition of advertising for deposits.

6.(1) No person shall advertise, cause or allow to be advertised or assist in the advertising of anything, or issue or cause or allow to be issued or assist in the issuing of any advertisement or make any statement which is calculated or is likely to induce the public to place money on deposit with any person, other than with a bank or a co-operative society established under the Co-operative Societies Law or with the Housing Finance Corporation established under the Housing Finance Corporation Law.

43 of 1980
12 of 1982
34 of 1991.

(2) For the purposes of this section the term "advertisement" includes every form of advertisement or promotion made by publication or display of notices or any means or circulars or other documents or by exhibition of photographs or cinematograph films or by sound broadcasting or television or any other medium of mass communication, and references to the issue of an advertisement shall be construed accordingly.

(3) Nothing in this section shall be construed as prohibiting the importation and ordinary distribution in the Republic of newspapers, periodicals and books of wide circulation abroad, on the sole ground that they contain advertisements soliciting deposits for institutions operating abroad.

(4) A bank registered in a Member State other than the Republic and offers services in the Republic under the provisions of sections 10A and 10B, is allowed to advertise the services it offers through all available means of communication in the Republic, subject to any rules governing the form and the content of such advertising adopted in the interests of the general good.

PART IV

Establishment and closure of branches and Amendment of Constitution

Place of business outside the Republic.

7.(1) Subject to the provisions of section 10C, a bank incorporated in the Republic shall not establish or maintain a branch or a representative office outside the Republic without prior approval of the Central Bank. Such approval may be granted subject to any conditions which the Central Bank may consider proper to impose.

(2) The Central Bank may at any time, by notice in writing, attach to an approval granted under subsection (1) any new conditions, or amend or cancel any conditions so attached, as it may think proper.

(3) Subject to the provisions of section 41(2) the Central Bank may, at any time, by notice in writing, revoke at any time an approval granted under subsection (1) and the operation of the branch or representative office, as the case may be, shall be terminated within such time limit as may be specified in the notice.

Representative offices of overseas institutions.

8.(1) An institution which is entitled under the laws of another country to carry on business which substantially corresponds to banking business, shall not establish in the Republic a representative office without prior approval of the Central Bank which may grant its approval subject to any conditions which the Central Bank may consider proper to impose.

(2) Notwithstanding the provisions of section 5, a representative office established under the provisions of subsection (1) may have the word "bank" or any grammatical variation thereof as part of its name, provided that this is the name under which the institution to which it belongs carries on business in its country of origin and provided further that this name is used in the Republic in conjunction with the description "Cyprus representative office".

(3) The Central Bank may at any time by notice in writing impose to an approval granted under subsection (1) any new conditions or amend or cancel any conditions already

imposed as it may think proper to impose.

(4) The Central Bank may at any time by notice in writing revoke at any time any approval granted under subsection (1) and the operation of the representative office shall be terminated within such time limit as may be specified in the notice.

Termination of activities of a branch.

9. A bank intending to terminate the operation of any of its branches should give to the Central Bank three months prior written notice of its intention to do so, or such shorter prior written notice as the Central Bank may determine.

Changes in Memorandum and Articles of Association.

10.(1) A bank incorporated in the Republic shall furnish to the Central Bank as soon as possible and in any event not later than one month after changing its name or amending its memorandum or articles of association or any other instrument constituting or defining its constitution particulars of the change and or the amendments made.

(2) The Central Bank may object to the change or to the amendments referred to in subsection (1) and in such a case the bank must comply with any direction of the Central Bank on this matter within three months at the latest.

(3) A bank, other than a bank incorporated in the Republic, shall constitution furnish to the Central Bank as soon as possible and in any event not later than three months after changing its name or amending its memorandum or articles of association or any other instrument constituting or defining its particulars of the change and or the amendments made.

Freedom of establishment and provision of services by a bank or electronic money institution or financial institution which is a subsidiary of a bank incorporated in another member state.

10A.-(1) Subject to the provisions of section 10B and of subsections (2) and (3) of this section, no granting of authorisation by the Central Bank is required, with regard to the provision of cross-border services or the establishment of a branch from-

(a) an electronic money institution that possesses a licence for the issue of electronic money obtained from another Member State, or

(b) a bank of another Member State or a financial institution of another Member State which is either a subsidiary of a bank or a subsidiary of one or more banks, whose parent has been granted authorisation by the other Member State that includes the performance of activities that are closely associated with the banking business or closely related with such business as set out in paragraphs (a) to (j) of subsection (3) of section 13 or the provision of services or/and the performance of activities set out in Parts A and B of Annex I with regard to the financial instruments set out in Part C of

Annex I, if covered by its licence and fulfil the conditions specified in a directive of the Central Bank issued under section 41:

The provisions of this subsection are applied by analogy to the subsidiaries of a financial institution.

(2)(a) The competent authority of the home Member State that granted the relevant licence to a bank or electronic money institution, or financial institution as defined in subsection (1), wishing to establish a branch within the Republic, communicates to the Central Bank the following information:

- (i) the programme of operations setting out, inter alia, the types of business envisaged and the structural organisation of the branch;
- (ii) the address of the branch in the Republic from which documents may be obtained;
- (iii) the names of those to be responsible for the management of the branch;
- (iv) the capital base and capital adequacy ratio of the bank or of the electronic money institution or of the financial institution.

(b) Irrespective of the provisions of subparagraph (iv) of paragraph (a) of subsection (2) of this section, in the case of a financial institution set out in subsection (1), the competent authority of the home Member State shall communicate to the Central Bank the amount of own funds of the financial institution and the sum of consolidated own funds and consolidated capital requirements of the bank which is its parent undertaking.

(c) The competent authority of the home Member State that granted the relevant licence, except in the case which the said authority, taking into consideration the said programme of activities, has reason to doubt the adequacy of the administrative structure or financial position of the bank or of the electronic money institution, communicates the above information to the Central Bank and notifies accordingly the bank or the electronic money institution within three months from the possession of the above information.

(3) The competent authority of the home Member State that granted the relevant licence in accordance with subsection (1) to a bank or electronic money institution or financial institution, which intends to provide services on a cross border basis by carrying out activities within the territory of the Republic, submits to the Central Bank a notice of its activities, that the said bank or electronic money institution or financial institution intends to carry out on a cross border

basis in the territory of the Republic, within one month from the date of receipt of notice of the intention of the said bank or electronic money institution or financial institution to the same competent authority.

(4) On receipt of a communication from the Central Bank, or in the event of the expiry of the period provided for in paragraph (d) of subsection (2) without receipt of any communication from the latter, the branch of the bank or of the electronic money institution or the financial institution may be established and may commence its activities in the Republic.

(5) In the event of a change in any of the particulars communicated pursuant to the provisions of subparagraph (i), (ii) and (iii) of paragraph (a) of subsection (2), a bank or an electronic money institution or a financial institution shall give written notice of the change in question to the competent authorities of the home Member State and the Central Bank, at least one month before making the change so as to enable the competent authority of the home Member State to take action pursuant to the provisions of paragraphs (b) and (c) of subsection (2) and the Central Bank to take a decision pursuant to paragraph (d) of subsection (2).

Responsibilities of the Central Bank as regards branches of banks from a member state

10B.(1) The Central Bank may, for statistical purposes, require that banks or electronic money institutions from member states having branches within the territory of the Republic, shall report periodically on their activities which are carried on within the Republic.

(2) (a) For the supervision of the liquidity of branches of banks from other member states, the Central Bank may require the same information as it requires for that purpose from banks licensed by it.

(b) The Central Bank, as the competent authority of the host Member State, shall retain responsibility in cooperation with the competent authority of the home Member State for the supervision of the liquidity of the branches of banks.

(3) In case where a bank registered in another member state has established more than one place of business in the Republic, those places of business are considered as only one branch.

Establishment and cross border provision of services by a bank in a member state

10C.(1) Subject to the provisions of section 7, a bank incorporated in the Republic wishing to establish a branch in a member state notifies to the Central Bank –

(a) the programme of operations setting out, inter alia,

the types of business envisaged and the structural organisation of the branch;

(b) the address of the branch in the member state from which documents may be obtained;

(c) the names of the prospective persons to be responsible for the management of the branch;

(d) the capital base and the capital adequacy ratio of the bank

(2) Unless the Central Bank has reasons to doubt the adequacy of the administrative structure or the financial situation of the bank, it shall, within three months of receipt of the information referred to in subsection (1), communicate that information to the competent supervisory authorities of the host member state.

(3) The Central Bank's communication, in accordance with subsection (2), shall also be notified to the bank within three months as provided in subsection (2).

(4) Where, the Central Bank refuses to communicate the information referred to in subsection (1) to the competent supervisory authority of the host member state, it shall give reasons for its refusal to the bank concerned within three months of receipt of all the information in accordance with subsection (1).

(5) Where a bank intends to carry on its activities for the first time by providing cross border services within the territory of a member state without establishing a branch in that state, it shall notify this intention to the Central Bank specifying at the same time the member state and the activities which it intends to carry on.

(6) The Central Bank shall, within one month of receipt of the notification in accordance with subsection (5), send that notification to the competent supervisory authorities of the host member state.

(7) The Central Bank shall inform the Commission of the number and type of cases in which there has been a refusal pursuant to subsection (2) of this section or paragraph (d) of subsection (2) of section 10A or subsection (4) or subsection (5) of section 10A or in the cases in which measures have been taken in accordance with subsection (3) of section 10D.

No compliance with the provisions of this Law by a bank having a

10D.-(1) Where the Central Bank ascertains that a bank, having a branch subject to the provisions of subsection (1) of section 10A or provides services within the Republic subject

branch or providing services in the Republic.

to the provisions of subsection (1) of section 10A, is not complying with the provisions of this Law, the Central Bank shall require the bank concerned to put an end to that irregular situation.

(2) If the bank concerned fails to take the necessary steps, the Central Bank, as the competent authority of the host Member State, shall inform the competent authorities of the home Member State accordingly.

(3) If, despite the measures taken by the home Member State or because such measures prove inadequate or are not available in the home Member State, the bank persists in violating the provisions of this Law, the Central Bank may, after informing the competent authorities of the home Member State, take appropriate measures to prevent or to suppress further irregularities and, in so far as is necessary, to prevent that bank from initiating further transactions within the Republic.

(4) The provisions of section 10B of subsections (1) to (3) of this section shall not affect the power of the Central Bank to take appropriate measures to prevent or to punish irregularities committed within the territory of the Republic which are contrary to the provisions of this Law. This shall include the possibility of preventing by the Central Bank of the offending banks from initiating further transactions within the Republic.

(5) Any measure taken pursuant to this section and involving penalties or restrictions on the exercise of the freedom to provide services shall be properly justified and communicated by the Central Bank to the bank concerned.

Take of precautionary measures.

10E. Before following the procedure provided for in section 10D, the Central Bank may, in emergency situations, take any precautionary measures necessary to protect the interests of depositors, investors or others to whom services are provided. The Central Bank shall inform the Commission and the competent authorities of the other Member States concerned of such measures at the earliest opportunity.

Take measures.

10F. The Central Bank, after being informed of the withdrawal of authorisation of a bank by the competent authority of the home Member State of the bank of another Member State, shall take appropriate measures to prevent the bank concerned from initiating further transactions within the territory of the Republic and to safeguard the interests of depositors.

Branches of banks from third countries.

10G.-(1) No provisions shall apply to branches of banks having their head office in a third country when commencing

or carrying on their business, which result in more favourable treatment than that accorded to branches of banks having their head office in the Community.

(2) The Central Bank shall notify the Commission and the European Banking Committee of all authorisations for branches granted to banks having their head office in a third country.

PART V
Limitations and Prohibitions on certain Business
Activities and Transactions

Limitation on credit facilities. 11.(1) A bank incorporated in the Republic shall not –

(a) permit the total value of exposures granted to any one person to exceed at any time twenty-five per centum of its capital base, or such other lower percentage as the Central Bank may determine from time to time;

It is provided that the Central Bank may allow exposures in excess of twenty-five per centum of a bank's capital base provided that the excess relates to trading book exposures as defined in a directive issued by the Central Bank on the capital adequacy and is covered by additional capital requirement as prescribed by the Central Bank under section 21 of this Law.

(b) permit the aggregate of all large exposures, as defined in subsection (4), to exceed at any time eight hundred per centum of its capital base, or such other lower percentage as the Central Bank may determine from time to time;

(c) grant any director any exposure unless the transaction was approved by a resolution of the Board of Directors carried by a majority of two-thirds of the total number of directors of the bank and the director concerned was not present during the discussion of this subject by the Board and did not vote on the resolution. The exposures granted in such cases are granted on the same commercial terms as would apply to a customer for similar exposures in the ordinary course of banking business;

(d) subject to the provisions of subsection (1)(a), permit the total value of exposures in respect of all its directors together to exceed at any time forty per centum of its capital base, or such other lower percentage as the Central Bank may determine from time to time;

(e) permit the total value of any unsecured exposures,

which are granted to all its directors together to exceed at any time five per centum of its capital base, or such other lower percentage as the Central Bank may determine from time to time.

(1A) If, in an exceptional case, exposures exceed the limits laid down in paragraphs (a), (b), (d) and (e) of subsection (1), that fact shall be reported without delay to the Central Bank which may, where the circumstances warrant it, allow the bank a limited period of time in which to comply with the limits.

(2) In determining compliance with subsection (1) the Central Bank may exempt any exposure from time to time having regard to the exceptionally low risk arising from the exposures concerned provided that such exemptions are not in conflict with European Union acts in force in the Republic.

(3) The Central Bank may determine that -

(a) the interests of two or more persons are so inter-related that they should be considered as one person, whereupon the exposures granted to such persons shall be combined and deemed to be granted in respect of a single person;

(b) the interests of any director are so inter-related with the interests of another person or persons that these persons should be considered as one person whereupon the exposures granted to the director or any such person or persons shall be combined and deemed to be granted to the said director.

(4) For the purposes of this Law -

(a) "exposure" in respect of a person means any loan, advance or overdraft granted to such person, or the granting of any financial leasing including hire purchase financing, or the discount of any bill of which he is either acceptor, or drawer or endorser, or the granting of any financial guarantee or the undertaking of any other financial liability or obligation on behalf of this person or the investment in securities issued by that person, or the undertaking of any commitment to grant any of the above, and includes any of the above in respect of another person secured by the guarantee of this person; it also includes any other on balance sheet asset item or off-balance sheet asset item of a bank funded or unfunded in respect of that person

(b) "large exposure" means an exposure to any one person equal to or greater than 10 per centum of the capital base of a bank;

(c) "exposure not secured by tangible security" means any exposure other than the one secured by assets, whose value is not less than the exposure amount or that part of the exposure amount which exceeds the value of the asset that constitutes the security. The value is calculated in accordance with a directive issued by the Central Bank under section 41.

Limitations on holdings of immovable property

12.(1) A bank shall not acquire or purchase any immovable property or hold any right therein, save -

(a) where the property may be currently required for the purpose of conducting its business or for providing recreation facilities to its staff or with the prior written approval of the Central Bank for the purpose of establishing a cultural centre of a non profit making character; or

(b) where the property is acquired as a result of a process of selling the property in the course of satisfaction of debts due to the bank or is acquired in the course of settlement of debts due to the bank provided that the property shall be disposed of as soon as possible and in any case within three years of its acquisition except where the Central Bank extends the period of three years if it considers that such extension is fully justified on account of exceptional circumstances;

Cap. 109
52 of 1969
55 of 1972
50 of 1990.

It is provided that in the case of a bank other than a bank incorporated in Cyprus the provisions of the Acquisition of Immovable Property (Aliens) Law shall not apply.

Cap. 224.
3 of 1960
78 of 1965
10 of 1966
75 of 1968
51 of 1971
2 of 1978
16 of 1980
23 of 1982
68 of 1984
82 of 1984
86 of 1985
189 of 1986
12 of 1987
74 of 1988
117 of 1988
43 of 1990
65 of 1990

(2) For the purposes of this section the term "immovable property" has the meaning assigned to it by section 2 of the Immovable Property (Tenure, Registration and Valuation) Law.

30(l) of 1992
 90(l) of 1992
 6(l) of 1993
 58(l) of 1994
 40(l) of 1996.

Limitations on
 shareholdings

13.(1) Unless the Central Bank grants its prior written approval and subject to any conditions which the Central Bank may consider proper to impose, a bank shall not acquire or hold directly or indirectly more than ten percent of the share capital of any other company or have control over such company and in the case of a bank incorporated in the Republic the value of any share capital held in any other company shall not exceed ten percent and for all companies in aggregate shall not exceed twenty five percent of the bank's capital base.

(2) Subsection (1) shall not apply where a bank acquires or holds -

(a) any part of the share capital of any company under an underwriting or sub-underwriting contract for a period not exceeding two years from the time of acquisition except where the Central Bank considers proper to extend the period of two years on account of exceptional circumstances;

(b) any holding of share capital in a company which carries out banking business, nominee, executor or trustee functions or predominantly other functions integral to or closely related to banking business, provided that such company is incorporated in the Republic.

(3) For the purposes of subsection 2(b) the following shall constitute functions which are integral to or closely related to banking business -

(a) lending, including, inter alia: consumer credit, mortgage credit, factoring with or without recourse and the financing of commercial transactions (including forfeiting);

(a1) financial leasing, including hire purchase financing;

(b) money transmission services;

(c) issuing and administering means of payment (e.g. credit cards, travellers' cheques and bankers' drafts);

(d) guarantees and commitments;

(e) trading for own account or for account of customers in:

(i) money market instruments including cheques,

bills, certificates of deposit etc.;

(ii) foreign exchange;

(iii) financial futures or options;

(iv) exchange and interest-rate instruments;

(v) transferable securities;

(f) participation in securities issues and the provision of services related to such issues;

(g) advice to undertakings on capital structure, industrial strategy and related questions and advice as well as services relating to mergers and the purchase of undertakings;

(h) money broking;

(i) portfolio management and advice;

(j) safekeeping and administration of securities;

(k) credit reference services;

(l) safe custody services;

(m) Data processing services;

(n) Insurance brokerage services;

(o) Any other activity which may be specified by the Central Bank.

(4) For purposes of compliance with subsection (1) there shall be excluded any share capital in another company which was acquired by the bank in the course of satisfaction of debts due to it, provided that such share capital is disposed of not later than three years from the time of its acquisition, except where the Central Bank considers proper to extend the period of three years on account of exceptional circumstances.

Prohibition of trading

14.(1) A bank shall not engage, whether on its own account or on a commission basis, in any trading activity or enterprise save in so far as may be necessary in the ordinary course of banking operations for the satisfaction of debts due to the bank.

(2) Nothing in subsection (1) shall be construed as preventing the carrying on of any of the activities referred to in paragraph (b) of subsection (2) and subsection (3) of section 13 and in

Annex I the services and activities in Annex I of the Law.

Prohibition of dealing in own shares. 15. A bank incorporated in the Republic shall not -

(a) acquire or deal for its own account in its own shares without the prior approval of the Central Bank, which is granted subject to the provisions of the Companies Law with regards to a company's right of redemption or acquisition of its own shares.

(b) grant credit facilities to persons other than the employees of the bank in excess of fifty thousand pounds per person for the purpose of enabling the purchase of its own shares or the shares of its holding company or the shares of any subsidiary of the bank or of its holding company.

Opening of account and client identification records

15A. (1) Each bank is required to obtain from each and everyone of its customers, for the purposes of opening a bank account with it, the customer's identity records, i.e. its name, its address, the number of its official identity card or its passport number and its country of issue.

(a) obtain from each and everyone of its customers, for the purposes of opening a bank account with it, the customer's identity records, i.e. its name, its address, the number of its official identity card, or its passport number and its country of issue.

(b) incorporate the identification information obtained under paragraph (a) of this subsection, in the information appearing on the customer's bank statement.

(2) The information referred to in subsection (1) of this section is obtained from the official identification card or from the passport which the real beneficiary submits:

It is provided that banks are required to ensure that the information referred to above is incorporated in all accounts which are kept by them which have no identification records or which have records which are not in compliance with the true records of the customer.

PART VI

Ownership and Management of Banks

Amalgamation. 16.(1) Notwithstanding the provisions of any other Law-

(a) a bank incorporated in the Republic shall not sell or dispose the whole or part of its business by amalgamation or otherwise, except with the prior written approval of the Central Bank;

(b) a bank, other than a bank incorporated in the Republic, shall not sell or dispose the whole or part of its business in the Republic, by amalgamation or otherwise, except with the prior written approval of the Central Bank.

(2) The approval of the Central Bank under subsection (1) may be granted subject to any conditions which the Central Bank may consider proper to impose.

Limitation on large
shareholdings in banks

17.-(1)(a) Any natural or legal person who proposes to acquire, directly or indirectly, the control of a bank established in the Republic shall first inform the Central Bank, stating to it the size of the intended holding.

(b) No person can, through an associate or associates, have directly or indirectly the control of any bank established in the Republic or its parent undertaking, unless that person obtains the prior written approval of the Central Bank.

(2) (a) Any proposal by a natural or legal person to increase the control in a bank or its parent undertaking so that the proportion of the voting rights or of the capital held by him would reach or exceed 20%, 33% or 50% or so that the bank would become his/its subsidiary, the natural or legal person shall inform first the Central Bank and obtain its authorisation before that person proceeds to the acquisition of the intended holding.

(b) If the person proposing to acquire control of a bank or to increase its control, so that the proportion of voting rights or of the share capital held by it in any bank would reach or exceed 20%, 33% or 50% or so that the bank would become his subsidiary, is a bank, insurance undertaking or investment firm authorised in another Member State, or the parent undertaking of a bank, insurance undertaking or investment firm authorised in another Member State, and if, as a result of that acquisition, the bank in which the acquirer proposes to acquire control would become a subsidiary of the said acquirer or subject to the control of the acquirer, the assessment of the acquisition shall be subject to the prior consultation provided for in section 4(8) to (10).

(3) (a) Any natural or legal person who proposes to dispose, directly or indirectly, control of a bank, shall first inform the Central Bank of the size of his intended holding.

(b) Any natural or legal person shall likewise inform the Central Bank, if it proposes to reduce its holding so that the proportion of the voting rights or of the share capital held by it

in a bank or in its parent undertaking, would fall below 20%, 33% or 50% or so that the bank could cease to be its subsidiary.

(4) Irrespective of any provisions of the Companies Law or any other law, if a holding in a bank or in its parent company is acquired despite the opposition of the Central Bank, the Central Bank may regardless of any other sanctions it may adopt, provide either for the corresponding voting rights to be suspended, or for the nullity of votes cast or for the possibility of their annulment.

(5) The Central Bank has a maximum of three months from the date of the notification provided for in subsection (1) to oppose such a plan if, in view of the need to ensure sound and prudent management of the bank, it is not satisfied as to the suitability of the person concerned:

If the Central Bank does not oppose, it may set a maximum period for the implementation of the plan for the acquisition of the proposed holding.

(6)(a) For purposes of subsection (1) the term “associate” in relation to a person acquiring or holding shares includes -

(a) the spouse or relatives of the first degree of kindred of that person;

(b) any company of which that person is a director or has control over it;

(c) any person who is a partner of that person, and in the case where that person is a company -

(i) any director or any person who has control over that company,

(ii) any subsidiary of that company, and

(iii) any director of any such subsidiary;

(d) any other person or persons whose interests, in the opinion of the Central Bank, are interdependent with those of that person:

(7)(a) Banks, shall on becoming aware of any acquisitions or disposals of holdings in their capital that cause holdings to exceed or fall below ten percent (10%), inform the Central Bank immediately of those acquisitions or disposals.

(b) Banks, also, disclose to the Central Bank, at least twice a year, the names of the shareholders or members with holding of 10% or more as well the percentages of their

holdings, which derive mainly from the information gathered during the annual general meeting of the shareholders or members or from the information received from the obligations of the banks whose shares are listed on recognised stock exchanges, as these are defined in a directive of the Central Bank.

(8)(a) In case where the influence exercised by the persons who possess control of a bank, is likely to operate to the detriment of the prudent and sound management of the bank, the Central Bank takes appropriate measures to put an end to that situation.

(b) For the purposes of this subsection, the measures taken by the Central Bank include injunctions, sanctions against directors and managers, or the suspension of the exercise of the voting rights attaching to the shares or to the voting rights held by the said shareholders or members of the bank.

(c) Similar measures shall apply to natural or legal persons who fail to comply with the obligation to provide prior information to the Central Bank, as provided in subsection (1).

(9) In determining the control referred to in this section, the voting rights referred to in section 169 of the Cyprus Stock Exchange Law are taken into account.

(10) The bank shall know every legal person that possesses at least five percent (5%) of its issued share capital, the names of the natural persons to whom each legal person belongs to, and to disclose this information to the Central Bank at least twice a year or when there has been an amendment or change to the information.

Persons disqualified to act as directors etc without approval.

18. (1) Any person who -

(a) is bankrupt or has entered into a compromise with its creditors; or

(b) has been convicted in any country of an offence involving fraud or dishonesty; or

(c) has been convicted of an offence under this Law, and in the case where that person is a company:

- (i) any director or any person who has control over that company
- (ii) any subsidiary of that company
- (iii) any director of any such subsidiary,

shall not without the prior written approval of the Central Bank act as a director, chief executive officer or manager of a bank, as a result of bankruptcy, compromise or conviction before a period of five years from the date of conviction has elapsed.

(2) Notwithstanding the provisions of subsection (1), if in the opinion of the Central Bank, that any individual is not a fit and proper person to act as director, chief executive or manager of a bank, the Central Bank may direct that such person shall not act as director, chief executive or manager of a bank.

(3) In determining whether a person is a fit and proper person to hold any of the above positions in accordance with subsection (2), the Central Bank shall have regard to his probity, to his competence and soundness of judgement for fulfilling the responsibilities of that position, to the diligence with which he is fulfilling or likely to fulfil those responsibilities and to whether the interests of depositors or potential depositors of the bank are, or are likely to be, in any way, threatened by his holding that position. Moreover, the Central Bank will not consider a person to be fit and proper to act as director, chief executive or manager of a bank, if that person is not of sufficiently good repute or lacks sufficient experience to hold any of the above positions.

Management of a bank and a financial holding company.

19.-(1) At least two individuals are required to participate and concur in the effective direction and management of the business of the bank.

(2) Every bank shall have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and adequate internal control mechanisms, including sound and accounting procedures.

(3) The arrangements, processes and mechanisms referred in subsection (2) shall be comprehensive and proportionate to the nature, scale and complexity of the bank's activities taking into account the technical criteria laid down in a directive of the Central Bank.

(4) The persons who effectively direct the business of a financial holding company shall be of sufficiently good repute and have sufficient experience to perform those duties.

Strategies and processes of banks and their internal review.

19A.-(1) Banks shall have in place sound, effective and complete strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of

internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. For this purpose, banks adopt the guidelines, which are issued in a directive of the Central Bank.

(2) These strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the bank.

PART VII

Capital

Minimum capital.	20. A bank incorporated in the Republic shall have at all times minimum own funds of not less than three million pounds or such other higher amount that the Central Bank might determine.
Capital adequacy.	<p>21.-(1) Subject to the provisions of subsection (2) of section 41, the Central Bank may by notice given in writing, require banks incorporated in the Republic to maintain a capital adequacy ratio at such minimum level as may be determined by the Central Bank from time to time for each bank individually having regard to its circumstances.</p> <p>(2) The capital adequacy ratio referred to in subsection (1) shall be in the form of mandatory maintenance of a capital base in relation to total assets including the activities of the trading book, to the off balance sheet exposures, to the operational risk or to categories of assets specified by the Central Bank from time to time at such minimum ratio or ratios as may be prescribed by the Central Bank from time to time.</p>
Computation of capital.	22. Subject to the provisions of section 41(2) the Central Bank shall determine what constitutes capital base of a bank and the method by which it shall be computed and shall notify the banks in writing.
Recognition of external credit assessment institutions.	22A.-(1) The Central Bank may recognise an external credit assessment institution (ECAI) as eligible for the purposes of capital adequacy calculation, only if it is satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency. For those purposes, the Central Bank may take into account the
Annex II	<p>technical criteria set out in Annex II.</p> <p>(2) An ECAI which has been recognised as eligible by the competent authorities of another Member State may also be recognised by the Central Bank as eligible without carrying</p>

out its own evaluation process.

(3) The Central Bank makes publicly available an explanation of the recognition process, and a list of eligible ECAs.

PART VIII

Liquidity

Maintenance of liquidity.

23.(1) The Central Bank may establish a minimum ratio of liquefiable assets to be held by banks, in respect of the liabilities and other obligations of banks falling due or maturing within a period or periods as may be specified by the Central Bank, from time to time.

(2) Subject to the provisions of section 41(2) the liabilities and the liquefiable assets for purposes of subsection (1) shall be defined and calculated as may be determined by the Central Bank and notified in writing to banks.

(3) The powers which the Central Bank may exercise under this section shall be in addition to and not in substitution of its powers under section 38 of the Central Bank of Cyprus Law.

PART IX

Returns and Accounts

Submission and publication of balance sheet etc.

24. (1) Every bank shall, within four months from the end of each financial year, submit to the Central Bank a copy of the balance sheet and profit and loss account for that year, in the form prescribed by the Central Bank, duly certified by an approved auditor together with a signed copy of his report in the form prescribed by the Central Bank.

It is provided that the audit of banks shall be carried out in accordance with international auditing standards and any additional requirements specified by the Central Bank.

(2) In case of failure by a bank to appoint an approved auditor, the Central Bank may appoint such auditor and fix his remuneration to be paid by the bank concerned.

(3) A bank incorporated in the Republic shall publish, within six months from the end of each financial year, in such manner and form as the Central Bank may determine, the balance sheet and profit and loss account for that year together with the approved auditor's report.

(4) A bank, other than a bank incorporated in the Republic, shall publish in such manner and form as the Central Bank may determine the balance sheet and profit and loss account for each financial year covering its business as a whole.

Returns and information by banks. 25.(1) Every bank shall submit within fifteen days of the end of each month, or within such other period as the Central Bank may determine, to the Central Bank a certified statement of its assets and liabilities at the end of that month in a form prescribed by the Central Bank.

(2) The Central Bank may require a bank to submit periodically or at its request, such other information and within such time as may be specified by the Central Bank.

(3) Every bank incorporated in the Republic shall publicly disclose, in the manner prescribed in a Directive of the Central Bank, information concerning its operation, including the targets and the qualitative characteristics of the risk management policy, quantitative information on the risks undertaken, information regarding its own funds, the method of capital adequacy calculation and the monitoring of large exposures, and disclose whether it complies with the capital adequacy ratio as defined by the Central Bank pursuant to section 21.

PART X

Supervision and Inspection

Supervision and inspection by the Central Bank.

26. (1) The Central Bank is responsible for the supervision of banks in order to ensure the orderly functioning of the banking system;

The prudential supervision of banks, which also covers their activities pursuant to section 10C, is exercised by the Central Bank, as the competent authority of the home member state, subject to the provisions of this Law which assign responsibility to the competent authority of the host member state. This does not affect the supervision on a consolidated basis which is provided for in section 39.

(2) Every bank shall, when so required by the Central Bank, make available for examination by a duly authorised official of the Central Bank its liquid and other assets, books or records, accounts and other documents, including those relating to the granting of loans and other facilities as well as the reports obtained by the bank regarding the business and financial position of debtors:

Provided that any such official may be assisted by a duly qualified person nominated for this purpose by the Central Bank who shall be bound by the same requirements regarding confidentiality as those applicable to officials of the Central Bank.

(3) The Central Bank is empowered to require banks to pay to

it fees in connection with expenses incurred for their supervision and inspection in accordance with its directives.

(4) Any information obtained under this section, subsection (4) of section 3 and sections 24, 25 and 28, other than information which is published, shall be kept secret and used only for any of the purposes of the Central Bank of Cyprus Law, or of this Law.

(5) Notwithstanding the provisions of subsection (3), the Central Bank may use any of the information provided to it under this law for the compilation and publication of statistical aggregates.

(6) Taking into account the technical criteria set out in Annex III, the Central Bank shall review the arrangements, strategies, processes and mechanisms implemented by the banks to comply with the provisions of this Law and evaluate the risks to which the banks are or might be exposed to.

(7) The scope of the review and evaluation referred to in subsection (6) shall be that of the requirements of this Law and the directives issued pursuant to it.

(8) On the basis of the review and evaluation referred to in subsection (6), the Central Bank shall determine whether the arrangements, strategies, processes and mechanisms implemented by the banks and their own funds ensure a sound management and coverage of their risks.

(9) The Central Bank shall establish the frequency and intensity of the review and evaluation referred to in subsection (6) having regard to the size, systemic importance, nature, scale and complexity of the activities of the bank concerned and taking into account the principle of proportionality. The review and evaluation shall be updated at least on an annual basis.

(10) The review and evaluation performed by the Central Bank shall include the exposure of banks to the interest rate risk arising from their non trading book activities. Measures shall be required in the case of banks whose economic value declines by more than twenty percent (20%) of their own funds as a result of a sudden and unexpected change in interest rates the size of which shall be prescribed by the Central Bank and shall apply equally to all banks.

Disclosure of information by the Central Bank.

26A.-(1) The Central Bank shall disclose the following information:

(a) the texts of laws, regulations, directives,

administrative rules and general guidance issued in the Republic in the field of prudential regulation;

(b) the manner of exercise of the options and discretions available in Community legislation;

(c) the general criteria and methodologies it uses in the review and evaluation referred to in subsection (6) of section 26; and

(d) without prejudice to the provisions laid down in subsections (1), (2) and (5) of section 27 and sections 27A, 27B, 27C, 27D, 28A, 28B and 28D, aggregate statistical data on key aspects of the implementation of the prudential framework by the Central Bank.

(2) The information disclosed, are updated regularly and are accessible at a single electronic location.

Cooperation with other competent authorities.

27. (1)(a) Without prejudice to the provisions of section 26, the Central Bank may cooperate and exchange information -

(a) with competent supervisory authorities responsible for the supervision of credit institutions, insurance companies, investment firms, financial institutions or regulated markets, either in the Republic or in a third country, and,

(b) with the competent supervisory authorities of credit institutions, insurance companies, investment firms, financial institutions or regulated markets of member states, to assist them in the conduct of their duties and responsibilities or to enable the effective conduct of its own duties, including the supervision on a consolidated basis.

(2) Where, the competent supervisory authorities of one member state wish in specific cases to verify the information required for the performance of their duties concerning a bank, a financial holding company, an ancillary services undertaking, a mixed activity holding company, a company which is not a credit institution and whose main activity comprises of acquisitions of holdings, a company which carries out business that is closely associated with the banking business or closely related with such business in accordance with paragraphs (a) to (l) of subsection (3) of section 13, a subsidiary that is referred to in section 39A or subsidiary of a bank or of a financial holding company that is not subject to consolidated supervision or the parent company of those companies, which are incorporated in the Republic, shall request the Central Bank to have that verification carried out. Upon receipt of such request, the Central Bank shall act upon it as follows by -

- (a) Carrying out the verification itself;
- (b) Allowing the authorities who made the request to carry it out;
- (c) Allowing an auditor or expert to carry it out;

The competent authority which made the request may, if it so wishes, participate in the verification when it does not carry out the verification itself.

(3) Subject to the provisions of subsection (1), in the case a branch of a bank that carries out banking business in the Republic, whose head office is located in a third country, the competent authority of that third country who is responsible for the supervision of the said bank may carry out inspections of the said branch, provided it was previously discussed with the Central Bank and the Central Bank has given its consent.

(4) Any exchange of information will only take place when the Central Bank is satisfied that the information provided is subject to the same confidentiality rules in the hands of the receiving competent supervisory authority as apply to the Central Bank.

(5) Where the information received by the Central Bank originates in another member state of the European Union, it may not be disclosed without the express agreement of the competent authorities which have disclosed it and, where appropriate, solely for the purposes for which those authorities gave their agreement.

(6) In addition to the obligations imposed by other provisions of this Law, the Central Bank, when acting as the supervisory authority responsible for the exercise of supervision on a consolidated basis of EU parent credit institutions and banks controlled by EU parent financial holding companies shall carry out the following tasks:

(a) coordination of the gathering and dissemination of relevant or essential information in going concern and emergency situations; and

(b) planning and coordination of supervisory activities in going concern as well as in emergency situations, including in relation to the activities in section 26, in cooperation with the competent authorities involved.

(7) (a) (i) The Central Bank may, following the submission of an application, permit banks to calculate their risk-weighted exposure amounts using the Internal Ratings Based

Approach ("IRB Approach") or/and use internal loss given default and conversion factors or/and use advanced measurement techniques using their own methods for measuring operational risk and relevant models for the calculation of their own capital requirements and/or the use of the Internal Model Method (IMM) as detailed in a directive of the Central Bank.

(ii) Banks may determine the exposure amount for the derivative contracts, repurchase transactions, borrowing transactions or securities or commodities lending, margin lending transactions and long settlement transactions, as defined in a directive of the Central Bank.

(iii) For applications submitted by an EU parent credit institution and its subsidiaries or by an EU parent investment firm and its subsidiaries or collectively by the subsidiary companies of an EU parent financial holding company, the Central Bank shall cooperate and shall consult closely with the competent authorities in order to decide whether to grant its approval or not and to determine the terms and conditions that must be fulfilled for the granting of the approval.

(b) The Central Bank and all competent authorities involved shall make every possible effort so that to come to a common decision with regards to the application within six months. This common decision shall be presented in a document that contains the fully justified decision, which is communicated to the applicant by the Central Bank.

(c) The time limit of paragraph (b) commences from the date of receipt of the fully completed application by the Central Bank. The Central Bank communicates immediately the fully completed application to the other competent authorities involved.

(d) If a common decision is not taken by the competent authorities within six months, the Central Bank shall take decision itself with regard to the application. The said decision is disclosed in the document that contains the fully justified decision and takes into consideration the views and reservations that have been expressed by the other competent authorities within the six-month period. The decision is communicated to the applicant and to the other competent authorities by the Central Bank.

(e) The decisions referred to in paragraphs (b) and (d) are recognised as enforceable and are applied in the member states concerned.

(8) Where an emergency situation arises within a banking group, which potentially jeopardises the stability of the

financial system in any of the Member States where entities of a group have been authorised, the Central Bank, in case it is responsible for the exercise of supervision on a consolidated basis, shall alert as soon as is practicable, subject to the provisions of subsections (1) to (5). This obligation shall apply to all cases for which, under the provisions of subsections (6) and (7) of section 27 and subsection (7) of section 39, the Central Bank is identified as the competent authority for the supervision on a consolidated basis with respect to a specific group. Where possible, the Central Bank uses existing defined channels of communication.

(9) The Central Bank, in case it is responsible for the supervision on a consolidated basis shall, when it needs information which has already been given to another competent authority, contact this authority whenever possible in order to prevent duplication of reporting to the various authorities involved in supervision.

(10) In order to supervise the activities of banks operating, in particular through a branch, in one or more Member States other than that in which their head offices are situated, the competent authorities of the Member States concerned, including the Central Bank shall collaborate closely. They shall supply one another with all information concerning the management and ownership of such banks that is likely to facilitate their supervision and the examination of the conditions for their authorisation, and all information likely to facilitate the monitoring of such institutions, in particular with regard to liquidity, solvency, deposit guarantees, the limiting of large exposures, administrative and accounting procedures and internal control mechanisms.

(11) Where a bank authorised in another Member State carries on its activities also in the Republic through a branch, the competent authority of the home Member State, after having first informed the Central Bank, as the competent authority of the host Member State, may carry out itself or through a person they appoint for that purpose, on-the-spot verification of the information referred to in subsection (10).

(12) The competent authority of the home Member State may also, for the purposes of the verification of branches, have recourse to one of the other procedures laid down in subsection (2) of section 27.

(13) Subsections (11) and (12) shall not affect the right of the Central Bank, as the competent authority of the host Member State, to carry out, in the discharge of its responsibilities under this Law, on-the-spot supervision of the branches established within the Republic of banks which are authorised

in another Member State.

(14) Where a bank authorised by the Central Bank carries on its activities also in another Member State through a branch, the Central Bank, after having first informed the competent authority of the host Member State, carry out itself or through a person it appoints for that purpose on-the-spot verification of the information referred to in subsection (10).

(15) The Central Bank, as the competent authority of the home Member State, may also, for purposes of the supervision of branches, have recourse to one of the other procedures laid down in section 27(2).

(16) Subsections (14) and (15) shall not affect the right of the competent authority of the host Member State to carry out, in the discharge of its responsibilities, on-the-spot supervision of the branches established in that member state of banks which are authorised by the Central Bank, which are assigned by the legislation of the host member state equivalent to this Law.

Exchange of information.

27A.-(1) The provisions of subsection (1) of section 28A and section 28B shall not preclude the exchange of information between the Central Bank and the following for the discharge of its supervisory function:

(a) the bodies involved in the liquidation and bankruptcy of banks and in other similar procedures; and

(b) the approved auditor responsible for carrying out, under the Companies Law and this Law, statutory audits of the accounts of banks and, under the Companies Law, the audit of accounts of other financial institutions.

(2) Subsection (1) of section 28A and section 28B shall not preclude the disclosure to bodies in the Republic or in other Member States which administer deposit-guarantee schemes, of information necessary to the exercise of their function.

(3) With regard to subsection (1) of section 27 and subsections (1) and (2) of this section, the information received shall be subject to the conditions of professional secrecy specified in subsection (1) of section 28A.

Exchange of information with the authorities responsible for overseeing the bodies involved in the liquidation and bankruptcy of credit

27B.-(1) Notwithstanding subsection (1) of section 27 and irrespective of the provisions of subsections (4) and (5) of section 27 and sections 28A and 28B, the Central Bank may exchange information within the Republic with:

institutions or for overseeing persons charged with carrying out statutory audits.

(a) the authorities responsible for overseeing the bodies involved in the liquidation and bankruptcy of credit institutions and in other similar procedures; and

(b) the authorities responsible for overseeing persons charged with carrying out statutory audits of the accounts of insurance undertakings, banks, investment firms and other financial institutions.

(2) In the cases of subsection (1), as a minimum, the following conditions must be fulfilled:

(a) the information shall be for the purpose of performing the supervisory task referred to in subsection (1);

(b) information received in this context shall be subject to the conditions of professional secrecy; and

(c) where the information originates in another Member State, it may not be disclosed without the express agreement of the competent authorities which have disclosed it and, where appropriate, solely for the purposes for which those authorities gave their agreement.

(3) The Central Bank shall communicate to the Commission and to the other Member States the names of the authorities which may receive information pursuant to subsections (1) and (2).

(4) Notwithstanding subsection (1) of section 27 and irrespective of the provisions of subsections (4) and (5) of section 27 and sections 28A and 28B, the Central Bank may, with the aim of strengthening the stability, including integrity, of the financial system, exchange information with the authorities or bodies in the Member States responsible under law for the detection and investigation of breaches of company law.

(5) In case of subsection (4), at least the following conditions shall be fulfilled:

(a) the information shall be for the purpose of performing the supervisory task referred to in subsection (4);

(b) information received in this context shall be subject to the conditions of professional secrecy; and

(c) where the information originates in another Member State, it may not be disclosed without the express agreement of the competent authorities which have disclosed it and, solely for the purposes for which those authorities gave their agreement.

(6) Where the authorities or bodies referred to in subsection (4) perform their task of detection or investigation with the aid, in view of their specific competence, of persons appointed for that purpose and not employed in the public sector, the possibility of exchanging information provided for in subsection (4) may be extended to such persons under the conditions specified in subsection (5).

(7) In order to implement subsection (6), the authorities or bodies referred to in subsection (4) shall communicate to the Central Bank, which requires the information, the names and precise terms of reference of the persons to whom it is to be sent.

(8) The Central Bank shall communicate to the Commission and to the other Member States the names of the authorities or bodies which may receive information pursuant to subsection (4) to (7).

Communication of information.

27C.-(1) Irrespective of the provisions of subsections (1), (4) and (5) of section 27 and sections 27A, 27B, 27D, 28A, 28B, 28C and 28D of this Law, the Central Bank may transmit, within the framework of performing its responsibilities, information to the following bodies:

(a) central banks and other bodies with a similar function in their capacity as monetary authorities; and

(b) where appropriate, to other public authorities responsible for overseeing payment systems.

(2) Irrespective of the provisions on professional secrecy, provided for in subsections (1), (4) and (5) of section 27 and sections 27A, 27B, 27D, 28A, 28B, 28C and 28D of this Law, such authorities or bodies are not precluded from communicating to the Central Bank such information as it may need.

Announcing of information.

27D. The provisions with regard to professional secrecy referred to in subsections (1), (4) and (5) of section 27 and sections 27A, 27B, 27C, 28A, 28B, 28C and 28D shall not prevent the Central Bank from communicating the information referred to in subsection (4) of section 26(4) and subsections (1), (4) and (5) of section 27, to a clearing house or other similar body recognised under Cyprus law for the provision of clearing or settlement services in a market of the Republic, if

it considers that it is necessary to communicate the information in order to ensure the proper functioning of those bodies in relation to defaults or potential defaults by market participants. The information received in this context shall be subject to the conditions of professional secrecy as specified in subsection (1) of section 28A:

For the purposes of this section, where the information received by the Central Bank originate from the competent authority of another Member State, such information shall be subject to the conditions of subsection (5) of section 27.

Communication
between the Central
Bank and Auditors.

28.(1) The Central Bank may from time to time, arrange trilateral meetings with each bank and its approved auditors to discuss matters relevant to the Central Bank's supervisory responsibilities which arise in the course of the audit of that bank conducted in accordance with section 24, including relevant aspects of the bank's business, its accounting and control systems, and its annual balance sheet and profit and loss accounts.

(2) The Central Bank may, if it considers it desirable or necessary in the interests of depositors, arrange bilateral meetings with the approved auditors of banks.

(3) No duty of confidentiality to which an auditor of a bank may be subject shall be regarded as contravened by reason of his communicating in good faith to the Central Bank, whether or not in response to a request made by it, any information or opinion which is relevant to the Central Bank's functions and responsibilities under this Law.

(3A) (a) The approved auditor of the bank is obliged to report promptly to the Central Bank any fact or decision concerning the bank, of which he has become aware while carrying out its audit which may:

(i) constitute a material breach of the laws, regulations or administrative provisions which lay down the conditions governing authorisation or which specifically govern the pursuit of the activities of banks;

(ii) affect the continuous functioning of the bank; or

(iii) lead to refusal to certify the accounts or to the expression of reservations.

(b) The obligation in paragraph (a) applies to the approved auditor of the bank with regard to the facts or decisions of which he becomes aware in the course of carrying out the audit of an undertaking having close links resulting from the control relationship with the bank.

- Professional secrecy. 28A. (1) (a) All persons who carry out or have carried out a task on behalf of the bank and the auditors or experts commissioned by the Central Bank, are subject to professional secrecy.
- (b) None of the confidential information that a person in subsection (1) becomes aware of, while carrying out his professional duties, shall not be disclosed to any person or any authority, except in a concise or collective form, so that the identity of the bank does not emerge, unless the case falls under the criminal law.
- (c) Whenever a bank is declared bankrupt or its compulsory liquidation was ordered by the Court, any confidential information which is not related to the third parties who were involved in its rescue efforts, is permitted to be disclosed in the context of procedures of the civil or commercial law.
- (2) Irrespective of the provisions of subsection (1), the competent authorities of various Member States are not precluded from exchanging information in accordance with this Law and other laws or directives or regulations implemented by banks. This information is subject to the conditions of professional secrecy provided for in subsection (1).
- Use of confidential information. 28B. When the Central Bank receives confidential information, under the provisions of section 28A, it may use this information in the course of its duties and only for the following purposes:
- (a) to verify that the conditions governing the taking-up of the business of banks are met and to facilitate monitoring, on a solo and on a consolidated basis, of the conduct of such business, especially with regard to the monitoring of liquidity, solvency, large exposures, and administrative and accounting procedures and internal control mechanisms;
- (b) to impose penalties;
- (c) in an administrative appeal against a decision of the Central Bank; or
- (d) in appeals initiated by banks pursuant to Section 146 of the Constitution against decisions made by the Central Bank or to special provisions provided for in this Law and in other laws adopted in the banking sector.
- Disclosure of certain information. 28C.(1) Notwithstanding the provisions of subsection (1) of section 28A and section 29, the disclosure of certain

information to other public authorities of the Republic responsible for the enforcement of legislation on the supervision of credit institutions, financial institutions, investment firms and insurance companies and to inspectors acting on behalf of those authorities. Such disclosures are made only where necessary for reasons of prudential control.

(2) The information received under subsection (1) of section 27 and sections 27A and 28A and information obtained by means of the on-the-spot inspections referred to in subsections (11) to (16) of section 27, may never be disclosed in the cases referred to in subsection (1), except with the express consent of the competent authority which disclosed the information or of the competent authority of the Member State in which on-the-spot inspection was carried out.

PART XI

Banking Secrecy

Duty to maintain bank secrecy.

29.(1) No director, chief executive, manager, officer, employee or agent of a bank and no person who has by any means access to the records of a bank, while his employment in or professional relationship with the bank, as the case may be, continues or after the termination thereof, give, divulge, reveal or use for his own benefit any information whatsoever regarding the account of any individual customer of the bank.

(2) Subsection (1) shall not apply in any case where -

(a) the customer or his personal representatives gives or give his or their written permission to do so; or

(b) the customer is declared bankrupt or if the customer is a company, the company is being wound up; or

(c) civil proceedings are instituted between the bank and the customer or his guarantor relating to the customer's account; or

(d) the information is given to the police under the provisions of any law or to a public officer who is duly authorised under that law to obtain that information or to a court in the investigation or prosecution of a criminal offence under any such law; or

(e) the bank has been served with a garnishee order attaching moneys in the account of the customer; or

(f) the information is required by a colleague in the employment of the same bank or its holding company or the subsidiary of the bank or its holding company or an approved

auditor or legal representative of the bank in the course of their duties; or

(g) the information is required to assess the creditworthiness of a customer in connection with or relating to a bona fide commercial transaction or a prospective commercial transaction so long as the information required is of a general nature and in no way related to the details of a customer's account; or

(gi) the information is supplied for the purpose of maintaining and operating the Central Information Register set up under the provisions of sub-sections (3) and (4) of section 41; or

(h) the provision of the information is necessary for reasons of public interest or for the protection of the interests of the bank.

It is provided that the provisions of this section shall also apply to any branch of a bank from a member state established in the Republic, or to any bank which provides cross border services under the provisions of section 10A

PART XII

Powers of the Central Bank

Powers to take measures.

30.(1) The Central Bank may take all or any of the following measures where a bank fails to comply with any of the provisions of this Law, or of any Regulation issued under this Law or with the conditions of its licence, or in the opinion of the Central Bank the liquidity and character of its assets have been impaired or there is a risk that the ability of the bank to meet promptly its obligations may be impaired, or where this is considered necessary for the safeguarding of the interests of depositors or creditors –

(a) require the bank forthwith to take such action as the Central Bank may consider necessary to rectify the matter or to restrict the operations of a bank by imposing conditions on its licence as it thinks desirable;

(b) Without prejudice to the generality of paragraph (a) above, impose conditions under this section and in particular:

(i) require the bank to take certain steps or to refrain from adopting or pursuing a particular course of action or to restrict the scope of its business in a particular way;

(ii) impose limitations on the bank on the acceptance of deposits, the granting of credit or the making of investments;

(iii) prohibit the bank from soliciting deposits, either generally or from specified persons or class of persons;

(iv) prohibit the bank from entering into any other transaction or class of transactions;

(v) require the removal of any director, chief executive or manager of a bank;

(vi) oblige the bank to hold own funds in excess of the minimum level laid down pursuant to the provisions of section 21;

(vii) require the reinforcement of the arrangements, processes, mechanisms and strategies of the bank implemented to comply with subsections (2) and (3) of section 19 and section 19A;

(viii) to require the bank to apply a specific provisioning policy or treatment of assets in terms of capital requirements;

(ix) restrict or limit the business, operations or network of banks; and

(x) require the reduction of the risk inherent in the activities, products and systems of banks.

The adoption of the measures specified in paragraphs (a) and (b) of subsection (1), are subject to the provisions of subsections (1), (2) and (5) of section 27 and sections 27A, 27B, 27C, 28A, 28B, 28C and 28D of this Law;

It is provided that any condition imposed under paragraphs (a) or (b) above may be varied or withdrawn by the Central Bank;

The Central Bank imposes a specific own funds requirement in excess of the minimum level laid down in section 21 at least on the banks which do not meet the requirements laid down in subsections (2) and (3) of section 19 and section 19A and the requirements for prudent administrative and accounting procedures and adequate internal control mechanisms for the detection and accounting recording of all of the large exposures and their subsequent changes, as defined in directive of the Central Bank and their supervision of these exposures taking into consideration the policy the bank follows in relation to exposures or in respect of which a negative determination has been made on the issue described in section 26(8), if the sole application of other measures is unlikely to improve the arrangements,

processes, mechanisms and strategies sufficiently within an appropriate timeframe.

(c) consult with other banks with a view to determining the action to be taken;

(d) assume control of, and carry on in the bank's name, the business of the bank, for so long as the Central Bank may consider necessary. In such cases the bank shall be obliged to provide the Central Bank such facilities as the Central Bank may require for carrying on the business of the bank;

(e) subject to the provisions of section 4A, revoke the licence of the bank.

(2) The Central Bank shall, before taking any measure under paragraph (a) or (b) of subsection (1), furnish a report to the bank inviting its comments thereon within a specified period which should not be less than three days from the date of the delivery of the report.

Consequences of revocation of a licence.

31.(1) Where the licence of a bank is revoked, the Central Bank shall notify the bank in writing of such revocation and the bank shall as from the date specified in the notice cease to carry on banking business.

(2) The revocation of a licence under subsection (1) shall not prejudice the enforcement by any person of any right or claim against the bank or by the bank of any right or claim against any person.

Liability of Central Bank.

32. (1) The Central Bank and any person who is a Director or an officer of the Central Bank, shall be liable in any action suit or other legal proceedings for damages for anything done or omitted in the discharge of the functions and responsibilities of the Central Bank under this Law or under the Regulations issued under this Law, unless it is shown that the act or omission was not in good faith or was the result of gross negligence.

(2) The protection provided under sub-section (1) extends likewise to the Management Committee and to the members of the Management Committee of the Central Information Register, appointed pursuant to sub-section (4) of section 41, with regard to the exercise of their duties.

PART XIII

Reorganisation measures, winding-up and dissolution

For the purposes of this Part, the term 'bank' also includes electronic money institution:

Reorganisation
measures.

33. (1) Subject to the provisions of sections 16, 33G, 33H, 33I, 33J, and 33K and of subsection (8) the reorganisation measures applied to any bank also apply to any of its branches in a member state other than the Republic and shall be fully effective in that member state, without any further formalities, even where the laws of the other Member State do not provide for such measures or make their implementation subject to conditions which are not fulfilled.

It is provided that in the case of a branch of a bank whose head office is in a member state other than the Republic, the reorganisation measures taken by the competent authorities of that state become automatically effective in the Republic.

(2) Where winding up measures are taken in a bank -

(a) the Central Bank may propose a compromise or a settlement, whereas the Court may, following an application by the Central Bank, order that a meeting of the bank's creditors is convened, as provided in subsection (1) of section 198 of the Companies Law

(b) the Court ratifies the said compromise or settlement, as provided for in paragraph (a), only after hearing the views of the Central Bank, as provided for in subsection (2) of section 198 of the Companies Law

(3) The taking of reorganisation measures does not prevent the dissolution of the bank and the commencement of winding-up proceedings.

(4) The Central Bank shall without delay inform the competent authorities of the member states of its decision to adopt any reorganisation measure, including the practical effects which such a measure may have.

(5) Without prejudice of the provisions of subsection (6), the decision to take reorganisation measures is published within fifteen days in the official Gazette of the Republic and within reasonable time in the Official Journal of the European Communities and in at least two national newspapers in each of the host Member States. In the publication the following must be explicitly stated -

(a) the purpose of the decision to take reorganisation measures and that these measures, save where in this Law it is otherwise stated, are governed by the Laws of the Republic,

(b) the time limits for lodging appeals, specifically a clearly understandable indication of the date of expiry of the time limits, and

(c) the full address of the authorities competent to hear an appeal.

(6) The reorganisation measures shall apply irrespective of the measures prescribed in subsection (5) and shall be fully effective as against creditors.

(7) Where a reorganisation measure provides for rules relating to the voidness, voidability or unenforceability of legal acts detrimental to the creditors as a whole performed before adoption of the measure, the provisions of the Companies Law do not apply, unless a beneficiary of these acts provides proof that the act detrimental to the creditors as a whole is subject to the law of a Member State other than of the Republic, and that law does not allow any means of challenging that act in the case in point.

(8) The Central Bank may, whenever it deems appropriate, to request through a duly reasoned application made to the Court, the application of one or more reorganisation measures in a bank. In this case the Court may ratify the reorganisation measures, irrespective of the fact that the meeting of the bank's creditors or shareholders as provided in section 198 of the Companies Law has not been summoned:

It is provided that the bank concerned is required to provide the necessary information, as provided for in section 199 of the Companies Law, to all its creditors and to all its shareholders.

(9) The provisions of subsections (1) to (8) are also applied, *mutatis mutandis*, where reorganisation measures are taken in a branch of a bank, whose head office is in a member state other than the Republic.

(10) Subparagraph (e) of section 33A is also applicable where reorganisation measures are taken.

(11) The Central Bank takes measures for the publication in the Gazette of the Republic of the reorganisation measures taken in a member state other than the Republic.

Winding-up.

33A. Save for the provisions of sections 33G, 33H, 33I, 33J, 33K and 33M, the publication of a decision to open winding-up proceedings in a bank, the winding-up procedure and its results are governed by the relevant provisions of the Companies Law, they are applicable by analogy and determine in particular:

(a) those assets of the bank which continue to belong to the bank, as well as the treatment of assets the bank acquired after the opening of winding-up proceedings;

- (b) the respective powers of the bank and the liquidator;
- (c) the conditions under which set-offs may be invoked;
- (d) the effects of winding-up proceedings on contracts to which the bank is party;
- (e) the effects of winding-up proceedings on proceedings brought by individual creditors, with the exception of lawsuits pending in a Court concerning an asset or rights of which the bank has been divested, which shall be governed by the law of the Member State in which the lawsuit is pending.
- (f) the claims which are lodged against the bank after the opening of winding-up proceedings and the treatment of such claims in the bank's balance sheet;
- (g) the rules governing the lodging, verification and admission of claims;
- (h) the rules governing the distribution of the proceeds of the realisation of assets, the ranking of claims and the rights of creditors who have obtained partial satisfaction after the opening of winding-up proceedings by virtue of a right in relation to or through a set-off;
- (i) the conditions for, and the effects of, the closure of winding-up proceedings;
- (j) creditors' rights after the closure of winding-up proceedings;
- (k) who is to bear the costs and expenses incurred in the winding-up proceedings;
- (l) the rules relating to the voidness, voidability or unenforceability of agreements detrimental to all the creditors, unless a beneficiary of these agreements provides proof that the agreement detrimental to the creditors as a whole
 - (i) is subject to the law of a Member State other than of the Republic, and
 - (ii) that law does not allow any means of challenging that agreement in the case in point.

It is provided that any branch of a bank, against which winding-up proceedings were opened, in a member state other than the Republic, is subject, to the extent that the said winding-up relates to it, to the provisions of this Law, as if the said branch was physically located and was operating in the

Republic.

Dissolution and
appointment of
liquidator.

33B. Irrespective of the provisions of the Companies Law with respect to the dissolution of a company, the revocation of a banking licence pursuant to paragraph (e) of subsection (1) of section 30 or section 4A or the surrender of a banking licence pursuant to subsection (6) of section 4 is a reason for its liquidation by the Court, after an application submitted by the Central Bank, and the appointment of a temporary receiver or liquidator of the bank, other than the Official Receiver, is made only after the Court hears the opinion of the Central Bank.

It is provided that, in the case of voluntary winding-up, the management bodies of the bank, request the Central Bank for its opinion, before taking such decision, whereas in the case of liquidation, either by the Court, or under the supervision of the Court, the Court informs immediately the Central Bank for the taking of such a decision:

It is further provided that any decision for the liquidation of the bank is applicable and immediately enforceable in all member states in which the bank has branches, without any further formalities.

It is further provided that, irrespective of the provisions of any other Law, and subject to the provisions of sections 33G, 33H, 33I, 33J and 33K, in the case of a branch of a bank whose head office is in a member state other than the Republic, any decision for the liquidation of the bank, taken by the competent authority of the home member state, is recognised and is effective without any restrictions in the Republic from the moment it is recognised and it is effective in the home member state, and the liquidation and all the issues referred to in section 33A are governed by the laws prevailing in the home member state, whereas the provisions of the Companies Law are applicable to the extent that they are not in conflict with the laws of the said home member state.

Information for the
competent authorities of
other member states.

33C. The Central Bank shall inform the competent authorities of the other member states of its decision to adopt any winding-up measure, including the practical effects which such a measure may have.

Voluntary winding up.

33D. The voluntary winding up of a bank shall not preclude the adoption of a reorganisation measure or the opening of winding-up proceedings.

Opening of winding-up
proceedings.

33E. (1) Where the opening of winding-up proceedings is decided on in respect of a bank in the absence, or following the failure, of reorganisation measures, the authorisation of the bank shall be withdrawn by the Central Bank and the latter informs immediately the competent authorities of the other

member states in which the bank has branches.

It is provided that, where the Central Bank decides to withdraw the banking licence of a bank which is registered in the Republic or in any other member state, it shall inform the competent authorities of member states of its decision, before the opening of winding-up proceedings, providing information on the potential effects of this procedure.

(2) The withdrawal of authorisation provided for in subsection (1) shall not prevent the person or persons entrusted with the winding up from carrying on some of the bank's activities insofar as that is necessary or appropriate for the purposes of winding up and that these activities are carried on with the consent and under the supervision of the Central Bank

Publication.

33F. The liquidator shall announce within reasonable time the decision to open winding-up proceedings through the publication of the winding-up decision in the Official Journal of the European Communities and in at least two national newspapers in each of the host Member States.

Effects on certain contracts and rights.

33G Subject to the provisions of sections 33 and 33A, the results of reorganisation measures or the opening of winding-up proceedings on -

(a) contracts of employment and employment relations and

(b) the rights over an immovable property, a ship or an aircraft subject to registration in a public register,

are governed by the law of the member state governing the contract of employment or under the authority of which the register is kept, depending on the case, whereas the effects of reorganisation measures on contracts conferring the right to make use of or acquire immovable property shall be governed solely by the law of the Member State within the territory of which the immovable property is situated.

It is provided that the enforcement of proprietary rights in instruments or other rights in such instruments the existence or transfer of which presupposes their recording in a register, an account or a centralised deposit system held or located in a member state shall be governed by the law of the member state where the register, account, or centralised deposit system in which those rights are recorded is held or located.

(2) Subject to the provisions of subsection (1), thenetting and conversion of debt agreements, repurchase agreements as well as transactions executed through the Cyprus Stock Exchange shall be governed solely by the laws applicable to

the contract governing these agreements or these transactions.

Third parties' rights.

33H. Subject to the provisions of subsection (7) of section 33 and of paragraph (l) of section 33A, the adoption of reorganisation measures or the opening of winding-up proceedings shall not affect the rights in re of creditors or any other parties in respect of movable or immovable assets - belonging to the bank which are situated within the territory of a Member State other than the Republic, at the time of the adoption of such measures or the opening of such proceedings.

(2) The rights referred to in subsection (1) shall in particular include:

(a) the right to dispose of assets or have them disposed of and to obtain satisfaction from the proceeds of or income from those assets, in particular by virtue of a lien or a mortgage;

(b) the exclusive right to have a claim met, in particular a right guaranteed by a lien in respect of the claim or by assignment of the claim by way of a guarantee;

(c) the right to demand the assets from, or to require restitution by, anyone having possession or use of them contrary to the wishes of the party so entitled;

(d) the right in re to the beneficial use of assets.

It is provided that the right, recorded in a public register and enforceable against any party, under which a right in re within the meaning of subsection (1) may be obtained, shall be considered a right in re.

Reservation of title.

33I – (1) Subject to the provisions of subsection (7) of section 33 and of paragraph (l) of section 33A, as well as the provisions of the Sale of Goods Laws of 1994 to 1999 -

10 (l) of 1994
8 (l) of 1995
9 (l) of 1995
101 (l) of 1999

(a) The adoption of reorganisation measures or the opening of winding-up proceedings concerning a bank purchasing an asset shall not affect the seller's rights based on a reservation of title where at the time of the adoption of such measures or opening of such proceedings the asset is situated within the territory of a member state other than the Republic.

(b) the adoption of reorganisation measures or the opening of winding-up proceedings concerning a bank selling

an asset, after delivery of the asset, shall not constitute grounds for rescinding or terminating the sale and shall not prevent the purchaser from acquiring title where at the time of the adoption of such measures or the opening of such proceedings the asset sold is situated within the territory of a Member State other than the Republic.

Set-off.

33J. Subject to the provisions of the Companies Law and of subsection (7) of section 33, and of paragraph (l) of section 33A, the adoption of reorganisation measures or the opening of winding-up proceedings shall not affect the right of a creditor to demand the set-off of its claims against the claims of the bank, where such a set-off is permitted by the contract signed between the creditor and the bank.

Protection of third parties under special circumstances.

33K. Where, by an act concluded after the adoption of a reorganisation measure or the opening of winding-up proceedings, a bank disposes, of:

(a) an immovable asset,

(b) a ship or an aircraft subject to registration in a public register, or

(c) instruments or titles or rights in such titles the existence or transfer of which presupposes their being recorded in a register, or in an account or a centralised deposit system held or located in the Republic or in any other Member State,

the validity of that act shall be governed by the law of the Member State within the territory of which the immovable asset is situated or under the authority of which that register, account or deposit system is kept.

Proof of liquidators' appointment.

33L. The appointment of a liquidator of a bank registered in a member state other than the Republic, which has a branch in the Republic, shall be evidenced by a certified copy of the original decision appointing him by the responsible authority of the home Member State or by a certification of the appointment issued by the responsible authority in the home member state and no other formality shall be required.

Powers of the liquidator.

33M. (1) In exercising his powers in a member state other than the Republic, a liquidator shall comply with the law of that other Member States, in particular with regard to procedures for the realisation of assets and the provision of information to employees.

It is provided that those powers may not include the use of force or the right to rule on legal proceedings or disputes.

(2) In exercising his powers pursuant to subsection (1), the liquidator may appoint persons to represent him or to act on its behalf and for his account, either in the Republic or in another member state.

PART XIV **Deposit Protection Scheme**

Compensation of depositors.

34.(1) The Central Bank shall set up a deposit protection scheme for the purpose of compensating depositors.

(2) The Central Bank may, with the approval of the Council of Ministers, make regulations governing the management and administration of the deposit protection scheme, participation in the scheme, the circumstances under which and the extent to which compensation may be provided and the level of contributions to the scheme.

(3) Any regulations made by the Central Bank under subsection (2) shall be submitted to the House of Representatives for approval.

It is provided that the first regulations shall be submitted to the House of Representatives within one year from the enactment of this Law

(4) The Central Bank may provide to the deposit protection scheme any information in its possession which in the opinion of the Central Bank may assist the scheme in the discharge of its functions and responsibilities.

(5) The Central Bank shall not divulge any information under this section relating to any individual deposit account.

PART XV **Miscellaneous provisions**

Application of this Law to Co-operative Societies.

35. (1) Subject to the provisions of subsection (2), this Law shall not apply to societies established under the Co-operative Societies Law.

It is provided that the Co-operative Societies Supervision and Development Agency (hereinafter referred to as "The Agency") provides to the Central Bank all the necessary data and information concerning co-operative credit institutions operating under the Co-operative Societies' Laws in force from time to time, for purposes of monetary and credit policy, monitoring of the Balance of Payments and providing information to the European Central Bank or international organisations in which the Republic participates.

It is further provided, that with regard to the data submitted referred to above, the Central Bank may carry out, jointly with the Agency, on-site verification at the Co-operative credit institutions.

(2) Co-operative societies established principally for the purpose of carrying on banking business for the benefit of their members who are themselves co-operative societies, shall be subject to the provisions of this Law except subsection (1) of section 14 and the term "bank" in this Law shall be deemed to include such societies.

It is provided that in the case of co-operative credit institutions associated with the central body (Co-operative Central Bank Ltd) as prescribed in the Co-operative Societies' Laws in force from time to time, these are subject to the provisions of this Law, excluding subsection (1) of section 14, to the extent required for purposes of exercising consolidated supervision on the Co-operative Central Bank Ltd and the co-operative credit institutions associated with it. For this purpose, the Agency provides to the Central Bank, all the necessary data and information concerning the associated co-operative credit institutions, while the Central Bank may, whenever it deems necessary, carry out, jointly with the Agency, on-site inspections on a sample basis at these institutions.

Housing Finance Corporation.

43 of 1980
18 of 1982
34 of 1991.

36. The provisions of this Law shall also apply to the Housing Finance Corporation to the extent that these are not in conflict with the provisions of the Housing Finance Corporation Laws.

37. (Deleted by section 4 of Law 74(I) of 1999).

38. (Repealed by section 35 of Law 80(I) of 2008).

Consolidated Supervision.

39.(1) The Central Bank shall exercise consolidated

supervision which covers the bank, all subsidiary and associate companies of the bank or of its holding company which carry out banking business or predominantly functions integral to or closely related to banking business in accordance with section 13(3) of this Law and any holding company of any of the above companies. For this purpose, the relevant provisions of this Law shall apply to any such company or its holding company on a consolidated basis and in addition such provisions as may be specified by the Central Bank singly.

(2) The Central Bank may determine that any of the subsidiaries of a bank and of its holding company shall be deemed to be a bank for the purpose of any of the provisions of this Law as may be specified by the Central Bank, whereupon the relevant provision or provisions shall apply to any such company either singly or on a consolidated basis.

(3) Where the holding company and any of the subsidiaries of a bank are under the supervision of other appropriate authorities, the Central Bank shall act in accordance with subsection (2) after consultation with such authorities.

(4) without prejudice to the provisions of paragraphs (1) to (3), the Central Bank may exercise consolidated supervision, in the manner it considers as appropriate where:

(a) a bank exercises, in the opinion of the Central Bank, a significant influence over one or more banks or institutions carrying on activities ancillary to banking activities, but without holding a participation or other capital ties in these institutions;

(b) two or more banks, or institutions mainly carrying on activities ancillary to banking activities are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association:

Where consolidated supervision is required pursuant to subsection (7), ancillary services undertakings and asset management companies shall be included in consolidations in the cases and in accordance with the methods laid down in section 39B and in this subsection.

(5) (a) Without prejudice to the provisions of section 11, the Central Bank shall exercise general supervision over transactions between the bank, its parent company and any subsidiary company of its parent company.

(b) The Central Bank shall require banks to have in place adequate risk management processes and internal control

mechanisms, including sound reporting and accounting procedures, in order to identify, measure, monitor and control transactions with these entities:

It is provided that banks are required to report any significant transaction with these entities to the Central Bank within one month following the date of the transaction.

(c) Where these intra-group transactions are a threat to a bank's financial position the Central Bank shall take appropriate measures.

(6) Where a bank, the parent company of which is a bank or an undertaking engaged in activities ancillary to banking activities in accordance with the provisions of paragraph (3) of section 13, which is registered in a state outside the European Union and is not subject to consolidated supervision in accordance with the provisions of paragraphs (4) and (5), the Central Bank shall verify whether the bank is subject to consolidated supervision by a supervisory authority of the third country, which is equivalent to that governed by the principles of this section:

It is provided that the Central Bank shall, for this purpose, consult any other competent authority of the member states involved:

It is further provided that the Central Bank shall, for this purpose, take into account the general guidance of the European Banking Committee as to whether the consolidated supervision arrangements of competent authorities in third countries are likely to achieve the objectives of consolidated supervision as defined in this section in relation to banks the parent undertaking of which has its head office outside the European Union:

It is further provided that in the absence of such equivalent supervision, the Central Bank shall apply to the bank the provisions of this section by analogy.

(7) (a) Where the parent of a bank is a parent bank established in the Republic or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the Central Bank if it authorised the said parent in accordance with the provisions of section 4 or the corresponding legal provisions of the other Member States.

(b) Where the parent of a bank is a parent financial holding company in the Republic or an EU parent financial

holding company, supervision on a consolidated basis shall be exercised by the Central Bank if it authorised the said bank in accordance with the provisions of section 4 or the corresponding legal provisions of the other Member States.

(c) Where banks authorised in two or more Member States have as their parent the same parent financial holding company in the Republic or the same EU parent financial holding company, supervision on a consolidated basis shall be exercised by the Central Bank as the competent authority of the bank authorised in the Republic in which the financial holding company was registered.

(d) Where the parents of banks authorised in two or more Member States comprise more than one financial holding company with head offices in different Member States and there is a bank in each of these Member States, supervision on a consolidated basis shall be exercised by the Central Bank, if it is the competent authority of the bank with the largest balance sheet total.

(e) Where more than one bank authorised in the Community has as its parent the same financial holding company and none of these banks has been authorised in the Member State in which the financial holding company was registered, supervision on a consolidated basis shall be exercised by the Central Bank if it authorised the bank with the largest balance sheet total, which shall be considered, for the purposes of this Law, as the bank controlled by an EU parent financial holding company.

(f) In particular cases, the Central Bank may, by common agreement, waive the criteria referred to in paragraphs (d) and (e) if their application would be inappropriate, taking into account the banks and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis. In these cases, before taking their decision, the Central Bank shall give the EU parent credit institution, or EU parent financial holding company, or bank with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision. The Central Bank discloses to the European Commission the agreements under this paragraph.

(8) In order to facilitate and establish effective supervision, the Central Bank, in cases which it is responsible for supervision on a consolidated basis, and the other competent authorities shall have written coordination and cooperation arrangements in place.

(9) Under these arrangements, additional tasks may be entrusted to the Central Bank, in case it is responsible for

supervision on a consolidated basis and procedures for the decision making process and for cooperation with other competent authorities may be specified.

(10) (a) Where the Central Bank is responsible for authorising the subsidiary of a parent undertaking which is a bank, it may, by bilateral agreement, delegate its responsibility for supervision to the competent authorities which authorised and supervise the parent undertaking so that they assume responsibility for supervising the subsidiary in accordance with the Directive 2006/48/EC.

(b) The European Commission shall be kept informed by the Central Bank of the existence and content of such agreements.

(11) (a) The competent authorities responsible for authorising the subsidiary of a parent undertaking which is a bank which is authorised and supervised by the Central Bank, may, by bilateral agreement, delegate their responsibility for supervision to the Central Bank so that it assumes responsibility for supervising the subsidiary in accordance with this Law.

(b) The European Commission shall be kept informed by the Central Bank of the existence and content of such agreements.

(12) Where the Central Bank is responsible for the supervision of banks controlled by an EU parent credit institution, it shall whenever possible contact the competent authority responsible for the exercise of supervision on a consolidated basis of EU parent credit institutions and credit institutions controlled by EU parent financial holding companies, when it needs information regarding the implementation of approaches and methodologies set out in this Law that may already be available to that competent authority.

(13) (a) The Central Bank shall, prior to taking its decision, consult with the other competent authorities with regard to the following items, where this decision is of importance for other competent authorities' supervisory tasks:

- (i) changes in the shareholder, organisational or management structure of the banks in a group, which require the approval or authorisation of competent authorities; and
- (ii) major sanctions or exceptional measures taken by the competent authorities pursuant to the provisions of the Directive 2006/48/EC, including

the imposition of an additional capital charge under Article 136 of this Directive and/or subparagraph (vi) of paragraph (a) of subsection (1) of section 30 of this Law and the imposition of any limitation on the use of the Advanced Measurement Approaches for the calculation of the own funds requirements as specified in a Directive of the Central Bank.

(b) For the purposes of subparagraph (ii) of paragraph (a), the Central Bank, as the competent authority of the host Member State, consults always with the competent authority responsible for supervision on a consolidated basis.

However, the Central Bank may decide not to consult in cases of urgency or where such consultation may jeopardise the effectiveness of the decisions. In this case, the Central Bank shall, without delay, inform the other competent authorities.

(14) The Central Bank may request from the European Commission to submit proposals to the European Council, for the negotiation of agreements with one or more third countries regarding the means of exercising supervision on a consolidated basis over the following:

(a) the banks, the parent undertakings of which have their head offices in a third country; or

(b) the banks situated in third countries the parent undertakings of which, whether banks or financial holding companies, have their head offices in a Member State.

(15) The Central Bank shall establish lists of the financial holding companies established in the Republic. Those lists shall be communicated to the competent authorities of the other Member States and to the European Commission.

Announcement by the mixed activity holding company of information relevant for the purpose of supervising subsidiary banks and verification of information received.

39A.-(1) Where the parent undertaking of one or more banks is a mixed activity holding company, the Central Bank shall require the mixed activity holding company and its subsidiaries either directly or via the subsidiary banks, to supply any information which would be relevant for the purpose of supervising the subsidiary banks.

(2) The Central Bank may carry out, or have carried out by external inspectors, on the spot inspections to verify information received from mixed activity holding companies and their subsidiaries. If the mixed activity holding company or one of its subsidiaries is an insurance undertaking, the Central Bank may use the procedure laid down in section 27.

If a mixed activity holding company or one of its subsidiaries is situated in a Member State other than that in which the bank's subsidiary is situated, on the spot verification of the information shall be carried out in accordance with the procedure laid down in subsection (2) of section 27.

Full consolidation of all the credit institutions and financial institutions which are subsidiaries of a parent undertaking.

39B.(1) The Central Bank, being the competent authority responsible for the supervision on a consolidated basis shall, for the purposes of supervision, require full consolidation of all the credit institutions and financial institutions which are subsidiaries of a parent undertaking.

(2) The Central Bank may require only proportional consolidation where, in its opinion, the liability of a parent undertaking holding a share of the capital is limited to that share of the capital in view of the liability of the other shareholders or members whose solvency is satisfactory. The liability of the other shareholders and members shall be clearly established, if necessary by means of formal signed commitments.

(3) In the case where undertakings are linked by a relationship within the meaning laid down in section 2 of the term "associated company", the Central Bank shall determine how consolidation is to be carried out.

(4) The Central Bank, being the competent authority responsible for the supervision on a consolidated basis shall require the proportional consolidation of participations in credit institutions or financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where those undertakings' liability is limited to the share of the capital they hold.

(5) In the case of participations or capital ties other than those referred to in subsections (1) to (4), the Central Bank shall determine whether and how consolidation is to be carried out. In particular, it may permit or require use of the equity method. That method shall not, however, constitute inclusion of the undertakings concerned in the supervision on a consolidated basis.

Banks unable to meet obligations.

40. If any bank has any indication that it may face serious difficulties or become unable to meet its obligations or if it is about to suspend payment or becomes aware of any material adverse change in its condition it shall forthwith inform the Central Bank.

Power to issue directives.

41.(1) The Central Bank may, for the purpose of implementing the objectives of this Law as well as its powers under this Law

and under the Central Bank of Cyprus Law and subject to the provisions of this Law, issue general or specific directives which are communicated in any manner that it may determine.

(2) In exercising its discretionary power under this Law, the Central Bank shall act after taking into consideration, by way of guidance, the international practice and the directives and regulations of the European Union, the protection of depositors and the interests of the customers of the bank in general as well as the orderly functioning of the banking system and shall issue adequately reasoned decisions or directives.

(3) Specifically and without prejudice to the generality of sub-sections (1) and (2), the Central Bank may issue directives on matters of banking practice and good banking conduct, including directives with respect to the requirements and procedures for opening, maintaining, operating and closing current accounts and issuing or withdrawing cheque books.

(4) In the context of its above-mentioned powers and with a view to effectively combating the incidence of bounced cheques, including cheques which were issued at any time before or after the date those cheques were due for payment, the Central Bank shall issue directives to be published in the Official Gazette of the Republic, for the establishment, maintenance and operation of a Central Information Register where information concerning the issuers of bounced cheques, bankrupts or wound up companies, persons convicted for offences relating to the issue of bounced cheques, may be recorded in accordance with a procedure clearly defined in the directives, with a view to imposing upon them such measures depriving them of the right to hold, acquire or use cheque books or current accounts at a bank as may be prescribed specifically in the directives. The responsibility for the maintenance, operation and updating the Central Information Register is assigned by the Central Bank to a Management Committee appointed for this purpose;

It is provided that the directives to be issued under this sub-section shall be issued jointly after consultation with the Commissioner of Co-operative Societies and Co-operative Development Agency to apply equally and in the same manner to co-operative credit institutions so that there shall be uniform regulation and a common Central Information Register.

(5) The directives to be issued by the Central Bank pursuant to sub-section (4) shall contain provisions governing or regulating specifically –

(a) The composition, duties and responsibilities of the

Management Committee,

(b) matters concerning the remuneration or compensation of the members of the Management Committee,

(c) the procedure to be followed by the Management Committee for taking decisions, and the basic criteria or principles to be taken into account in making such decisions,

(d) the right of access and the manner access may be had to the records or information held on the Central Information Register,

(e) any other matter that may be deemed useful or expedient to be regulated by or defined in the directives, including a fair arrangement for the recovery by the Central Bank of the expenditure incurred by it for the initial establishment and subsequent operation of the Central Information Register.

Administrative fine.

42. (1) Where the Central Bank in the course of exercising its powers or responsibilities to examine and supervise banks pursuant to this Law or the directives issued under this Law, including its powers and responsibilities to collect information, enter and inspect under sections 25 and 26, ascertains that a bank -

(a) contravenes or fails to comply with any directive or circular lawfully issued to banks by the Central Bank, or

(b) contravenes or fails to comply, within the specified time limit or, in the absence of such time limit, within a reasonable time, with any requirement or notice of the Central Bank lawfully made or addressed to it, or

(c) in purported compliance with any such directive, requirement or notice of the Central Bank or with any provision of the Law or the Regulations issued thereunder, provides or makes available any misleading, inaccurate or incomplete data or information, which it knew or ought to have known that they did not represent true reality,

the Governor of the Central Bank, after calling the bank to state its defence, has the power to impose for each and every contravention an administrative fine, ranging from one thousand to eighty thousand euro, depending on the seriousness of the contravention, and in the case of a continuing contravention the Governor of the Central Bank is additionally empowered to impose a further administrative fine,

ranging from one hundred to eight thousand euro, depending on the seriousness of the contravention, for each day during which the contravention continues.

(2) Without prejudice to subsection (1), where the Central Bank in the course of exercising its powers or responsibilities to examine and supervise banks pursuant to this Law or the directives issued under this Law, including its powers and responsibilities to collect information, enter and inspect under sections 25 and 26, ascertains that a bank, due to fault or negligence or omission or in the knowledge of the board of directors or/and of its chief executive officer or/and of a director -

(a) contravenes or fails to comply with any directive or circular lawfully issued to banks by the Central Bank, or

(b) contravenes or fails to comply, within the specified time limit or, in the absence of such time limit, within a reasonable time, with any requirement or notice of the Central Bank lawfully made or addressed to it, or

(c) in complying with any such directive, requirement or notice of the Central Bank or with any provision of the Law or the Regulations issued thereunder, provides or makes available any misleading, inaccurate or incomplete data or information, which it knew or ought to have known that they did not represent true reality,

the Governor of the Central Bank, after inviting the bank to state its defence, has the power to impose for each and every contravention an administrative fine, ranging from one thousand to twenty thousand euro, depending on the seriousness of the contravention, and in the case of a continuing contravention, the Governor of the Central Bank is additionally empowered to impose a further administrative fine, ranging from one hundred to one thousand euro, depending on the seriousness of the contravention, for each day during which the contravention continues.

Administrative fine.

42A. In the case where a bank contravenes any of the obligations of sections 3, 4 and 5 of Regulation (EC) 2560/2001, the Governor of the Central Bank may, after hearing the bank, to impose an administrative fine not in excess of three thousand euro and, in the case of a continuing contravention the Governor of the Central Bank shall impose a further administrative fine not in excess of one hundred euro, for each day during which contravention continues.

PART XVI

Offences, Penalties and Prosecutions

- Offences and penalties. 43. (1) The infringement of any provisions of this Law or any Regulations or directives issued by the Central Bank under this Law, except those provisions referred to in subsection (2), is an offence punishable by imprisonment not exceeding two years or by a fine not exceeding fifty thousand pounds or by both and in case of a continuing offence by a further fine not exceeding one thousand pounds for each day during which the offence continues.
- (2) The infringement of any of the provisions of sections 8, 9, 10, 11, 12, 13, 15, 21, 23, 24, 25 or 26 of this Law is an offence punishable by a fine not exceeding fifty thousand pounds and in case of a continuing offence by a further fine of one thousand pounds for each day during which the offence continues.
- (3) Where an offence is committed as a result of an infringement of the provisions of this Law, by a bank or by an organisation of persons incorporated or unincorporated, then any director, managing director, chief executive, manager, partner or other officer or employee of the bank or of the organisation, who authorises or knowingly permits such infringement shall be guilty of an offence and in case of conviction shall be liable to the penalties provided in subsections (1) or (2) depending on the provisions infringed.
- Prosecutions by or with the consent of the Attorney-General of the Republic. 44. No prosecution in respect of any offence under this Law shall be instituted except by or with the consent of the Attorney-General of the Republic.

PART XVII

Transitional Provisions

- Former licences deemed to be licences under this Law
Cap 124. 45. (1) All banking licences issued under the Banking Business (Temporary Restrictions) Law which were in force immediately prior to the enactment of this Law shall be deemed to be banking licences issued under this Law.
- (2) Any conditions attached to a banking licence referred to in subsection (1) shall be deemed to be conditions imposed under this Law and shall continue to be in force until amended, varied or revoked.
- Compliance with this Law. 46.(1) A bank which on the date of coming into operation of this Law was engaging in business prohibited by this Law or was holding specified assets in excess of limits provided under the provisions of sections 11 to 15 or whose paid up initial capital was below the minimum limit specified under the

provisions of section 20, shall within three months from the coming into operation of this Law, inform the Central Bank of its position; and the Central Bank shall, after consultation with the bank concerned, establish a time table for rectifying the position provided that the maximum period or periods for rectifying the position shall not exceed three years from the date of coming into operation of this Law.

(2) As from the date of coming into operation of this Law a bank shall not engage in any new business which is prohibited under this Law or which would bring holdings of specified assets in excess of the limits provided in this Law or which would increase the excess of holdings of those assets above such limits.

Extension of period for compliance with this Law.

47. If for the purposes of compliance by a bank with this Law in accordance with section 46 the sale of certain of its assets or the calling in of certain of its credit facilities is required, the Central Bank may extend the maximum period for rectifying the position by a further period not exceeding two years if it is established to the satisfaction of the Central Bank that the sale of assets or calling in of credit facilities within the period specified could result in substantial losses or hardship to the bank or to its customers.

Repeal.

Cap. 124. 48. The Banking Business (Temporary Restrictions) Law is hereby repealed.

ANNEX I
(section 10A)
LIST OF INVESTMENT SERVICES AND ACTIVITIES
AND FINANCIAL INSTRUMENTS

Part A

Investment services and activities:

- (1) Reception and transmission of orders in relation to one or more financial instruments.
- (2) Execution of orders on behalf of clients.
- (3) Dealing on own account.
- (4) Portfolio management.
- (5) Investment advice.
- (6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis.
- (7) Placing of financial instruments without a firm commitment basis.
- (8) Operation of Multilateral Trading Facility.

Part B

Ancillary services –

- (1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- (2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
- (3) Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings.
- (4) Foreign exchange services where these are connected to the provision of investment services.
- (5) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
- (6) Services related to underwriting.
- (7) Investment services and activities as well as ancillary services of the type included under Parts A or B of this Annex related to the underlying of the derivatives included under points (5), (6), (7) and (10) of Part C where these are connected to the provision of investment or ancillary services.

Part C

Financial instruments –

- (1) Transferable securities.
- (2) Money-market instruments.
- (3) Units in collective investment undertakings.
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivative instruments, financial indices or financial measures which may be settled physically or in cash.
- (5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and a Multilateral Trading Facility (MTF).
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph (6) of this Part and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls.
- (8) Derivative instruments for the transfer of credit risk.
- (9) Financial contracts for differences.
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

ANNEX II
(section 22A)
RECOGNITION OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS – ECAIs AND
MAPPING OF THEIR CREDIT ASSESSMENTS

1. METHODOLOGY

1.1. Objectivity

1. The Central Bank shall verify that the methodology for assigning credit assessments is rigorous, systematic, continuous and subject to validation based on historical experience.

1.2. Independence

2. The Central Bank shall verify that the methodology is free from external political influences or constraints, and from economic pressures that may influence the credit assessment.

3. Independence of the ECAI's methodology shall be assessed by competent authorities according to factors such as the following:

- (a) ownership and organisation structure of the ECAI;
- (b) financial resources of the ECAI;
- (c) staffing and expertise of the ECAI; and
- (d) corporate governance of the ECAI.

1.3. Ongoing review

4. The Central Bank shall verify that ECAI's credit assessments are subject to ongoing review and shall be responsive to changes in the financial conditions. Such review shall take place after all significant events and at least annually.

5. Before any recognition, the Central Bank shall verify that the assessment methodology for each market segment is established according to standards such as the following:

- (a) the back-testing must be established for at least one year;
- (b) the regularity of the review process by the ECAI must be monitored by the competent authorities; and
- (c) the Central Bank must be able to receive from the ECAI the extent of its contacts with the senior management of the entities which it rates.

6. The Central Bank shall take the necessary measures to be promptly informed by ECAIs of any material changes in the methodology they use for assigning credit assessments.

1.4. Transparency and disclosure

7. The Central Bank shall take the necessary measures to assure that the principles of the methodology employed by the ECAI for the formulation of its credit assessments are publicly available as to allow all potential users to decide whether they are derived in

a reasonable way.

2. INDIVIDUAL CREDIT ASSESSMENTS

2.1. Credibility and market acceptance

8. The Central Bank shall verify that ECAIs' individual credit assessments are recognised in the market as credible and reliable by the users of such credit assessments.

9. Credibility shall be assessed by the Central Bank according to factors such as the following:

- (a) market share of the ECAI;
- (b) revenues generated by the ECAI, and more in general financial resources of the ECAI;
- (c) whether there is any pricing on the basis of the rating; and
- (d) at least two banks use the ECAI's individual credit assessment for bond issuing and/or assessing credit risks.

2.2. Transparency and Disclosure

10. The Central Bank shall verify that individual credit assessments are accessible at equivalent terms to all banks having a legitimate interest in these individual credit assessments.

11. In particular, the Central Bank shall verify that individual credit assessments are available to non-domestic banks on equivalent terms as to domestic counterparts having a legitimate interest in these individual credit assessments.

3. MAPPING

12. In order to differentiate between the relative degrees of risk expressed by each credit assessment, the Central Bank shall consider quantitative factors such as the long-term default rate associated with all items assigned the same credit assessment. For recently established ECAIs and for those that have compiled only a short record of default data, the Central Bank shall ask the ECAI what it believes to be the long-term default rate associated with all items assigned the same credit assessment.

13. In order to differentiate between the relative degrees of risk expressed by each credit assessment, the Central Bank shall consider qualitative factors such as the pool of issuers that the ECAI covers, the range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default.

14. The Central Bank shall compare default rates experienced for each credit assessment of a particular ECAI and compare them with a benchmark built on the basis of default rates experienced by other ECAIs on a population of issuers that the Central Bank believes to present an equivalent level of credit risk.

15. When the Central Bank believes that the default rates experienced for the credit assessment of a particular ECAI are materially and systematically higher than the benchmark, the Central Bank shall assign a higher credit quality step in the credit quality assessment scale to the ECAI credit assessment.

16. When the Central Bank has increased the associated risk weight for a specific credit assessment of a particular ECAI, if the ECAI demonstrates that the default rates experienced for its credit assessment are no longer materially and systematically higher than the benchmark, the Central Bank may decide to restore the original credit quality step in the credit quality assessment scale for the ECAI credit assessment.

ANNEX III
(section 26)

TECHNICAL CRITERIA AND ASSESSMENT
BY THE CENTRAL BANK

1. In addition to credit, market and operational risks, the review and evaluation performed by the Central Bank pursuant to section 26(6) shall include the following:

- (a) the results of the stress tests carried out by the banks applying an IRB approach for the calculation of their capital requirements, as defined in a directive of the Central Bank;
- (b) the exposure to and management of concentration risk by the banks, including their compliance with the requirements laid down in section 11 and in the directives issued thereunder;
- (c) the robustness, suitability and manner of application of the policies and procedures implemented by banks for the management of the residual risk associated with the use of recognised credit risk mitigation techniques as specified in a directive of the Central Bank;
- (d) the extent to which the own funds held by a bank in respect of assets which it has securitised are adequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved;
- (e) the exposure to and management of liquidity risk by banks;
- (f) the impact of diversification effects and how such effects are factored into the risk measurement system; and
- (g) the results of stress tests carried out by banks using an internal model to calculate market risk capital requirements as specified in a directive of the Central Bank.

2. The Central Bank shall monitor whether a bank has provided implicit support to a securitisation. If a bank is found to have provided implicit support on more than one occasion, the Central Bank shall take appropriate measures reflective of the increased expectation that it will provide future support to its securitisation thus failing to achieve a significant transfer of risk.

3. For the purposes of the determination to be made under section 26(8), the Central Bank shall consider whether the value adjustments and provisions taken for positions/portfolios in the trading book, as set out in a directive of the Central Bank, enable the bank to sell or hedge out its positions within a short period without incurring material losses under normal market conditions.