

INTERNATIONAL MONETARY FUND



Staff Country Reports

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CBC has established the basis for developing a framework for macro-prudential surveillance and analysis.

12. The banking industry consists of three distinct segments. The domestic market is supplied by two: 11 commercial banks with three specialized institutions (each of which has a commercial banking license) and some 358 cooperative credit institutions. Domestic commercial banking is dominated by three banks which together hold about 70 percent of system assets, excluding the cooperative banks, and about half of system assets, including the cooperatives.¹ The three largest banks, all locally owned, are international groups² with major insurance companies as subsidiaries. The three specialized institutions are a mortgage bank (a subsidiary of the largest commercial bank) which lends longer term for tourism and manufacturing, the Cyprus Development Bank which, in addition to standard development bank services, provides consulting services, and the Housing Finance Corporation which provides long-term housing loans to low and middle-income families. The latter two are publicly owned, but total assets of the three are only a small portion of the banking system. The remaining domestic banks include 3 small local banks and foreign-owned branches (2) and subsidiaries (3).

13. Cooperative credit institutions³ have maintained a strong role, with their deposits representing 32 percent of total deposits in local currency at end-2004. As a result of their nonprofit nature, lower operating costs and lower regulatory costs, they have been able to compete effectively with commercial banks. Most Cypriots continue to deposit with their local cooperatives. Their clearing agent, the Cooperative Central Bank, is a licensed commercial bank.

14. The third segment of the banking market are the 26 international banking units, the largest number of which are from Lebanon (8), Jordan (4), and Russia (3). Until recently, with the new rules introduced by EU accession, they were ring-fenced from the domestic market, although subject to supervision by the central bank similar to that of domestic commercial banks. At the end of 2004, IBU assets of \$12.5 billion represented 30 percent of domestic banking assets (excluding the cooperatives).

¹ Information from Fitch Sovereign Ratings for Cyprus, August 17, 2004. The banks' published consolidated balance sheets do not provide financial information for the individual banking entities.

² The term "group" is used in this report to accord with the definitions of the CBC's "Directive for the supplementary supervision of banks in a financial conglomerate" issued in September 2005. The directive defines a "group" as a group of undertakings consisting of a parent, subsidiaries, entities in which the parent or a subsidiary have a shareholding of at least 20 percent, and entities related by unified management, and sets a size threshold on the smallest sector for classification as a financial conglomerate of a group with cross-sectoral holdings.

³ Credit societies with unlimited liability and savings societies with limited liability.

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| | <p>the deputy governor, and five directors.</p> <p>The governor and the deputy governor are appointed by the president and the vice resident of the Republic, respectively. The independence of the CBC is secured by the Cyprus Constitution.</p> <p>The supervision of banks is carried out by the Banking Supervision and Regulation Division, which consists of two departments. The total number of staff in each department is as follows:</p> <ul style="list-style-type: none"> a) Domestic Banks Supervision Department: 32 staff members. b) Supervision of International Banks, Regulation and Financial Stability Department: 19 staff members. <p>The senior manager of the Banking Supervision and Regulation Division as well as the managers of the two departments mentioned above, in addition to their academic/professional qualifications, have had a long experience in their respective positions having been promoted from the ranks. Supervisory staff are also well educated being in possession of academic/professional qualifications and have had considerable hands-on experience in the supervision of banks.</p> <p>Salary levels of the supervisory staff within the CBC (officers, administrative, and clerical staff) are comparable to the salary levels in the private banking industry. Salary levels of senior managers within the CBC remain, however, below the salary levels of general managers in the private banking sector.</p> <p>Training programs for bank supervisory staff cover a variety of areas related to banking supervision and regulation. Staff members regularly attend courses organized by the Financial Stability Institute of the Bank for International Settlements, the Bank of England, the Deutsche Bundesbank, the Banque de France, the Nederlandsche Bank, the United States (U.S.) Federal Deposit Insurance Corporation, the U.S. Federal Reserve System, and other central banks/banking supervisory authorities, as well as private institutions. Staff also visit other domestic regulators when that is deemed appropriate within the scope of the MOU between the CBC and the securities, insurance, and cooperative credit institutions supervisory authorities, as well as overseas supervisory authorities in accordance with MOUs signed with them. In addition, the CBC is a subscriber to the "FSI Connect" service provided by the Financial Stability Institute of the Bank for International Settlements, which is an online information resource and training tool for bank supervisors worldwide.</p> <p>Emphasis is also placed on developing and maintaining a modern information technology infrastructure to support the key activities of the Banking Supervision and Regulation Division.</p> <p>The budget of the CBC's supervisory function (covering recruitment, hiring outside experts, training, information technology (IT) expenditure, travel etc.) forms part of the CBC's overall budget.</p> <p>The CBC is also authorized to charge fees in connection with expenses incurred for the supervision and inspection of banks.</p> <p>The Governor of the CBC is appointed for a renewable term of office of five years. He may be relieved from office only if, in the opinion of the Council of Ministers, he no longer fulfills the conditions required for the performance of his duties or in the event of serious misconduct. This provision which is in accordance with the Statute of the European System of Central Banks has also been incorporated in the Cyprus constitution.</p> <p>Although the CBC Law does not specify that the reason for the Governor's removal from office must be publicly disclosed, it is expected that, in such an event, the reasoning behind the decision will be made public in accordance with the established principles of administrative law.</p> |
| Assessment | Largely Compliant. |
| Comments | The increasing demands on the Banking Supervision and Regulation Division's officers and |

range of permissible operations of the IBUs which operate in Cyprus today. Those IBUs, already subject to the ten percent tax rate, that was generally applicable to the domestic banks, either because they had been licensed after December 31, 2001 or have, subsequent to the 2002 tax reform, elected to be taxable at ten percent, were free to offer all types of banking services to permanent residents of Cyprus, the only restriction being, for the moment, the acceptance of deposits in Cyprus pounds. This restriction, which is the only one that distinguishes the operations of domestic banks from those of IBUs, will be abolished on Cyprus' entry into the Euro zone.

Until that time, individual IBUs that may wish to engage in banking business in Cyprus pounds must request the CBC to delete the relevant condition attached to their banking business license.

Those IBUs, which were licensed prior to December 31, 2001 and which have elected to continue generating their income exclusively outside Cyprus, thus paying a reduced rate of tax of 4.25 percent, are obliged to continue restricting their activities to transactions with nonresidents and in currencies other than the Cyprus pound, despite the repeal of the exchange control laws, until December 31, 2005.

The licensing criteria applied by the CBC encompass compliance of the applicant with the requirements stipulated in the BL as well as a judgmental evaluation of the applicant by the CBC. Thus, the principal licensing criteria are the following:

- At least two directors are required to participate and concur in the effective direction and management of the bank (Section 19 of the BL).
- A bank incorporated in the Republic must have at all times a minimum capital of not less than £C 3 million or such other higher amount that the CBC might determine (Section 20 of the BL).
- Directors, chief executives, and managers of the proposed bank must satisfy the CBC that they are fit-and-proper persons (Section 18.2).
- Short history and business objectives of the applicant bank, including the reasons for wishing to establish a presence in Cyprus.
- Detailed description of the proposed banking operations, including details of the banking services proposed to be offered and the proposed management structure of the applicant bank.
- Feasibility study of the bank's proposed banking operations incorporating projected financial statements for the first five years of its operation.

In the case of foreign banking organizations the CBC, in addition to the licensing criteria above, approaches directly the applicant bank's home supervisory authority and obtains its consent as well as undertaking that it will exercise consolidated supervision over the global activities of the applicant bank, including the operations proposed to be carried out in Cyprus. In the case of foreign banking organizations, the CBC also obtains Letters of Comfort or Letters of Guarantee from the principal shareholders.

Upon accession of Cyprus to the EU on May 1, 2004, the provisions of the BL allowing freedom of establishment and cross-border provision of banking services by banks authorized in other member states of the EU entered into force and the BL has been amended to that effect (Banking Amendment Law of 2003). Conversely, banks incorporated in Cyprus are free to establish branches in another member state and/or provide cross-border provision of services in member states of the EU.

Following these fundamental changes, the CBC has issued in July 2004 a "Policy statement and Guidelines on the establishment and cross-border provision of services in the Republic of Cyprus by a credit institution incorporated in another member state of the EU," which includes the terms and conditions for the conduct of banking business in accordance with the above as well as details with regard to the procedure that must be followed.

There is no time limit on banking licenses issued by the CBC. However, the CBC may, under Section 30 of the Banking Law, revoke a banking license in circumstances where a bank's condition is irretrievably impaired.

As part of the review process, information/references are also obtained from third parties, such as the applicant bank's home supervisory authority, correspondent banks, etc.

The information received from the applicant is reviewed and judgmentally assessed by the CBC. If all the above criteria are satisfied and the judgmental evaluation is positive, a banking license is issued by the CBC.

Directors, chief executives and managers of licensed banks have to satisfy the CBC that they are "fit-and-proper persons" to be involved in the provision of banking services. The "fitness and propriety" of the above persons is determined, to the extent possible, by means of detailed questionnaires which are required to be completed by the persons concerned. In certain circumstances, applicants are currently required to submit a police clearance certificate from their country of origin.

All licensees are required to establish a real presence in Cyprus and actually carry out real business. All licensees must, therefore, operate as fully staffed units as required by the scale of operations in each case. The scale of operations and, therefore, the size of staff varies considerably. There is at least one IBU with almost 100 persons and, on the other hand, one unit is considered fully staffed with three persons.

In one of the cases (application for the establishment of a domestic bank), the CBC rejected the application as one of the major prospective shareholders was a company whose background and activities rendered it unsuitable. Two of the applications were successful, whereas two remaining cases were unable to satisfy the eligibility criteria.

Notwithstanding the above, it should be noted that in the case of IBUs, the policy of the CBC is to discourage the submission of formal applications under the Banking Law by banks which do not meet the eligibility criteria as set out in the bank's "Policy Statement and Guidelines for the establishment and operation of IBUs." The CBC also requires prospective applicant banks to obtain the prior approval and support of their home banking regulatory/supervisory authority before submitting a formal application to the CBC for a banking license. In this way, besides the cases referred to in the preceding sentence, a number of prospective applicant banks have been discouraged in the last two years from actually submitting an application.

With respect to the transparency of the ownership structure and the source of capital, the CBC indicated that its policy is to license only branches or subsidiaries of existing international banks.

The CBC has in place a process of ongoing supervision and monitoring to determine whether the licensing criteria continue to be met and that the institution is meeting its business goals. The CBC is home supervisor for 16 banks (10 domestic and 6 IBUs). Three of the domestic banks maintain branches/subsidiaries in foreign jurisdictions.

The CBC is empowered to revoke the licence of the bank if it is revealed that the decision to grant the licence of the bank was knowingly based on false information [Section 30(1)].

The applicant bank is required to submit to the CBC a list of the prospective shareholders with their proposed percentage shareholding in the bank. Major and/or controlling shareholders who are natural persons must submit a brief outline of their financial standing and complete a "Personal Questionnaire," while corporate bodies must submit their full particulars and latest audited accounts. The CBC reserves the right to enquire into the individuals who control such corporate bodies. In this regard, the shareholders of the applicant bank must be able to supply additional financial support, if needed. Major and/or controlling shareholders are required to

minimum level as may be determined by the CBC from time to time for each bank individually having regard to its circumstances provided that such ratio shall be uniform for all banks within the same class [Section 21(1)].

The capital adequacy ratio is in the form of mandatory maintenance of a capital base in relation to total assets including off-balance sheet exposures or to categories of assets specified by the CBC from time to time at such minimum ratio or ratios as is prescribed by the CBC [Section 21(2)]. At present, the required capital adequacy ratio stands at 10 percent. All banks comply with the ratio and the average ratio for the sector exceeds 14 percent.

The CBC has issued two directives (January 1999) to all banks incorporated in Cyprus:

- Directive on the computation of the capital adequacy ratio in relation to credit risk (excluding risks arising from the trading book); and
- Capital adequacy directive in relation to a bank's trading book business and in respect of the foreign exchange and commodity derivatives risks resulting from all of its business activities.

These directives conform to the Basel recommendations and make use of the Basel risk weights and components of capital.

The capital adequacy ratios of banks are calculated on both a consolidated and solo basis. Banks are required to report capital adequacy ratios and their components to the CBC on a semi-annual basis. The above ratios are verified in the course of on-site examinations.

Off-balance sheet risks, subordinated debt, revaluation gains, and unrealized losses are treated in accordance with Basel recommendations for purposes of determining capital adequacy.

Off-balance sheet items are grouped into four categories depending on the risk that they entail, and each category carries out a different risk conversion factor. Then the values of these items, as adjusted by the conversion factor, are multiplied by the risk weightings attributable to the relevant counterparties.

Subordinated debt is included in tier two capital and cannot exceed 50 percent of tier one capital. Moreover, the total of tier two capital cannot exceed the total of tier one capital. Revaluation gains are credited to a revaluation reserve, and the balance of this reserve is included in tier two capital.

Unrealized losses are debited to the revaluation reserve to the extent that these are covered by revaluation gains individually for each item concerned. Any shortfall is debited to the Profit and Loss Account, which is included in tier one capital.

Under Section 30(1) of the BL, the CBC has broad powers to take remedial measures. This would no doubt include requiring institutions to take corrective action where their capital ratios fell below a certain limit.

Branches of foreign incorporated banks are not required to have capital and, therefore, they do not maintain a capital adequacy ratio.

Banks are required to have an internal process for assessing their overall capital adequacy in relation to their risk profile. Banks are required to provide the CBC with all the information necessary for the assessment of their compliance with the requirements of the Capital Adequacy Directive. The banks' internal control mechanisms and administrative and accounting procedures should be such as to permit the CBC to verify the banks' compliance with these requirements at all times.

The adequacy of the internal process of banks for assessing their overall capital adequacy in relation to their risk profile is evaluated in the course of on-site examinations.

granting standards, and the level and adequacy of provisions. Banks themselves are required to review individual credits, asset classifications, and provisioning, including those for both on- and off-balance sheet exposures, at least annually. In addition, the external auditors of banks, when conducting the audit of each bank's financial statements, review their provisioning policies and adequacy.

During the course of on-site examinations, the CBC examiners assess the quality of assets individually, especially major loan accounts, and the level and adequacy of provisions and compare their results with those of the bank. In view of the small number of banks, CBC examiners are able to review a sample of more than 50 percent of the balance sheet value of bank credit exposures; the sample selected is biased towards large or problematic loans and includes both on- and off-balance sheet exposures. Each borrower selected is individually assessed by account, collateral held, financial condition, and other pertinent factors. Then, according to the risk entailed, each account is classified on the basis of CBC's established asset quality classification criteria. These classifications are Pass, Special Mention, Substandard, and Doubtful; the definition of the characteristics of each of these classifications is very comparable to the definitions of similar classifications that are used by other competent supervisory authorities worldwide.

In the course of on-site examinations, the CBC inspectors review the bank's provisioning policies, as approved by the Board of Directors, together with the guidelines that are set for considering specific credits for provision. Since CBC examiners are able to review more than 50 percent of the balance sheet value of credit exposure, they can more adequately assess the level and adequacy of each bank's provisioning policies, as well as their implementation in practice. The CBC requires banks to have appropriate procedures and the necessary organizational resources for the ongoing oversight of problem credits and for identifying and collecting past due loans. The CBC meets twice yearly with each bank's management to review the bank's provisioning policy and practices and the progress made in the collection of past due loans. The banks provide the CBC with quarterly reports on provisioning, non-performing assets, and assets where interest has been suspended.

In January 2004, the CBC established more stringent criteria for the suspension of the recognition of interest on problem-credit facilities. The time period beyond which interest will be suspended for such credit facilities that are in arrears or where limits are in excess, provided that there is no adequate tangible security, was reduced from nine months to six months. In December 2004, the time period was further reduced from six months to ninety days, to be effective from January 1, 2006. The CBC plans to further modify its policy in the near future to require the suspension of interest in such cases, irrespective of the existence of tangible security, in line with international practice and the provisions of the proposed Capital Adequacy Directive of the EU.⁴

Section 30(1) of the BL empowers the CBC, when a bank fails to comply with any provision of law or regulations or the conditions of its license, or the liquidity or character of its assets have been impaired, to, *inter alia*, require the bank to forthwith take such action as the CBC may consider to rectify the matter. Consequently, the CBC is empowered to require a bank to strengthen its lending practices, credit-granting standards, level of provisions and reserves, and overall financial strength if it deems the level of problem assets to be of concern. Section 20 of the Banking Act empowers the CBC to increase the capital requirement of a bank in order to deal with shortfalls in provisions.

The CBC collects information from the banks quarterly on provisioning, non-performing loans,

⁴ The relevant CBC directive setting 90 days in arrears as the criteria for the classification of credit as nonperforming, and defining procedures for the suspension of interest and other income came into force on January 1, 2006

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| | professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements. |
| Description | <p>The Prevention and Suppression of Money Laundering Activities Laws of 1996 to 2004, (hereafter referred to as the "PSMLAL"), establish a solid framework that covers the various aspects of money laundering and the role of the financial system in this regard. The salient features of the PSMLAL are as follows:</p> <ul style="list-style-type: none"> • It defines and criminalizes laundering of proceeds from all criminal offenses punishable with imprisonment in excess of one year. • It provides for the confiscation of proceeds from all serious crime. • It empowers courts to issue freezing and restraint orders in respect of such. • It requires suspicion of money laundering to be reported to the Unit for Combating Money Laundering (MOKAS) without this being treated as a breach of confidentiality. • It empowers the courts to order the disclosure and production of information held by natural or legal persons, including banks, related to money laundering investigations. • It requires all persons carrying on relevant financial or other business, as defined by the law, to maintain procedures in relation to customer identification, record keeping, internal control, and communication and staff training in the recognition and handling of suspicious transactions. • It enables the registration and enforcement of foreign orders for the freezing and confiscation of proceeds. <p>In November 2004, the CBC issued a Guidance Note to banks which consolidates in one single document all the previous Guidance Notes and Supplements/Amendments. The revised Guidance Note takes into account:</p> <ol style="list-style-type: none"> i) the harmonization of Cyprus's legislation with the EU Directive 2001/97EC; ii) the revised recommendations for combating money laundering issued by the Financial Action Task Force (FATF) on money in June 2003 and the nine special recommendations against terrorist financing; iii) the recommendations included in the paper on "Customer Due Diligence for Banks" issued in October 2001, by the Basel Committee on Banking Supervision. <p>The revised Guidance Note requires banks to implement measures to prevent money laundering and contains requirements in respect of the following:</p> <ul style="list-style-type: none"> • Customer identification and due diligence procedures; • Record keeping procedures; • Cash deposits in foreign currency notes; • The role of the Money Laundering Compliance Officer; • Recognition and reporting of suspicious transactions to the financial intelligence unit ("MOKAS"); • Prudential reporting to the CBC; • Internal control procedures and risk management; • Education and training of employees. <p>CBC's supervision in this area entails, besides the issuance of Guidance Notes for the implementation of preventive measures, off-site monitoring and on-site examinations which aim at assessing bank's compliance with their anti-money laundering obligations.</p> <p>The PSMLAL, the Banking Law, and CBC's Guidance Note prohibit banks from opening and maintaining secret, anonymous, or numbered accounts, or accounts in fictitious names, or accounts not in the full name(s) of the holder(s) as per the identification documents.</p> <p>Additionally, the Guidance Note requires banks to identify, in the case of private and non-listed</p> |

public companies, the identity of the principal ultimate beneficial owners. The latter are defined to be persons with direct or indirect interest of 5 percent or more in a company's share capital.

Apart from beneficial owners, banks must also establish the identity of any person(s) who have control over a company's business and assets, even if that person has an interest of less than five percent in a company's share capital.

The CBC's Guidance Note requires that records maintained by banks in respect of any customer account should contain the following minimum information:

- the identity of the account holder(s);
- the identity of the beneficial owner(s) of the account;
- the identity of the authorized signatory(ies) to the account;
- the volume of funds or level of transactions flowing through the account;
- connected accounts;
- for selected transactions:
 - the origin of the funds;
 - the type and amount of the currency involved;
 - the form in which the funds were placed or withdrawn; i.e., cash, cheques, wire transfers, etc.;
- the identity of the person undertaking the transaction;
- the destination of the funds;
- the form of instructions and authority;
- the type and identifying number of any account involved in the transaction.

In accordance with the CBC Guidance Note, when opening accounts for trusts and nominees of third persons, banks should ascertain, without any exception, the identity of all the settlors and the true beneficiaries of the said accounts.

The PSMLAL requires banks, when forming a business relationship or carrying out a one-off transaction with or for another, to apply appropriate procedures of internal control, communication, and detailed examination of any transaction, which, by its nature, may be considered to be associated with money laundering for the purpose of preventing or forestalling money laundering.

As a means of assisting persons employed by banks in recognizing the most basic ways through which money laundering may occur, the CBC's Guidance Note contains an extensive list of examples of suspicious transactions and activities. In the period from June 1998 to June 2004, banks reported a total of 375 suspicious transactions to the FIU (75 in 2002, 99 in 2003 and 77 in 2004).

The CBC's Guidance Note also requires that banks put in place by June 30, 2005, the latest, adequate management information systems for the on-going monitoring of accounts and transactions. In the course of developing these systems, banks should give particular attention to the effective monitoring of higher-risk customer accounts and transactions, which, by their nature, may be associated with money laundering.

Furthermore, banks should not accept cash deposits in foreign currency notes in excess of \$100,000 (one hundred thousand U.S. Dollars) or the equivalent in other foreign currency per calendar year from any person (resident or nonresident) or a group of connected persons. Such cash deposits should be accepted only with the prior written approval of the CBC.

The PSMLAL requires that banks institute internal reporting procedures and that they identify a person (known as "the Money Laundering Compliance Officer") to whom the bank's employees should report their knowledge or suspicion of transactions/activities involving money

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| <p>laundering. The CBC's Guidance Notes requires that the person so appointed should be sufficiently senior to command the necessary authority.</p> <p>The CBC's Guidance Note requires that the banks' Board of Directors and Senior Management establish an anti-money laundering program through the implementation of appropriate internal control procedures.</p> <p>In the course of an on-site examination for the evaluation of security and internal control systems, CBC examiners ensure that banks have established lines of communication both to management and to an internal security function for reporting problems.</p> <p>Banks are required to inform the CBC if they have any indication that they may face serious difficulties or become unable to meet their obligations; or if they are about to suspend payment or become aware of any material adverse change in their condition (Section 40 of the BL).</p> <p>Section 27 of the PSMLAL requires that any knowledge or suspicion of money laundering should be promptly reported to a police officer or MOKAS. The law also provides, under Section 26, that such a disclosure cannot be treated as a breach of the duty of confidentiality owed by banks to their customers by virtue of the contractual relationship existing between them.</p> <p>In case of bank employees, the PSMLAL recognizes, under Section 26, that internal reporting to the Money Laundering Compliance Officer will satisfy the reporting requirement imposed by virtue of Section 27, i.e., once a bank employee has reported his/her suspicion to the Money Laundering Compliance Officer, he or she is considered to have fully satisfied his/her statutory requirements under Section 27.</p> <p>The CBC is carrying out off-site monitoring and on-site examinations which aim at assessing banks' compliance with their anti-money laundering obligations as set out in the law and the CBC's Guidance Note. The CBC developed a special "examinations manual" for checking and evaluating banks' internal control arrangements for money laundering prevention.</p> <p>As a result of the on-site examination, the CBC may issue to the bank concerned a letter with recommendations for corrective action in order to rectify weaknesses and strengthening controls in anti-money laundering procedures.</p> <p>Section 58(2)(a) of the PSMLAL authorizes the CBC to impose an administrative fine of up to €3,000 to any person under their supervision who allegedly fails to take the preventive measures against money laundering prescribed in the law. The PSMLAL provides that the allegedly non-compliant person should first be given the opportunity to be heard before a Supervisory Authority determines the imposition of the administrative fine.</p> <p>Section 27(1) of the BL provides that the CBC may cooperate and exchange information with domestic and foreign banking, insurance, and securities market supervisory authorities in order to assist the discharge of its own or the other supervisory authorities' functions and responsibilities. The said exchange of information and cooperation covers anti-money laundering matters as well.</p> <p>The CBC's directive entitled "Framework for the Evaluation of Internal Control Systems" provides for putting in place mechanisms ensuring that all policies of a bank are enforced. Although not directly specified in this directive, some aspects related to ethics and professional behavior are indirectly addressed.</p> <p>Currently, the CBC is in the process of preparing and issuing a Directive on Corporate Governance, whereby the issue of having a policy statement on ethics and professional behavior will be explicitly addressed.</p> <p>The Council of the Institute of Certified Public Accountants of Cyprus also issued a number of guidance notes, the latest of which is a consolidated version dated November 2004. These notes are addressed to all accountants, auditors, and their staff. The Council of the Institute has been</p> |
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relationship consists of:

- a) Tri-partite meetings with the external auditors of each bank during which the following will be discussed:
 - (i) the balance sheet and the profit and loss account for each year, copies of which each bank is obligated [under Section 24(1) of the BL] to submit to the CBC, in a form to be determined by the CBC, within four months from the end of the financial year;
 - (ii) the report of the external auditor that has to be submitted with (i) above, in a form to be determined by the CBC;
 - (iii) matters arising from the audit work of the external auditors in relation to (i) and (ii) above.
- b) bilateral meetings with the external auditors of a bank, either with the knowledge of the bank concerned or not, whenever this is considered desirable or necessary by the CBC, in the interests of depositors, in accordance with Section 28(2) of the BL.

The CBC is authorized to set accounting standards for banks provided that the CBC is guided in this respect by international practice and the EU directives. To this effect, the CBC has issued a directive on the layout and content of annual accounts of banks, which requires compliance with international accounting standards modified as necessary to comply with EU directives.

Chapter 4 of the CBC's Directive on the layout and content of annual accounts, entitled valuation rules, describes in detail the supervisory requirements for banks to utilize valuation rules that are consistent, realistic, and prudent, taking into account values where relevant.

Moreover, International Accounting Standards that have been adopted in Cyprus since 1981 through the action of the Institute of Certified Public Accountants of Cyprus (the regulatory body for accountants/auditors) require auditors to state in their audit report that the financial statements of the audited company have been prepared in accordance with the International Accounting Standards. Furthermore, through an amendment to the Companies Law in 2003, legal backing has been given to the International Accounting Standards implementation, which is compulsory for all companies, including banks, incorporated in Cyprus.

The confidential character of the financial information gathered by the CBC is legally enforced by the BL [Sections 17(4) and 18].

The external auditors of banks, prior to their appointment, are required to be expressly authorized by the CBC (Sections 2 and 24 of the BL). In practice, most banks are audited by the big four international firms of accountants/auditors.

The CBC relies on its own experienced bank supervisory staff for the conduct of on-site examination and does not generally need to employ the services of external auditors at the present time, although section 26(2) of the BL would permit the CBC to use duly qualified persons, as necessary.

There are no supervisory requirements in respect of the scope and conduct of audit programs as the CBC is not legally empowered to set standards for external audit review. However, as mentioned above, external auditors are required to conduct their audits in accordance with the International Auditing Standards.

Section 28 of the BL provides that auditors may freely report to the CBC any information which is relevant to the latter's supervisory responsibilities. The BL protects the auditor from the consequences of any breach in his duty of confidentiality, by providing that no duty of confidentiality to which an auditor of a bank may be subject shall be regarded as contravened by reason of his communication in good faith to the CBC, whether or not to a request made by the CBC, any information or opinion which is relevant to the CBC's functions and responsibilities under the BL.

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| <p>According to article 41D of the CSL the Commissioner of the CSSDA is responsible for the supervision of the CCIs and the application of the CSL.</p> <p>Part VI A of the CSL provides a framework of minimum prudential standards addressing issues such as:</p> <ul style="list-style-type: none"> • licensing conditions; • minimum capital; • capital adequacy ratio; • organizational and management requirements (“four-eyes” principle, fit-and-proper character); • shareholder requirements; • exposure restrictions; • connected lending limits; • prudential reporting; • on-site examinations; • administrative sanctions; • remedial measures. <p>Section 44 of the CSL authorizes the commissioner to decide on the winding up of a CCI and to nominate a liquidator to that effect.</p> <p>The audit of the accounts and the financial management of the individual CCIs is performed by the Audit Office of Cooperative Societies (“AOCS”), which is an independent legal entity established by Section 19.1 of the CSL and whose audit costs are covered by the examined CCIs by means of annual fees. The AOCS, which also audits the other non-credit cooperative institutions is administered by a committee composed of five members appointed by the Council of Ministers for a term of three years. At present, usually, the committee is chaired by the Auditor General of Cyprus. The auditor general also audits the financial statements of the CBC and performs the audit of the CSSDA.</p> <p>The CCIs have been operating in a relatively stable social and economic environment. There has been no need for implementing major structural changes since the division of the CM (into Turkish-Cypriot and Greek-Cypriot CMs) by the then British-Colonial Authorities almost half a century ago. In 1987, the audit function for the CCIs was separated from the supervisory function with the establishment of the AOCS.</p> <p>However, the negotiations with the EU have introduced a process of change, which led to the harmonization of policies and legislation with the EU standards and Banking Directives (BD). A five-year transitional period as from January 1, 2003 has been agreed upon by the EU within which all CCIs will be compliant with the BD. In this context, the CSL has been modified in 2003 and 2004 in order to ensure full conformity with the <i>acquis communautaire</i>.</p> <p>A two-layered approach will be followed with a number of CCIs complying individually on a stand-alone basis with the remaining CCIs complying by becoming affiliates of the CCB (called the “Central Body”). However, any conforming CCI can also join the permanent affiliation arrangement if it so wishes. The Central Body arrangements will be introduced within the context of the permanent affiliation arrangements set out in Article 2, paragraph 5 of the BD 2000/12/EC where the CCB, as the “Central Body,” and the affiliated CCIs will have to satisfy the provisions on a consolidated basis.</p> <p>The supervisory framework of the affiliated CCIs will be as follows:</p> <ul style="list-style-type: none"> • the affiliated CCIs will be supervised by their own supervisory authority (the CSSDA) as stated in Section 41D of the CSL; • simultaneously, and according to Section 35 of the Banking Law (BL), the affiliated CCIs are subject to the provisions of the BL to the extent that this is considered necessary for the CBC to exercise supervision on a consolidated basis. Therefore, the CSSDA will have to provide the CBC with all the necessary data and information |
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| | |
|------------|--|
| | <p>regarding affiliated CCIs and will participate in joint on-site examinations of the affiliated CCIs.</p> <p>On the other hand, the CCB, being the Central Body of the affiliated CCIs, is empowered to supervise these affiliated CCIs explicitly and only for the purposes of the permanent affiliation arrangements and in accordance with the provisions of the BD. The CCB/Central Body has no authority to perform prudential supervision but will have the power to monitor their solvency and liquidity as well as to issue compulsory instructions to the affiliated CCIs that would include concrete management issues covering administrative, organizational, and operational areas (e.g., internal audit, risk management, credit policy, etc.).</p> <p>These instructions to be issued by the Central Body to the affiliated CCIs will:</p> <ul style="list-style-type: none"> • lay down the main principles by applying generally accepted banking principles and procedures in order to ensure the financial stability and competitiveness of the affiliated CCIs; and • be general and be directed towards all CCIs except in cases where due to reasons relating to their size and/or other reasons it is considered necessary to issue specially-formulated or modified instructions. <p>On the other hand these instructions are not intended to:</p> <ul style="list-style-type: none"> • aim at full control of the CCIs nor will they cover routine operations (their routine operations will be conducted in accordance with the CCIs' internal control procedure manuals); • replace or reduce the role and authority of the CCIs' management but rather form the basis for a framework under which the Central Body will be offering support and conducting the required monitoring and control in specific areas and operations which are important; • alter the authority and powers of the CSSDA or their authority and independence; or • replace the supervisory and prudential instructions issued by the CSSDA. <p>Furthermore, the law requires that before such instructions are issued, the Central Body will have to consult the commissioner and collaborate with him in order to assure full conformity with the legal and regulatory framework of the CCIs. The CSSDA and the Central Body are also to collaborate systematically in order to resolve any pending issues and problems so as to meet their respective duties and obligations.</p> <p>A Memorandum of Understanding has been signed between the CBC and the CSSDA under which it was decided that the supervision of the CBC over the CCB has to take into account the permanent affiliation arrangements of the CCB as a Central Body with the affiliated CCIs. The arrangements for the CBC's supervision of the CCB and its affiliates on a consolidated basis are governed by the BL and Article 5A(3)(b) of the CSL.</p> <p>The CSSDA's annual report highlights the financial situation of the CCIs and informs the reader on regulatory developments. A new website in English is also under construction.</p> |
| Assessment | Materially Noncompliant. |
| Comments | <p>A comprehensive transitional regulatory and supervisory system has been set in place that will require every CCI to conform to the EU-banking directives before the end of 2007.</p> <p>During this transitional period, the CCIs are allowed to continue their existing business within Cyprus under the CSL without any restrictions or conditions, with the result that the cooperative credit sector will not be fully compliant with the EU banking directives during that period.</p> <p>However, and pursuant to Section 2 of the transitional provisions of the CSL, the CCIs have been asked to inform the CSSDA on the measures they intend to take in order to comply with the upcoming prudential requirements. The CSSDA has also developed a monitoring system of</p> |

| | |
|--|---|
| | <p>purpose of this he may:</p> <ol style="list-style-type: none"> a) check the records, the books, the accounts and any other documents and data stored in computers at each cooperative credit institution or in the possession of any person for whom there is reasonable suspicion that he holds information of the Cooperative Credit Institution that may assist the commissioner in his investigation, and to take copies or extracts from them; and b) to enter the office and professional premises of the persons under investigation. <p>Also, pursuant to article 3(5), “... the Commissioner ... has the power to inspect the books, accounts, and documents of a registered society and every officer of such society shall provide the necessary facilitations and all of the requested information for such inspection.” Article 41JC empowers the Commissioner “... to demand and collect information useful for exercising his powers pursuant to the cooperative law, and to demand through a written request the submission of this information within the set deadline, from registered co-operative credit institutions, their subsidiary companies, members of their Committee or their Board or the members of their Supervisory Board.”</p> <p>Supervision is carried out through on-site examination and of-site monitoring. The Supervision Division of the CSSDA has two subdivisions: on-site supervision and off-site supervision and regulation. Currently, there are only seven officers and staff members in the division; however, plans and budgets have been prepared and are awaiting government approval for increasing the total number of the CSSDA’s staff to 57, out of whom initially 21 will be allocated to the Supervision Division. The work of the Supervision Division is, inter alia, supported by the 33 officers and staff of the Development Division of the CSSDA, who also support the operations of the CCI’s by working with them on supervisory, regulatory, and operational/administrative matters. Supervisory findings from the on- and off-site supervision processes are also used by the Development Division to assist the CCIs in enhancing their operations.</p> <p>The CSSDA’s off-site supervision/monitoring and on-site examination functions benefit from their ongoing relationship with the independent Audit Office for Cooperatives Societies and the results of its annual audits of each CCI. These audits cover both financial and overall management/performance issues. CSSDA officers take part in the meetings with CCI management on results of the audit following each audit; they provide support for management’s efforts to address any deficiencies identified in the audit.</p> <p>The CSSDA’s on-site examination process began as a separate function within the CSSDA in November 2003; prior to that, the supervision and development functions were one group. A total of 16 examinations, including 4 that were conducted with the assistance of the Central Bank of Cyprus as part of a training exercise, have been conducted since the inception of the program. Examinations have included all sizes and complexity of CCIs, including the largest of these institutions. The CCI is normally notified in advance of a planned examination, but the CSSDA does, on occasion, conduct ad hoc examinations without prior notice.</p> <p>On-site examinations are planned using a basic risk-based approach, concentrating on those institutions that present the higher risks to the system, and using the findings of the off-site supervision/monitoring system, the findings of the independent external audit, and the knowledge about the CCI from the CSSDA’s development officers as a base of knowledge on each institution. The CSSDA’s goal is to conduct an annual examination of all CCIs that remain unaffiliated after the formation of the Central Body, as well as an annual examination of the Central Body and its affiliates, on a consolidated basis.</p> <p>The CSSDA’s on-site supervision examines whether:</p> <ul style="list-style-type: none"> • the CCI complies with the CSL, by-laws, and regulations; • the organizational structure and the management is proper and effective; • the administrative and accounting procedures are adequate and effective; • the books and records are properly kept; |
|--|---|

- the computerization as well as the internal control systems are adequate;
- there are sufficient measures to prevent fraud and irregularities as well as money laundering;
- the CCI has adopted and follows adequate loan evaluation and authorization procedures in order to minimize risk exposure;
- the credit policies are followed, the loan portfolio is of good quality, and provisioning is adequate;
- the loans in arrears are monitored;
- adequate levels of liquidity are maintained;
- the CCI's profitability is adequate;
- the CCI's assets are properly safeguarded; and
- the overall soundness and solvency of the institution is achieved.

In the course of the on-site examination, the reports to the institution's committee from their internal auditor, where they exist, are reviewed by the examiners.

The findings of the on-site examination are provided to and discussed with the management of the CCI. Plans for corrective action, as necessary, are required from the institutions.

Information on a wide variety of matters related to each CCI's activities is provided to the CSSDA through a series of periodic returns. Article 41JC(7) of the CSL states that such information provided is confidential, and Article 41H provides for the obligation of confidentiality for management and staff of the CSSDA and for sharing of such information for supervisory purposes. Article 41JC(1) gives the commissioner the power to demand and collect information useful for the exercise of his power pursuant to the co-operative law. Off-site supervision/monitoring involves the examination and analysis of these periodic returns, such as those relating to, inter alia, monthly statistical data, annual balance sheet and profit and loss accounts, the level of own funds, solvency ratio, large exposures, and credit facilities to staff and committee members. This monitoring covers the following:

- the level of deposits and their distribution per time duration and per interest rate;
- the level of loans and whether they are within the set limits;
- the distribution of loans per time duration and per sector of economic activity;
- the level of loan excesses and arrears;
- the level of liquid assets;
- the liquidity ratio; and
- returns, regarding the prudential requirements of Directive 2000/12/EC, such as Own Funds, Solvency Ratio, and Large Exposures.

Also, for all CCIs that are connected electronically to the central server of the Cooperative Computer Society (currently 220 CCIs, including all of the larger institutions), a uniform computerized recordkeeping and reporting system is in place that enables the supervisors to have effective and efficient access to ongoing financial information of the CCIs.

Findings emerging during off-site supervision are analyzed, trended, and compared with other institutions and are verified during on-site supervision.

Currently, the CSSDA is evaluating a comprehensive questionnaire that has been submitted by the CCIs regarding each institution's current overall condition (soundness, profitability, liquidity, etc.), as well as presenting a timetable scheme for compliance with the conditions for obtaining an ongoing operating license, as part of the program to harmonize the credit cooperative system in Cyprus with the requirements of the EU.

| Recommended Actions | Planned Action |
|--|---|
| CP 13 Other Risks Strengthen supervisory capacity. Organize accelerated access to centralized reporting system regarding interest rate risk. | This information is currently available to the management of the CCIs. The CSSDA supervisors will have direct access when the project of prudential reporting is completed. |
| CP 14 Internal Controls Strengthen supervisory capacity. Undertake efforts to encourage mergers favoring critical mass and organizational capabilities of CCIs | Due to the ongoing efforts to encourage mergers in the Cooperative Credit Sector we have already reached promising results. In the first half of this year the number of Cooperative Credit Institution's due to the merging procedure has decreased from 358 to 348. |
| CP 15 Money Laundering Update guidance note. | Guidance notes by CSSDA have been finalized and issued on 16/05/2005. |
| CP 16 On-site and Off-site Supervision Strengthen supervisory capacity. | Recruitment of additional staff (see CP 1.2 above) and Continuous Training. |
| CP 17 Bank Management Contact Impose mandatory and timely communication of material changes in activities and adverse developments. | Relevant Regulatory Decision will be issued as soon as possible |
| CP 18 Off-site Supervision Strengthen supervisory capacity. Accelerate direct connection to central data server. | The CSSDA has accelerated direct connection to the central data server and use information provided by those CCIs that are and will be connected through the central server of the Cooperative Computer Society. |
| CP 19 Validation of Supervisory Information Strengthen supervisory capacity. | Recruitment of additional staff (see CP 1.2 above). |

Table 7. Cyprus: Market Share as Rank of World Market and European Markets

| Line of Business | World Market Rank | European Market Rank (of 34 countries) |
|------------------|-------------------|---|
| Total Market | 56 | 28 |
| Life Insurance | 51 | 25 |
| General Lines | 67 | 31 |

26. With a penetration of slightly below 6 percent of GDP and less than \$1,000 premiums per capita, Cyprus ranks at the lowest end of the 25 EU countries; only Malta and Greece have lower premiums per capita.

27. Life insurance was the dominant line of business from 1994 until 2003. During that period, the market share of life insurance grew steadily from 50.1 percent to 54.4 percent in 1998. It peaked in 1999 with a market share of 77.6 percent, when life premiums more than tripled from £C 111,149 to £C 338,723. Since then, the market share has dropped from 67.3 percent in 2000 down to 50.2 percent in 2003 with a stable total premium of £C 154 million.

The very specific characteristic of the Cypriot life insurance market is the enormously high market share of unit-linked products. Currently, their market share is approximately 75 percent. According to SwissRe's Sigma Report No. 3/2003, unit-linked products had a 35 percent share of the Western European market. The high share is due to two factors. First, the development of the Cypriot insurance market follows closely the trends in the U.K. market. Second, private customers had no access to mutual funds until 2003. Unit-linked life insurance products were therefore in high demand as a savings vehicle in which to invest at the time of a booming stock market.

28. The increase in life insurance premiums was primarily generated by single premium policies. The underlying growth rate was between 12 percent and 18 percent for 1997 to 2000.

29. General lines insurance has regained its share in the Cypriot market and in 2003 accounted for £C 105 million of GWP, with an increase of almost 13 percent in 2004 according to the Insurance Association of Cyprus based on unconfirmed preliminary results. This increase is due to rate increases, particularly in motor insurance, and the development of the fire and property classes.

30. The following tables list the supervised companies for general lines and core data for them received during the assessment mission:

Table 8. Domestic Non-Life Insurance Market by Company, 2003 and 2004

| Company name | Company Status | Gross Written Premium | Net Earned Premium | Assets | Equity | Technical Reserve | Underwriting result | Domestic Market share | Cumulative market share |
|------------------------------------|----------------|---------------------------------|--------------------|---------|--------|-------------------|---------------------|-----------------------|-------------------------|
| | | (in thousands of Cyprus pounds) | | | | | | (percentage) | |
| Laiki Insurance Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 23,384 | 13,026 | 40,671 | 5,811 | 29,578 | 617 | 22.2 | 22.2 |
| General Insurance Cyprus Ltd | Not listed | | | | | | | | |
| | 2004 | 26,034 | 15,014 | 47,948 | 6,848 | 33,286 | 1,390 | 20.8 | 20.8 |
| Pancyprian Insurance Ltd. | Not listed | | | | | | | | |
| | 2003 | 19,067 | 8,322 | 35,074 | 8,321 | 20,940 | 901 | 18.1 | 40.4 |
| Atlantic Insurance Co. Ltd | Not listed | | | | | | | | |
| | 2004 | 22,905 | 10,940 | 41,961 | 9,667 | 24,902 | 3,808 | 18.3 | 39.0 |
| American Home Assurance Company | Not listed | | | | | | | | |
| | 2003 | 11,534 | 5,964 | 22,560 | 3,545 | 12,293 | -432 | 11.0 | 51.3 |
| Commercial Union Assurance Cy | Not listed | | | | | | | | |
| | 2004 | 13,248 | 7,555 | 23,895 | 4,315 | 13,342 | 230 | 10.6 | 49.6 |
| Cosmos Insurance Co. Ltd | Listed | | | | | | | | |
| | 2003 | 7,985 | 6,094 | 15,296 | 9,100 | 6,265 | 938 | 7.6 | 58.9 |
| Eurosure Insurance Co. Ltd | Listed | | | | | | | | |
| | 2004 | 9,466 | 6,978 | 18,209 | 10,731 | 7,535 | 1,009 | 7.5 | 57.1 |
| Royal Crown Insurance Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 7,359 | 2,079 | 14,340 | 3,801 | 8,749 | -177 | 7.0 | 65.9 |
| Ethniki General Ins. Cyprus Ltd | Not listed | | | | | | | | |
| | 2004 | 6,492 | 2,175 | 13,925 | 4,673 | 7,893 | 869 | 5.2 | 62.3 |
| Kentriki Ins. Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 7,044 | 5,078 | 17,638 | 8,451 | 7,151 | -505 | 6.7 | 72.6 |
| Progressive Ins. Co. Ltd | Not listed | | | | | | | | |
| | 2004 | 8,548 | 6,424 | 19,475 | 9,126 | 8,254 | 66 | 6.8 | 69.1 |
| Hydra Insurance Co. Ltd | Listed | | | | | | | | |
| | 2003 | 6,275 | 4,716 | 8,943 | 3,153 | 4,598 | 385 | 6.0 | 78.6 |
| Gan Direct Insurance Ltd | Listed | | | | | | | | |
| | 2004 | 9,527 | 7,957 | 11,756 | 3,543 | 6,228 | 160 | 7.6 | 76.7 |
| Olympic Insurance Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 4,934 | 3,417 | 5,814 | 928 | 3,904 | -9 | 4.7 | 83.3 |
| Ydrosios Insurance Co (Cyprus) Ltd | Not listed | | | | | | | | |
| | 2004 | 5,477 | 3,705 | 7,207 | 1,478 | 4,688 | -258 | 4.4 | 81.1 |
| Ledra Insurance Ltd | Not listed | | | | | | | | |
| | 2003 | 4,755 | 2,642 | 8,291 | 1,401 | 4,808 | 220 | 4.5 | 87.8 |
| Hermes Insurance Ltd | Not listed | | | | | | | | |
| | 2004 | 5,371 | 3,024 | 8,840 | 2,040 | 4,810 | 652 | 4.3 | 85.4 |
| Total | Not listed | | | | | | | | |
| | 2003 | 3,246 | 1,514 | 5,333 | 1,134 | 3,111 | -164 | 3.1 | 90.9 |
| Total | Not listed | | | | | | | | |
| | 2004 | 3,450 | 2,121 | 6,219 | 1,325 | 3,851 | 196 | 2.8 | 88.1 |
| Total | Not listed | | | | | | | | |
| | 2003 | 2,658 | 1,695 | 4,148 | 1,395 | 1,796 | 136 | 2.5 | 93.4 |
| Total | Not listed | | | | | | | | |
| | 2004 | 2,857 | 1,791 | 4,578 | 1,526 | 1,982 | 131 | 2.3 | 90.4 |
| Total | Not listed | | | | | | | | |
| | 2003 | 2,336 | 992 | 5,335 | 1,387 | 3,227 | 132 | 2.2 | 95.6 |
| Total | Not listed | | | | | | | | |
| | 2004 | 1,951 | 1,143 | 6,103 | 1,457 | 3,844 | 161 | 1.6 | 91.9 |
| Total | Not listed | | | | | | | | |
| | 2003 | 2,011 | 1,818 | 3,155 | 1,137 | 1,505 | 3 | 1.9 | 97.6 |
| Total | Not listed | | | | | | | | |
| | 2004 | 3,813 | 2,782 | 4,055 | 1,163 | 2,287 | 42 | 3.0 | 95.0 |
| Total | Not listed | | | | | | | | |
| | 2003 | 1,056 | 901 | 1,790 | 502 | 557 | 122 | 1.0 | 98.6 |
| Total | Not listed | | | | | | | | |
| | 2004 | 1,927 | 1,090 | 2,822 | 816 | 713 | 231 | 1.5 | 96.5 |
| Total | Not listed | | | | | | | | |
| | 2003 | 796 | 553 | 1,920 | 947 | 758 | 186 | 0.8 | 99.3 |
| Total | Not listed | | | | | | | | |
| | 2004 | 2,035 | 531 | 2,122 | 1,057 | 818 | 127 | 1.6 | 98.1 |
| Total | Not listed | | | | | | | | |
| | 2003 | 505 | 32 | 1,530 | 855 | 390 | -280 | 0.5 | 99.8 |
| Total | Not listed | | | | | | | | |
| | 2004 | 2,245 | 1,010 | 2,349 | 1,065 | 1,223 | 160 | 1.8 | 99.9 |
| Total | Not listed | | | | | | | | |
| | 2003 | 145 | 533 | 2,003 | 775 | 911 | -102 | 0.1 | 99.9 |
| Total | Not listed | | | | | | | | |
| | 2004 | 80 | 29 | 1,742 | 855 | 745 | 69 | 0.1 | 100.0 |
| Total | Not listed | | | | | | | | |
| | 2003 | 67 | 10 | 5,385 | 5,291 | 33 | 25 | 0.1 | 100.0 |
| Total | Not listed | | | | | | | | |
| | 2004 | 19 | 3 | 5,360 | 5,360 | 24 | 5 | 0.0 | 100.0 |
| Total | | | | | | | | | |
| | 2003 | 105,157 | 59,386 | 199,226 | 57,934 | 110,574 | 1,996 | 100 | -- |
| Total | | | | | | | | | |
| | 2004 | 125,445 | 74,272 | 228,566 | 67,045 | 126,425 | 9,048 | 100 | -- |

Source: Insurance Companies Control Service

Table 9. International Non-Life Insurance Companies, 2003 and 2004

| Company name | Company Status | Gross Written Premium | Net Earned Premium | Assets | Equity | Technical Reserve | Underwriting result |
|---|----------------|-----------------------|--------------------|---------|--------|-------------------|---------------------|
| (in thousands of Cyprus pounds) | | | | | | | |
| Alliance International Reinsurance Co. Ltd. | Listed | | | | | | |
| | 2003 | 18,315 | 13,703 | 41,147 | 25,055 | 13,786 | 546 |
| | 2004 | 16,137 | 13,944 | 41,433 | 25,595 | 13,910 | 962 |
| Mol Reinsurance Co Ltd | Not listed | | | | | | |
| | 2003 | 8,659 | 4,110 | 7,017 | 6,567 | 12 | 3,698 |
| | 2004 | 9,061 | 2,926 | 8,806 | 7,013 | 8,539 | 932 |
| Ami Alpha Marine Ins. Co. Ltd | Not listed | | | | | | |
| | 2003 | 5,655 | 520 | 2,877 | 1,825 | 505 | 748 |
| | 2004 | 6,988 | 736 | 4,943 | 2,787 | 6,118 | 950 |
| Hellenic Hull Mutual | Not listed | | | | | | |
| | 2003 | 5,540 | 3,814 | 6,637 | -1,009 | 5,235 | -170 |
| | 2004 | 3,902 | 2,982 | 4,296 | -381 | 4,274 | -267 |
| Trust Int'Nal Ins.Co(Bahrain) Ltd (Non-Eu Branch) | Not listed | | | | | | |
| | 2003 | 5,178 | 1,956 | 12,971 | 1,369 | 7,385 | 106 |
| | 2004 | 5,292 | 2,941 | 9,633 | 1,355 | 5,446 | 16 |
| Arab German Insurance Co Ltd (Non-Eu Branch) | Not listed | | | | | | |
| | 2003 | 4,248 | 1,713 | 3,934 | -7 | 3,576 | -153 |
| | 2004 | 3,034 | 1,823 | 3,584 | 306 | 1,987 | 218 |
| Trust Int'Nal Ins.Co(Cyprus) Ltd | Not listed | | | | | | |
| | 2003 | 4,163 | 69 | 20,983 | 14,903 | 3,452 | -358 |
| | 2004 | 3,821 | 73 | 23,352 | 18,688 | 3,838 | 1,095 |
| Raets Insurance Company | Not listed | | | | | | |
| | 2003 | 2,837 | 2,433 | 3,148 | 437 | 1,096 | -556 |
| | 2004 | ... | ... | ... | ... | ... | ... |
| Berytus Marine Ins. Co. Ltd | Not listed | | | | | | |
| | 2003 | 1,942 | 913 | 3,025 | 619 | 1,915 | 285 |
| | 2004 | 1,546 | 679 | 2,765 | 776 | 1,558 | -137 |
| B&B Marine Insurance Ltd | Not listed | | | | | | |
| | 2003 | 316 | 316 | 2,140 | 2,123 | 0 | 240 |
| | 2004 | 884 | 884 | 2,279 | 2,271 | 884 | 320 |
| V.T.I Insurance Co. Ltd | Not listed | | | | | | |
| | 2003 | 31 | -24 | 358 | 331 | 19 | -24 |
| | 2004 | ... | ... | ... | ... | ... | ... |
| CP Reinsurance | Not listed | | | | | | |
| | 2003 | ... | ... | ... | ... | ... | ... |
| | 2004 | 113,223 | 113,223 | 100,336 | 34,216 | 61,920 | 28,304 |
| Total | | | | | | | |
| | 2003 | 56,884 | 29,523 | 104,237 | 52,213 | 36,981 | 4,362 |
| | 2004 | 163,888 | 140,211 | 201,427 | 92,626 | 108,474 | 32,393 |

Source: Insurance Companies Control Service

31. The following tables list the supervised life companies and core data for them received during the assessment mission:

Table 10. Domestic Life Market by Company, 2003 and 2004

| Company name | Listed | Gross Written Premium | Net Earned Premium | Assets | Equity | Technical Reserve | Underwriting result | Market share in percentage | Cumulative market share in percentage |
|--------------------------------------|------------|---------------------------------|--------------------|---------|--------|-------------------|---------------------|----------------------------|---------------------------------------|
| | | (in thousands of Cyprus pounds) | | | | | | (percentage) | |
| Laiki Cyprialife Ltd | Not listed | | | | | | | | |
| | 2003 | 43,023 | 38,317 | 210,409 | 16,906 | 185,330 | 1,784 | 28.4 | 28.4 |
| | 2004 | 41,846 | 36,598 | 219,989 | 19,406 | 194,564 | 3,027 | 27.6 | 55.8 |
| Eurolife | Not listed | | | | | | | | |
| | 2003 | 41,867 | 37,964 | 209,756 | 15,301 | 184,632 | 5,202 | 27.6 | 56.1 |
| | 2004 | 42,725 | 37,973 | 217,080 | 15,522 | 192,175 | 3,101 | 28.2 | 28.2 |
| Universal Life Insurance Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 37,495 | 32,796 | 233,134 | 6,536 | 211,145 | -177 | 24.8 | 80.8 |
| | 2004 | 36,558 | 31,678 | 227,121 | 6,508 | 201,345 | 2,441 | 24.1 | 79.9 |
| American Life Insurance Co. | Not listed | | | | | | | | |
| | 2003 | 18,085 | 15,688 | 104,219 | 11,758 | 87,490 | -219 | 11.9 | 92.8 |
| | 2004 | 18,294 | 15,667 | 115,549 | 13,863 | 96,486 | 1,438 | 12.1 | 92.0 |
| Liberty Life Insurance Public Co Ltd | Listed | | | | | | | | |
| | 2003 | 5,111 | 4,967 | 18,285 | 1,982 | 12,865 | -509 | 3.4 | 96.1 |
| | 2004 | 5,007 | 4,879 | 17,281 | 2,205 | 11,642 | 609 | 3.3 | 95.3 |
| Aspis Pronia Ltd | Not listed | | | | | | | | |
| | 2003 | 2,364 | 1,917 | 5,966 | 873 | 4,914 | 340 | 1.6 | 97.7 |
| | 2004 | 2,324 | 1,869 | 6,823 | 880 | 5,629 | -208 | 1.5 | 98.5 |
| Ethniki Insurance (Cyprus) Ltd | Not listed | | | | | | | | |
| | 2003 | 2,155 | 1,818 | 10,994 | 3,938 | 6,572 | -127 | 1.4 | 99.1 |
| | 2004 | 2,574 | 2,107 | 11,412 | 3,856 | 7,317 | -77 | 1.7 | 97.0 |
| Hellenic Alico Life Co. Ltd | Not listed | | | | | | | | |
| | 2003 | 1,318 | 846 | 2,488 | 1,196 | 212 | 320 | 0.9 | 100.0 |
| | 2004 | 2,250 | 1,610 | 4,164 | 1,673 | 613 | 497 | 1.5 | 100.0 |
| Total | | | | | | | | | |
| | 2003 | 151,418 | 134,313 | 795,251 | 58,490 | 693,160 | 6,614 | 100 | -- |
| | 2004 | 151,578 | 132,381 | 819,419 | 63,913 | 709,771 | 10,828 | 100 | -- |

Source: Insurance Companies Control Service

Table 11. International Life Insurance Companies, 2003 and 2004

| Company name | Listed | Gross Written Premium | Net Earned Premium | Assets | Equity | Technical Reserve | Under-writing result |
|---------------------------------|------------|-----------------------|--------------------|---------|--------|-------------------|----------------------|
| (in thousands of Cyprus pounds) | | | | | | | |
| Akelius Insurance Co. Ltd | Not listed | | | | | | |
| | 2003 | 44,469 | 44,468 | 320,643 | 5,707 | 314,831 | -2,274 |
| | 2004 | 23,361 | 23,361 | 262,649 | 12,936 | 226,985 | 6,998 |
| Medlife Insurance Ltd | Not listed | | | | | | |
| | 2003 | 22,807 | 21,176 | 107,532 | 9,312 | 81,960 | 796 |
| | 2004 | 24,625 | 22,954 | 112,583 | 14,355 | 81,263 | 1,729 |
| Axioma Insurance Co. Ltd | Not listed | | | | | | |
| | 2003 | 774 | 708 | 2,891 | 669 | 2,158 | 27 |
| | 2004 | 865 | 755 | 3,321 | 666 | 2,602 | 48 |
| Total | | | | | | | |
| | 2003 | 68,050 | 66,352 | 431,066 | 15,688 | 398,949 | -1,451 |
| | 2004 | 48,851 | 47,070 | 378,553 | 27,957 | 310,850 | 8,775 |

Source: Insurance Companies Control Service

32. The following table lists the supervised composite companies and core data for them received during the assessment:

Table 13. Domestic Premiums by Line of Bussiness, 2003 and 2004

| | Gross Written Premium | Net Earned Premium | Assets | Equity | Technical Reserve | Under- writing Result |
|---------------------------------|-----------------------------|--------------------------|-----------|---------|----------------------|-----------------------------|
| (in thousands of Cyprus pounds) | | | | | | |
| Non-Life | | | | | | |
| 2003 | 105,157 | 59,386 | 199,226 | 57,934 | 109,221 | 1,996 |
| 2004 | 125,445 | 74,272 | 228,566 | 67,045 | 126,425 | 9,048 |
| Life | | | | | | |
| 2003 | 151,418 | 150,340 | 795,251 | 58,490 | 693,160 | 6,614 |
| 2004 | 151,578 | 132,381 | 819,419 | 63,913 | 709,771 | 10,828 |
| Composite | | | | | | |
| 2003 | 29,948 | 24,279 | 76,288 | 16,061 | 50,031 | -889 |
| 2004 | 32,979 | 27,098 | 82,722 | 14,610 | 57,481 | -496 |
| Total Market | | | | | | |
| 2003 | 286,523 | 234,005 | 1,070,765 | 132,485 | 852,412 | 7,721 |
| 2004 | 310,002 | 233,751 | 1,130,707 | 145,568 | 893,677 | 19,380 |

Source: Insurance Companies Control Service

| | |
|--|---|
| Principles for Collective Investment Schemes (P 17–20) | Principle 20. It is recommended that for UCITS, CySEC introduce specific rules for the valuing of assets other than shares in publicly quoted companies. CySEC has undertaken to have these rules in place before authorization is given. |
| Principles for Market Intermediaries (P 21–24) | Fully implemented. |
| Principles for the Secondary Market (P 25–30) | Principle 26. Legislation should be introduced as a matter of urgency to allow CySEC to supervise effectively the Stock Exchange. This would entail a revision to the equal constitutional status of both bodies whereby CySEC as a public-administrative body cannot supervise the exchange, another public-administrative body. |
| | |

| | |
|--|---|
| Principles for Cooperation in Regulation (P 11–13) | <p><i>Principle 11</i></p> <ul style="list-style-type: none"> • CySEC is finalising the drafting of a bill amending the CySEC Law, under which the obstacle in sharing information and carrying out investigations on behalf of foreign regulators in situations where CySEC has no independent interest in the matter being investigated, is removed. It is expected that this bill will be enacted into law in 2006. <p><i>Principle 13</i></p> <ul style="list-style-type: none"> • CySEC has proposed appropriate amendments to the CySEC law in order to give CySEC clear authority to secure information on the identity of beneficial owners of shares which are registered in the names of lawyers acting as nominees of the beneficial owners. The enactment of this bill is expected to take place in 2006. |
| Principles for Collective Investment Schemes (P 17–20) | <p><i>Principle 20</i></p> <ul style="list-style-type: none"> • No schemes have been authorised by CySEC to-date. CySEC undertakes to have these rules in place before any such authorisation is given. |
| Principles for the Secondary Market (P 25–30) | <p><i>Principle 26</i></p> <ul style="list-style-type: none"> • CySEC shall take the appropriate steps, so as this issue is addressed with the transposition into national law of the EU Directive on Markets in Financial Instruments and to soon be in position to effectively supervise the Cyprus Stock Exchange. |