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Cyprus

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Introduction

In the past few years the banking sector in Cyprus has undergone intense legislative and regulatory activity, mainly in connection with the resolution of troubled local banks but also in connection with the implementation of major European Union ("EU") legislative initiatives. The main government and regulatory policies that govern the banking sector are therefore of EU origin and relate to the creation of a banking union within the Eurozone (the "Banking Union").

Nevertheless, it is the resolution of the two major Cyprus banks in March 2013 (Laiki Bank and Bank of Cyprus), involving the bail-in of depositor funds, that has had the most dramatic impact on the country's financial sector and economy and on the public's perception of the banking sector. The bank resolution plan, adoption of which by the Cyprus government was a precondition for the release of a €10bn financial assistance package by the European Stability Mechanism, involved the bailing in of the entire uninsured deposit base of Laiki Bank (deposit amounts above €100,000), the transfer of insured deposits and performing assets to Bank of Cyprus and the further bail-in of 47.5% of uninsured Bank of Cyprus deposits.

To prevent a sector-wide run on deposits following the bail-in of such a significant part of the deposit base, the Ministry of Finance simultaneously introduced restrictions on deposit withdrawals. Although these controls have been progressively eased following the gradual improvement in the economic climate and the recapitalisation of the banking sector, a firm date for their complete removal has still not been set.

As things currently stand, two years after the commencement of the bank resolution process and the imposition of restrictions on deposit withdrawals, the major challenge for the Cyprus banking sector is how to address the high proportion of non-performing loans in banks' portfolios. Poor asset quality, the result of lending to an overleveraged local economy, was a major contributing factor in the decline in Cyprus banks' health. New management in the main banks has introduced stronger credit practices, but without effective foreclosure legislation there are serious obstacles to dealing with non-performing debt, which is essential for improvement in longer-term banking sector health. New legislation was approved by the Cyprus parliament in the late summer of 2014, but its implementation has been postponed.

In view of the application of uniform EU banking legislation in Cyprus, its attractiveness as a banking market relative to other EU jurisdictions will likely depend on the potential of the local economy, its continuing appeal as an international business centre and the transition to an improved foreclosure environment.

Regulatory architecture: overview of banking regulators and key regulations

As a Member State of the EU since 2004 and of the Eurozone since 2008, Cyprus's banking regulatory architecture is largely based on directly enforceable EU legislation and the transposition of EU directives into national law.

Key banking legislation

The primary statutes and regulations that govern the banking industry relate to the licensing of banking activities, the regulation and supervision of credit institutions and their resolution. They are:

- the Business of Credit Institutions Law of 1997 to 2015, Law 66(I) of 1997 as amended, ("the Banking Laws") is the basic banking legislation, into which the provisions of Directive 2013/36/EU ("CRD IV") on access to the activity of credit institutions and the prudential supervision of credit institutions have been transposed;
- Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions ("CRR") setting out own funds requirements, limits on large exposures, and requirements regarding public disclosure reporting of leverage measures;
- the Macro-prudential Supervision of Institutions Law of 2015, Law 6(I) of 2015, ("the Macro-prudential Supervision Law"), which transposes the relevant provisions of Directive 2013/36/EU and sets out requirements for the establishment of additional capital buffers against systemic and other risk;
- Regulation (EU) No 1093/2010 of the European Parliament and of the Council establishing a European Supervisory Authority (European Banking Authority) as amended by Regulation No 1022/2013 of the European Parliament and of the Council as regards the conferral of specific tasks on the European Central Bank;
- Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ("Single Supervisory Mechanism Regulation");
- Regulation (EU) No 468/2014 of the European Central Bank establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and the national competent authorities and with national designated authorities "SSM Framework Regulation");
- Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions ("BRRD");
- Regulation (EU) No 806/2014 of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund ("SRM Regulation");
- the Resolution of Credit and Other Institutions Law, Law 17(I) of 2013 as amended, ("the Resolution Law"),
- the Central Bank of Cyprus Laws of 2002 to 2014, Law 138(I) of 2002 as amended, setting out the mandate and responsibilities of the Central Bank of Cyprus ("CBC"), including macro- and micro-prudential supervision;
- the Law on the Establishment and Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme, Law 16(I) of 2013 as amended, ("the Deposit Protection Scheme Law");
- the Prevention and Suppression of Money Laundering Activities Law of 2007 to 2013, Law 188(I) of 2007 as amended, ("the AML Law"), which transposes Directive 2005/6/EC (the "AML Directive");
- the Payment Services Laws of 2009 to 2010, Law 128(I) of 2009 as amended;
- the Consumer Credit Law, Law 106(I) of 2010, ("the Consumer Credit Law"), which transposes Directive 2008/48/EC on credit agreements for consumers;
- the Investment Services and Regulated Markets Law, Law 144 of 2007, as amended ("the Investment Services Law") is the legislation governing the provision of investment services, into which the terms of the Markets in Financial Instruments Directive (Directive 2006/39/EU) have been transposed; and
- the Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013, Law 12(I) of 2013, ("the Restrictive Measures Law"), which sets the legal framework under which the Minister of Finance issues, on the recommendation of the governor of the CBC, decrees restricting certain transactions for the purposes of protecting the stability of deposits in Cyprus banks following the adoption of bail-in measures in the course of resolution of the two principal domestic banks in 2013.

Key directives and decrees issued by the CBC and the Minister of Finance under powers granted by the Banking Laws and other relevant legislation include:

- CBC Directive on the Assessment of the Fitness and Probity of Members of the Management Body and Managers of Authorised Credit Institutions of 2014 ("the CBC Fitness and Probity of Management Directive");
- CBC Directive on Governance and Management Arrangements in Credit Institutions of 2014 ("the CBC Governance Directive");
- CBC Directive on the Preparation and Submission of Recovery Plans of 2014;
- CBC Directive on Loan Impairment and Provisioning Procedures of 2014;
- CBC Directives on Arrears Management of 2013 and 2014 ("the CBC Arrears Management Directive"); and
- Ministry of Finance decrees issued under the Restrictive Measures Law.

Bank supervision

Banks licensed and operating in Cyprus are supervised by both the ECB and the CBC in accordance with the Single Supervisory Mechanism Regulation establishing the Single Supervisory Mechanism composed of the ECB and the national competent authorities ("NCAs") and the SSM Framework Regulation establishing a framework for cooperation between the ECB the NCAs.

Under the SSM Framework Regulation, the ECB has direct supervisory competence in respect of credit and other institutions established in participating Member States that are classified as being significant, with NCAs assuming responsibility for directly supervising entities that are less significant. In September 2014 the ECB published lists of significant and less significant supervised entities, which listed four Cyprus banks as being significant supervised entities on the basis that they each held assets equivalent to more than 20% of the country's GDP, namely Bank of Cyprus Public Company Limited, Co-operative Central Bank Limited, Hellenic Bank Limited and RCB Bank Limited.

Prohibited activities

The Banking Laws prohibit the ownership of real estate other than in the ordinary course of business (for example real estate used as headquarters and branches) or which is obtained as a result of enforcement of security, and the CRR prohibits ownership of a controlling stake in a business other than a banking or financial services business.

Cyprus legislators have also inserted a clause in the latest amendment to the Banking Laws prohibiting a licensed financial institution established in Cyprus from selling or otherwise transferring all or part of its loan portfolio or rights pertaining to such loans, other than to credit institutions that are licensed in Cyprus (and then only following written approval from the CBC). This move reflects a broader resistance by political parties in Cyprus to any legislative action that would allow sales of bank assets to entities that are perceived as less accommodating to borrowers in difficulty. This restriction on banking activity appears to limit the tools available to banks to manage their assets and restore their balance sheet health, and the CBC has submitted a further amendment to the Banking Laws to the legislature in order to remove it.

Recent regulatory themes and key regulatory developments

As indicated above in the introduction, the major regulatory developments in Cyprus are driven by EU legislative initiatives, with the Banking Union representing the major set of new banking rules.

The Banking Union is part of the EU's legislative response to the global financial crisis. It aims to establish a regulatory, supervisory and bank resolution framework that minimises the likelihood and severity of a future banking crisis and its potential impact on EU economies and taxpayers. It also aims at creating a more competitive banking environment, better able to sustainably finance European growth. The main pillars of the Banking Union are:

- introduction of a more robust prudential regulation framework with common rules for banks in all 28 Member States (the "Single Rulebook"), targeting excessive risk-taking by banks, introducing stronger risk-absorbing capital buffers and addressing the issue of regulatory arbitrage;
- introduction of common implementation of the Single Rulebook in the Eurozone through a centralised bank supervision structure under the European Central Bank (the "ECB"), leveraging the independence of the ECB whilst also utilising the local expertise of national competent authorities (the "Single Supervisory Mechanism" or "SSM"); and

- introduction of a uniform approach to bank resolution within the Eurozone, for those cases where a bank fails notwithstanding the enhanced supervisory regime (a "Single Resolution Mechanism" or "SRM") administered by a centralised body (the "Single Resolution Board") and prioritising private sector tools, most notably the allocation of losses to shareholders and the bail-in of creditors to recapitalise the bank.

The enhanced regulatory, supervisory and resolution regimes introduced under the CRD IV, the CRR, the Single Supervisory Mechanism Regulation, the SSM Framework Regulation and the BRRD, together with the delegated secondary regulations issued by the CBC, should contribute to the development of a more robust banking sector, better able to respond to the next economic downturn, but nevertheless addressing current non-performing loans is of more immediate relevance to the Cyprus banking sector.

The amendments to the foreclosure law that have been approved by the Cyprus parliament (but the entry into force of which has been repeatedly postponed), together with the proposed amendments to the insolvency law, should facilitate the restructuring of viable business loans and quicker realisation of collateral. While not strictly speaking regulatory instruments, these laws are likely to have a material impact on the conduct of banking business so far as the relationship with borrowers is concerned.

Bank governance and internal controls

The CBC Governance Directive is a delegated secondary regulation that was issued in July 2014 under the Banking Laws. It reflects principles contained in the CRD IV and the CRR and additional guidelines issued by the European Banks Association and sets out detailed requirements relating to bank governance and internal controls. It addresses matters pertaining to the composition, organisation and functioning of the management body of credit institutions, the establishment of management body committees, the composition of senior management and the establishment of remuneration, business conduct, compliance, risk and internal control frameworks.

Management body

With regard to composition of the management body, responsible, *inter alia*, for the oversight of senior management and of the implementation of the institution's strategic objectives, risk governance and internal governance, the CBC Governance Directive specifies that:

- it consists of not less than seven members and not more than 13;
- a majority of its members are independent (as such term is defined in the CBC Fitness and Probity of Management Directive);
- executive members must be at least two in number (of which one is the chief executive) but must not constitute more than 25% of the total number of members;
- it is sufficiently diverse as regards age, gender and educational and professional background, to enhance its capacity for independent opinion; and
- it possesses sufficient collective knowledge, skills and experience to effectively assess the institution's activities and risks.

The appointment of a member of the management body by a credit institution requires prior CBC approval. The CBC Fitness and Probity of Management Directive sets out criteria which both the credit institution and the CBC should adhere to in assessing the suitability of a member. They include the nature, scale and complexity of the credit institution's business, the knowledge of the proposed member and the proposed member's reliability and good repute.

The CBC Governance Directive further specifies that the chairman of the management body must be an independent member and that a second independent member is appointed as senior independent member. Each of the chairman and the senior independent member are assigned specific responsibilities, being, in the case of the chairman, the effective management of the management body and effective communication with the regulator and the stakeholders, and in the case of the independent member, to act as a point of contact with shareholders and stakeholders and to chair meetings of non-executive members in the absence of the chairman.

Management body committees

The CBC Governance Directive stipulates that depending on the scope and complexity of its operations, a credit institution must establish management body committees, being the risk committee, the nomination committee, the remuneration committee and the audit committee. The CBC Governance Directive sets out the composition and eligibility criteria, terms of reference and duties of these committees.

Remuneration policies

Specific remuneration policy guidelines are provided in the CBC Governance Directive, reflecting the principles set out in CRD IV. The main elements of the remuneration framework relate to the requirement for remuneration policies to be consistent with and promote effective risk management and to be established and monitored at the management body level, the requirement for remuneration criteria for staff engaged in control functions to be independent from the performance of operations they oversee, the requirement that the remuneration of senior management be disclosed to shareholders, and the requirement that limitations be imposed on variable remuneration.

More specifically with regard to variable remuneration, the CBC Governance Directive stipulates, amongst other things, that it should be calculated such as to reflect longer-term performance of the individual and the institution, that it should not be guaranteed (except in particular circumstances and for limited time periods), that it should be limited to 100% of the level of the fixed component of remuneration, that at least 50% of the variable remuneration should be in the form of shares or equivalent ownership instruments, that at least 40% should be deferred over a period of not less than 30 years and that up to 100% is subject to clawback requirements.

Internal control environment

The CBC Governance Directive sets out guidelines for the development of compliance, risk and internal control frameworks and the criteria for the establishment of dedicated compliance, risk and internal control functions. Key requirements underlying the establishment of all three functions includes the development of an effective culture in which the objectives of compliance, risk management and internal control are understood throughout the credit institution and their importance is reflected in the policies, structure and staffing of these functions.

Another fundamental characteristic of the compliance, risk and internal control functions is their operational independence from business functions. This is clearly set out in the CBC Governance Directive, which also explicitly requires that the senior managers assuming roles of head of control functions have no direct responsibilities over business and support units which the control functions under their responsibility monitor and control.

Outsourcing

With regard to the outsourcing of functions, the CBC Governance Directive distinguishes between those functions that are considered critical and important and those that are not, with the outsourcing of the former requiring the prior written approval of the CBC. In all cases, the credit institution should consider the impact that outsourcing particular services would have on the effective risk management of the operation involved, the outsourcing risks that the institution would be assuming, and the possible effect of the outsourcing on the fulfilment of its obligations towards customers and on the ability of the CBC to exercise its supervisory role.

Bank capital requirements

The Banking Laws specify a minimum initial capital requirement for the commencement of banking activities (subject to certain exceptions) of €5mn. The form of the initial capital is prescribed in the CRR.

In terms of the ongoing own funds requirement for credit institutions, the CRR specifies a total capital ratio of 8% composed of a Common Equity Tier 1 capital ratio ("CET 1") of at least 4.5% with the overall Tier 1 capital ratio being at least 6%. The capital ratios are expressed as a percentage of the

total risk exposure amount. In terms of the calculation of CET 1, additional Tier 1 and Tier 2 capital certain items that were considered eligible under the previous regulations will gradually be phased out by 2017.

The Banking Laws also require that credit institutions create a capital conservation buffer composed of CET 1 capital equal to 2.5% of their total risk exposure to cover possible losses under adverse economic scenarios. The ECB or the CBC, as applicable, have additional discretion under the Banking Laws to further increase a credit institution's capital requirements if, pursuant to their supervisory duties, they determine that it is deficient in any significant area of corporate governance or risk management or that it is exposed to particular risks that would justify a larger capital buffer.

Over and above the basic ongoing capital adequacy ratios set out in the Banking Laws and the CRR, the Macro-prudential Supervision Law, which enters into force from January 2016, provides for additional capital elements to be established by credit institutions, as follows:

- individual countercyclical capital buffers, reflecting the risk to the banking sector of excessive credit growth, of up to 2.5% of risk exposure calculated for different markets and composed of CET 1;
- systemic risk capital buffer reflecting long-term non-cyclical systemic or macro-prudential risks not covered by the CRR, of at least 1% of risk assets composed of CET 1 elements; and
- capital buffers on systemically important institutions (global systemically important institutions "G-SII" and other systemically important institutions "O-SII") of up to 3.5% for G-SIIs and 2.0% for O-SIIs composed of CET 1 elements and reflecting the particular need to mitigate risks of failure of such institutions that could have far-reaching impact on the broader economy.

Rules governing banks' relationships with their customers and other third parties

As a member of the EU, Cyprus is bound by the relevant EU legislation regarding the provision of banking and investment services and activities by credit institutions. In this regard, the dealings of credit institutions with their clients are, almost exhaustively, regulated by the statutory provisions of the EU legislation, as implemented and in force in the domestic law and as supplemented by CBC directives and regulations. Those credit institutions that are members of the Association of Cyprus Banks have also agreed on a Banking Code of Conduct, which is drafted in accordance with the applicable regulation.

Deposit-taking

As regards deposit-taking activities, Cyprus adheres to the provisions of the CRR and the CRD IV. Under the Banking Law, the taking of deposits or of other repayable funds is an activity in which only authorised credit institutions are allowed to engage. However, there are no statutory provisions on the different classification or treatment of customers based on their capacity as retail or professional clients or otherwise. As a result, deposits of customers of credit institutions are subject to equal treatment save for contractual arrangements between the depositor and the credit institution which may permissibly provide for greater benefits for specific categories of customer (such as high net worth individuals, employees or pensioners) or certain types of deposits, such as term deposits.

Lending activities

With reference to lending activities, it should be noted that there are statutory provisions governing the interest rates charged by credit institutions authorised and operating in Cyprus. Specifically, Law 66/1999 on the Liberalisation of Interest Rates provides that credit institutions should expressly inform the borrowers of lending facilities on the (contractual) base interest, its calculation method and period, and the time such interest shall be collectable. The borrower must be notified in writing of any changes. These obligations also apply to any other charges imposed by credit institutions on lending facilities. The same law also requires that capitalisation of interest takes place no more than twice every year. Finally, default interest is limited to two percentage points above the contractual interest rate unless the bank can prove that a higher rate is justified on the grounds of real damage suffered by the credit institution.

The CBC Arrears Management Directive regulates credit institutions' conduct in relation to non-performing debtors. It is applicable to all credit institutions either established in Cyprus or operating

in Cyprus through a branch and provides guidelines for efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities of borrowers with financial difficulties. In this regard, it includes a mandatory code of conduct, to be followed by both credit institutions and borrowers in the context of any effort to have the borrowers' lending restructured.

Consumer protection

The Consumer Credit Law reinforces the Cyprus legal framework for the conduct of most forms of consumer credit involving sums between €200 and €75,000. It regulates the following issues:

- minimum information requirements to be provided in any marketing or advertising material before a consumer enters into a consumer credit contract;
- requirement for a credit assessment of the borrower to be undertaken prior to entry into a consumer credit contract;
- minimum information requirements to be included in consumer credit contracts, including type of credit, duration, amount of credit, interest rate and method of calculation and reference rate, instalments, charges, default interest rate and rights of advance repayment;
- circumstances under which a consumer may withdraw from the consumer credit contract;
- conditions related to advance repayment;
- retention of rights following assignment of a consumer credit contract to another provider; and
- method of calculation of the annual percentage rate.

The Consumer Credit Law also grants supervisory and administrative powers to the Director of the Competition and Consumer Protection Authority of the Ministry of Energy, Commerce, Industry and Tourism for the purposes of enforcing its provisions, subject to any contrary provisions of the Banking Laws. These powers include the power to supervise providers of consumer credit, to conduct research, to impose administrative fines and apply for court orders against entities violating the Consumer Credit Law.

Investment services

The Banking Laws and the Investment Services Law regulate the provision of investment services by credit institutions, transposing the relevant EU directives.

The Investment Services Law expressly provides for the categorisation of clients into retail, professional and eligible counterparties, and for their respective level of regulatory protection. Retail clients are those not considered professional ones. They are afforded the most regulatory protection as regards the pre-contractual provision of information and the disclosures to be made after the execution of transactions, certain financial instruments which may be deemed suitable and proper for them to invest in, as well as disclosures on risks associated with them. Professional clients are considered to be more experienced, knowledgeable and sophisticated as well as able to assess their own risk and make their own investment decisions and are consequently afforded less regulatory protection. Eligible counterparties are investment firms, credit institutions, insurance companies, UCITS and their management companies, other regulated financial institutions and in certain cases, other undertakings to which a credit institution provides the services of reception and transmission of orders on behalf of clients, execution of such orders or dealing on own account. They are considered to be the most sophisticated investors or capital market participants.

Mechanisms for addressing customer complaints

Both authorised credit institutions as well as investment firms are required to have internal procedures for the effective handling of customer complaints relating to the provision of banking or investment services. However, such mechanisms and procedures differ significantly between credit institutions. Customers of authorised investment firms, but not credit institutions, have the right to file a complaint with the Cyprus Securities and Exchange Commission ("CySEC"), if their complaint has not been resolved by the investment firm.

Under the Law on the Constitution and Operation of the Out of Court Settlement of Financial Services Disputes, Law 84(I) of 2010, consumers have access to the Financial Ombudsman established under the law as regards their complaints against credit and other financial institutions. The Financial

Ombudsman is a body responsible for out-of-court settlement of consumer disputes, in accordance with the EU Commission's recommendation 98/257/EC. It engages in the examination of complaints against credit and financial institutions where the amount in dispute is no more than €170,000. For the purposes of this law, a consumer is defined as any natural person or any legal entity with a turnover of less than €250,000. The Financial Ombudsman has the right to examine the complaint only after the consumer has tried and failed to settle it with the financial institution. The decision of the Financial Ombudsman is not binding upon the parties but it is in the parties' discretion to accept it.

Deposit insurance

The Deposit Protection Scheme Law establishes a scheme (the "Scheme") under which two funds have been set up to provide for compensation of depositors of eligible credit institutions that are not in a position to repay the deposits. The two funds are the Deposit Protection Fund for Banks and the Deposit Protection Fund for Cooperative Credit Institutions (the "Deposit Protection Funds").

The Scheme and the Deposit Protection Funds are administered by a committee (the "Committee"), headed by the governor of the CBC. Under the Deposit Protection Scheme Law and related regulations issued by the Committee, depositors of banks and cooperative credit institutions covered by the Scheme are entitled to maximum compensation of €100,000 from funds held by the Deposit Protection Funds, payable within 20 days of the date when a deposit is rendered unavailable. The funds held by the Deposit Protection Funds are collected through mandatory contributions made by the institutions covered by the Scheme. Such contributions are calculated as a percentage of the deposit base of covered institutions.

The Deposit Protection Scheme Law and the regulations issued by the Committee address matters such as the categories of deposits and persons that are entitled to compensation, the timing of contributions, circumstances under which exceptional contributions will be made and powers of the Scheme to borrow in situations where the Deposit Protection Funds have insufficient balances to address compensation needs.

Cross-border banking activities

The Banking Laws stipulate that only credit institutions established in Cyprus or operating in Cyprus through a branch may engage in banking activities, and also allow credit institutions established in another EU Member State ("Member State") to offer banking activities in Cyprus following notification to the CBC based on the licence obtained in their home Member State (the "EU Banking Passport"). Requirements are set out in the Banking Laws and reflect those set out in the CRD IV.

Anti-money laundering

The AML Law transposes the requirements of EU Directive 2005/60/EC into domestic legislation and also complies with the recommendations of the Financial Action Task Force. The competent authority for the monitoring of adherence with and the enforcement of the provisions of the AML Law as regards credit, payment and electronic money institutions is the CBC.

The CBC has issued a directive to credit institutions on the prevention of money laundering and the financing of terrorism, providing detailed guidance on the implementation of the provisions of the AML Law. This directive, updated frequently, lays down the specific policy, procedures and control systems that all credit institutions should implement for the effective prevention of money laundering and terrorist financing so as to achieve full compliance with the requirements of the AML Law.

In the course of the negotiations regarding financial support for Cyprus in the first quarter of 2013 a number of allegations were made that the financial system in Cyprus was extensively abused for money laundering purposes as a consequence of weak anti-money laundering procedures and laxity in their application. Deloitte, the international accounting firm, and Moneyval, a monitoring body of the Council of Europe, who were jointly commissioned by the Cyprus authorities and the providers of international financial support to carry out an in-depth review of the effectiveness of Cyprus's anti-money laundering regime, found that the system was robust and effectively implemented.

Conclusion

Cyprus banking law is fully aligned with EU legislation and can truly be said to have been tested in the fire. The package of bank resolution measures was introduced at the height of the financial crisis

in Cyprus in the early months of 2013, in the clear expectation that it was likely to be used sooner rather than later. It was very quickly put to the test, with the resolution of the island's two largest commercial banks, accounting for more than half of domestic market in deposits and in loans, taking place on the day it was promulgated.

Some four months later, the first stage of the restructuring of the banking system was complete, and Bank of Cyprus emerged from resolution. While certain of the political decisions (particularly the bail-in of depositors) taken during the period were deeply unpopular, the resolution framework proved to be fit for its principal purpose of containing disruption to the banking system, avoiding financial instability and achieving continuity of service. With further capital increases having been undertaken and new management in place in certain banks, the sector is well capitalised and equipped to face the challenges, particularly the overhang of non-performing loans, that need to be dealt with.

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