

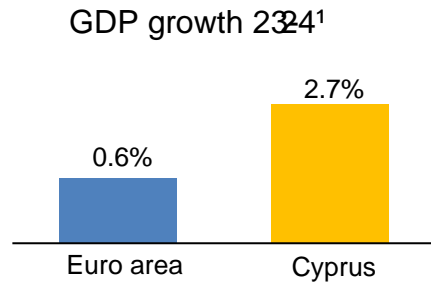
SEPTEMBER 2024

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Cyprus Economy &
Banking Sector

Highly Attractive Market and Demographics...

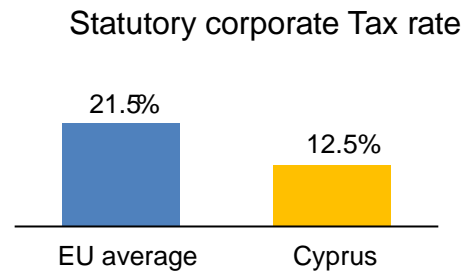
Cyprus is Growing faster than EU



+2.1 pts
Cyprus economic growth vs EU average 2023-2024

5.7%
Cyprus unemployment rate Quarter 1, 2024

Attractive Business Hub



12,583 companies registered in Cyprus in 2022 (domestic and foreign)
13,000 work permits in 2022, equivalent to 3% of labour force

#2 country in Europe with highest number of university graduates per capita

Source: Eurostat, CBC statistics

1) Cumulative growth forecasts: Cyprus: Ministry of Finance; Euro area: European Economic Spring

Strong Cypriot Economy; Solid GDP Growth of c.2.9%¹ Expected for 2024

GDP growth in Q1, 2024 accelerated to 3.4%

H1, 2024 Tourist arrivals slightly higher than in H1, 2023

Tourism arrivals (million)

GDP expected to grow by c.2.9%¹ in 2024, well above eurozone average

Inflation increased to 3.0% in May and June 2024

Unemployment rate decreased to 6.5% in Q1 2024

Quarterly (%) (seasonally adjusted)

HICP expected to drop to c.2.5%¹ in 2024

Unemployment rate has stabilized at 6,5 as of end of Q1 2024 and expected to reach 6.8%¹



2. Overview of Comprehensive Reforms

Adopting a Strong Regulatory Framework

Cyprus Legal and Regulatory Developments

Transposition of the 5th EU AML Directive into national law in 2020/2021 and relevant CBC Directive was updated.

Beneficial Ownership Registers for both legal entities and trusts already implemented.

Bank and Payment Account Register live since Jan 2020.

Central Bank of Cyprus Sanctions Directive enacted in March 2020.

CBC AML/CFT Directive updated again in 2024 (currently under consultation) according to the new AML/CFT Law, new EBA Guidelines and new best practices.

New CBC Governance Directive issued in October 2021.

National Risk Assessment: Cyprus published its 1st NRA report in November 2018. New NRA has been initiated and is expected to be completed in 2024.

EU Legal and Regulatory Developments

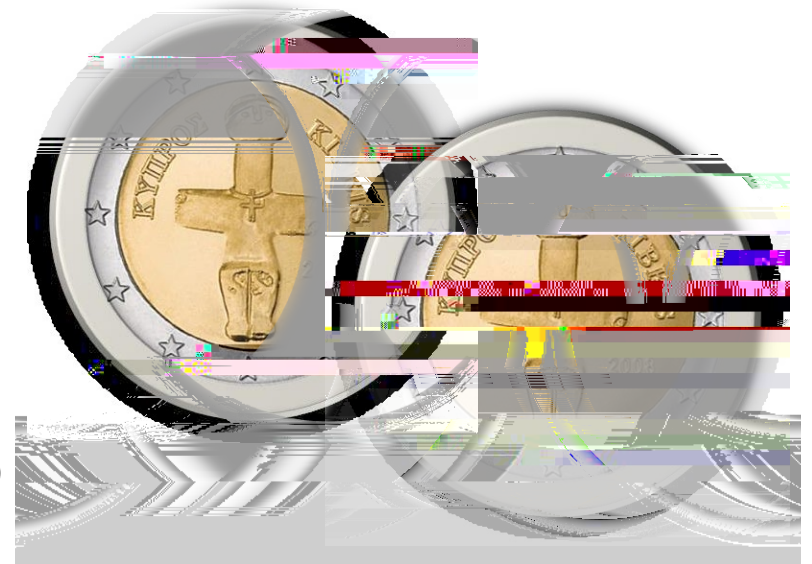
European & International tax transparency standards (e.g. FATCA, CRS, DAC6) have been enacted to combat tax evasion and aggressive tax planning practices.

In May 2024 the EU Council adopted the Anti-Money Laundering and Anti-Terrorism Financing Package (the AML Package), which contains an EU Single Rulebook Regulation, a new Directive and a Regulation establishing a new AML Authority.

Early adoption of the Target Instant Payment Settlement Regulation (TIPS) by Cyprus Banks (effective date January 2025).

As of January 2024, the Central Electronic System of Payment Information (CESOP) came into force, whereby all EU PSPs (Payment Service Providers) are required to record and report transactional data of cross-border payments. Cypriot banks are required to transmit data on crossborder payments to CESOP, allowing tax authorities to detect suspicious activity and coordinate enforcement actions, ultimately helping to reduce VAT fraud within the EU.

- o New Strict Framework for the Identification of Ultimate Beneficial Owners (UBOs) on the basis of both shareholding majority (25% and even below) and control, including gathering of reliable independent evidence and mandatory face-to-face meetings with the UBO. All UBO information is disclosed and shared with relevant regulatory authorities and correspondent banks upon request.
- o Elimination of compliance reliance on any professional intermediaries (Introducers) (Appendix 3)
- o Restriction of certain categories of clients in the Customer Acceptance Policies
 - f Clients dealing in/facilitating arms/military industry
 - f Any form of anonymous/secret/numbered relationships
 - f Clients dealing in virtual currencies
 - f Any form of shell bank activity
 - f Non-transparent shell company activity
 - f Adult entertainment
 - f Online casino or unregulated casino activity
 - f Payable through accounts
 - f Downstreaming correspondent clearing
 - f Clients with suspicion for potential human trafficking/illegal activities
 - f Categories of Russian clients (residents, PEPs, operating in restricted sectors, etc)
- o Voluntary adherence to Wolfsberg guidelines/ standards
- o Maintain strong strategic alliances with our correspondents (Operation of five USD clearing correspondent banks in Cyprus as from year 2020)



- o Bankshaveclosed all Russian operations (i.e., subsidiaries, branches, rep offices, etc.).
- o Significant deleveraging of the

- o Full adherence to sanctions issued by the European Union and the United Nations in all currencies
- o Full adherence to US (OFAC) and UK (OFSI) Sanctions, d4]TJ 0 Tc 0 Tw 4.74 |<0883>>BDC28/TT1

- o New severe Sanctions Regimes on Russia/ Belarus by the G7 coalition, with unprecedented breadth, complexity and robustness.
- o Issuance of 14 Sanctions Packages by the EU covering a spectrum of prohibitions (asset freezes, export/import prohibitions, deposit restrictions, investment prohibitions, services prohibitions, etc) - Similar successive regulations issued by OFAC/BIS and OFSI
- o 3rd-party designations evident in countries outside Russia, including Cyprus (on an individual and legal entity level).
- o FINCEN's Financial Trend Analysis (Suspected Evasion of Russian Export Controls) issued in Sept 2023 includes Cyprus amongst the top 10 subject countries. Cyprus was the country with the least activity as part of the overall chain with no involvement of any Cyprus financial institutions being referred.
- o Issuance of EO 14114 in December 2023 expanding OFAC's authority to impose sanctions on foreign financial institutions (FFIs) engaging in transactions involving Russia's military-industrial base. EO 14114 adds additional secondary sanctions on FFIs for SDNs designated under EO 14024 and imposes restrictions on the import of certain Russian goods. The penalty for non-compliance is severe, including total exclusion of the FFI from the U.S. dollar-based global financial system.
- o Further strengthening of the Bureau of Industry and Security (BIS) restrictions of the US Department of Commerce in August 2024 to (i) expand scope of export restrictions to Russia and Belarus not only in relation to "US origin" but also in relation to "US branded" goods, (ii) restriction of exports to a number of foreign companies in China, Hong Kong, Iran, Turkey and Cyprus, (iii) target shell companies used in the transshipment of goods to Russia by adding risk diversion, risk addresses in Hong Kong and Turkey on the Entity List, and (iv) provide guidance on contractual language to target unlawful re-exports to Russia

- o Revision of Risk Appetite and Termination of Accounts ([Appendix 2 & 3](#))
- o Additional indicative categories of clients who are considered Not Accepted:
 - Russian/ Belarusian PEPs
 - Entities under sectoral sanctions
 - Clients under EU deposit restrictions
 - Clients with economic activity in Russian industries not included on Banks' internal White-Lists
- o Refinement of controls to manage new risks:
 - Implementation of a fully automated Trade Based L5e'

- o Full adherence with USA& UK Sanctions, even when no nexus is present.

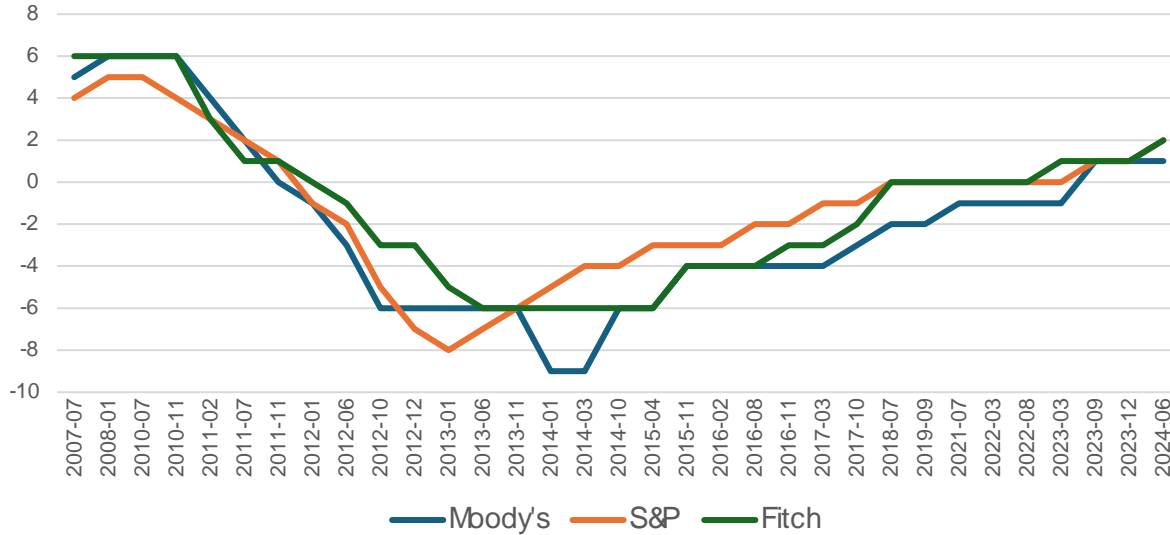
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1. Appointment of a contact person within the Ministry of Finance who

6. Establishment of an enhanced National Sanctions Enforcement Unit. This aims to significantly enhance the Special Unit for the coordination of sanctions enforcement, already established at the Ministry of Finance. Legislation has been drafted to enhance the powers of this new National Sanctions Enforcement Unit such as granting the right to the Republic of Cyprus to issue its own national sanctions, over and above the EU/UN ones. This will provide the ability to the CY authorities to align their sanctions regime with that of the USA and the UK. Technical support in drafting the relevant regulatory framework has already been provided by the UK in line with the OFSI operational framework. This new framework is expected to be enacted into law by the end of 2024.

7. Informati

3. Independent Recognition of Progress



14 June 2024: S&P Global upgraded Cyprus' longterm local and foreign currency sovereign credit ratings to BBB+ from BBB. The outlook is positive.

28 May 2024: Moody's ratings agency has upgraded Cyprus' rating outlook to Positive and affirmed the long-term issuer rating at Baa2.

7 June 2024: Fitch Ratings upgraded Cyprus' Long Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB+' from 'BBB'. The Outlook is Positive.

Fitch	BBB+	Positive	June 7, 2024
S&P	BBB+	Positive	June 14, 2024
Moody's	Baa2	Positive	May 25, 2024

Technical Compliance Ratings (40 sections)
Cyprus rated in the top 2 scales for 37 of the 40
sections (FATF40 recommendations).

*Non-related to the banking sector

Effectiveness

- o “Cyprus Banks’ understanding of AML/TF risk is generally sophisticated”
- o “Cyprus Banks, understanding of AML/CFT legal obligations is very high, and in addition banks are aware of international best practices and prudential considerations that go beyond legal obligations”
- o “Cyprus Banks focus their business more on customers residing or active in Cyprus and decreasing the number of their non-resident natural person and legal person customers”

3. Independent Recognition of Progress –Post Financial Crisis

From Global Media:

- ➔ Cyprus No Longer Mediterranean Haven for Russian Businesses
(January 10, 2019)
- ➔ Cyprus sees Russian bank deposits plunge as government seeks to clean up its financial image
(January 24, 2024)
- ➔ Has Cyprus Sided With The West, Leaving Russia Out In The Cold?
(November 22, 2018)
- ➔ Accelerating the recovery in Cyprus's Banking Sector
(April 19, 2017)





“The U.S. Department of State’s Erik Woodhouse has praised Cyprus for its cooperation in enforcing sanctions against Russia, in response to its invasion of Ukraine. Woodhouse... commended Cyprus’ efforts in implementing and enforcing sanctions against Russia. Elsewhere, Woodhouse praised Cyprus for its continuous efforts to improve oversight in the financial sector, reducing the activities of shell companies and

Mr. Hugh Griffiths – Independent sanctions subject matter expert (SME) deployed by the U.S Department of State to the Republic of Cyprus (2021-2024)

“Leading Republic of Cyprus financial credit institutions have adopted high standards. Chief among these is the blanket prohibition in principle, on clients engaged in the key, high risk, arms, defence and military sectors. This is a higher standard than that found in nearly all of the most developed European Union (EU) Member States. This higher standard may be considered ‘best practice’ and is indicative of leading Republic of Cyprus financial institutions compliance departments representing, in my personal opinion, potential ‘centres of excellence’ both within a regional and wider European Union context.”

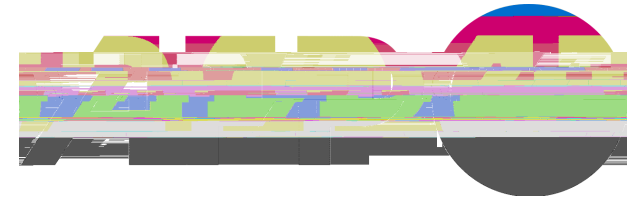
“Leading Republic of Cyprus financial institutions have taken strong de-risking measures in response to Russia’s invasion of Ukraine. Leading Republic of Cyprus financial institutions compliance departments are protecting their

“Cyprus... has backed the [EU] bloc’s escalating sanctions against Russia in

3. Independent Recognition of Progress –Sanctions Enforcement

From U.S. and Global Media:

“Cyprus Central Bank Governor Constantinos Herodotou told the president this week Cypriot banks have frozen the accounts of 13 individuals named and a number of Cyprus-based companies. He said that in recent years the authorities have closed 43,000 shell companies and 123,000 "suspicious" bank accounts. Only 2.2 per cent of all bank deposits on the island currently belong to Russians, the governor said AFP, Cyprus says cracking down on Ukraine war sanctions busters 23 April 2023



“The closures [of Russian bank accounts in Cyprus] are regarded as going “above and beyond” restrictions on Russian bank holders elsewhere in the EU.... Bank accounts belonging to Russians have declined precipitously, and only 2.2% of all bank deposits are held by Russians, a far cry from the tens of billions parked in Cypriot bank accounts before the 2013 financial crisis.” The Guardian, ‘Our credibility must be safeguarded’: Cyprus in turmoil after Russia sanctions, 22 Apr 2023



4. Locking in Progress and Managing a Dynamic Landscape



5.

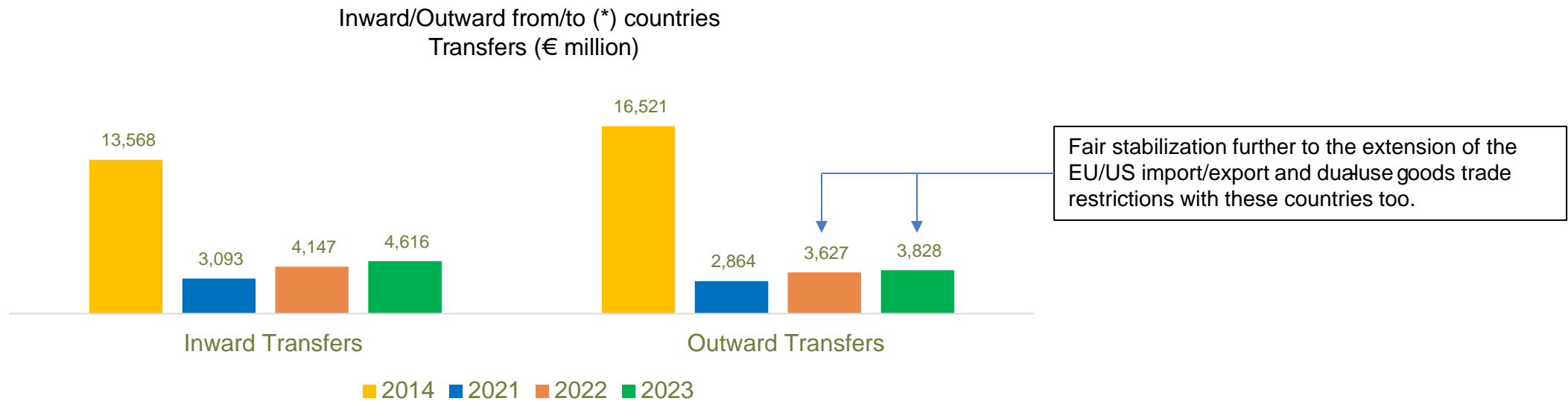


Appendix 1

Significant Deleveraging of Cyprus Banking Industry (2014 Vs 2023)

Appendix 1

Significant Deleveraging/Derisking from Friendly to Russia Jurisdictions



(*) Latvia, Estonia, Lithuania, Moldova, Turkey, Kazakhstan, Armenia, Kyrgyzstan, United Arab Emirates, Serbia, Azerbaijan, Turkmenistan, Mongolia, Tajikistan, Uzbekistan, Hong Kong, Singapore

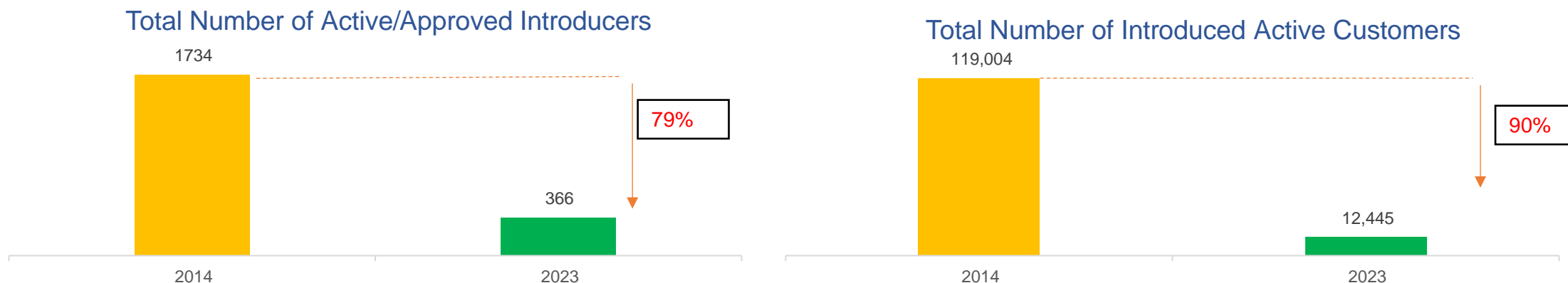
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Appendix 3 - Effective Remediation Results

Business Relationships Terminated/Suspended for Compliance Reasons 2014-2023

Business Relationships terminated /suspended (number of CUSTOMERS)	72.174
Business Relationships terminated /suspended (number of ACCOUNTS)	160.439
Aggregated inward transfers for the relationships terminated/suspended	€41,8 billion
Aggregated outward transfers for the relationships terminated/suspended	€49,5 billion
P&L impact of relationships terminated/suspended	€83,5 million

Professional Intermediaries & Customers Introduced (2014 Vs 2023)



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