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ABBREVIATIONS AND CONVENTIONS

ABBREVIATIONS

- CBC: Central Bank of Cyprus
- CDCR: Central Depository and Central Registry of the Cyprus Stock Exchange
- CIR: Central Information Register for Issuers of Dishonoured Cheques
- CSDB: Centralised Securities Database
- Cystat: Statistical Service of the Republic of Cyprus
- EBA: European Banking Authority
- EBRD: European Bank for Reconstruction and Development
- ECB: European Central Bank
- ECOFIN: Economic and Financial Affairs Council
- EIB: European Investment Bank
- ERM II: Exchange Rate Mechanism II
- ESA 2010: European System of Accounts 2010
- ESA 95: European System of Accounts 1995
- ESCB: European System of Central Banks
- ESMA: European Securities and Markets Authority
- ESRB: European Systemic Risk Board
- EU: European Union
- Eurostat: Statistical Office of the European Union
- GDP: Gross Domestic Product
- HICP: Harmonised Index of Consumer Prices
- ICFCB: Investor Compensation Fund for Clients of Banks
- IMF: International Monetary Fund
- MFI(s): Monetary Financial Institution(s)
- MoU: Memorandum of Understanding
- NFC(s): Non-Financial Corporation(s)
- SEPA: Single Euro Payments Area
- SMP: Securities Markets Programme
- SSM: Single Supervisory Mechanism
- SPE: Special Purpose Entities
- TARGET2: Trans-European Automated Real-time Gross settlement Express Transfer system - second generation

CONVENTIONS

- £: Cyprus pound
- €: Euro

Thousands, millions and billions are separated by a dot (.) and decimals are separated by a comma (,). In some cases the totals in the tables may not add up due to rounding.

Note: The cut-off date for the statistics included in this report was 31 January 2016.
1. Governor's introduction

The year 2015 provided the first clear signs that the recession, which had impacted the Cypriot economy since the end of 2011 and the economic and banking crisis that intensified in 2013, were finally ending. The positive developments that had been expected to take place in 2015, which had been referred to in last year’s Annual Report, have generally been realised. More specifically, positive growth was recorded for the first time since 2011Q2, while the consolidation of the banking system, with the decisive contribution of the CBC, proceeded at a satisfactory level. However, serious problems still exist, such as the high rate of unemployment and the level of non-performing loans (NPLs) coupled with high levels of private debt. It should be noted that none of these significant problems can be solved without setting up and implementing appropriate policy frameworks to tackle them. I am confident that the frameworks set up in 2015, with some initial positive results, will result in further progress in 2016, thus demonstrating that we are on the right track.

More specifically, during 2015 GDP rose by 1.6% compared with a reduction of 2.5% in 2014. It also contrasts with the negative growth rates recorded continuously between 2011Q2 and 2014Q4. The positive growth of GDP was also reflected by other economic indicators (analysed in this Report), such as the economic sentiment indicator, which, with the exception of the peak period of the Greek crisis, recorded a remarkable rise overall. Also, the macroeconomic and fiscal imbalances have been tackled to a significant extent, creating the necessary conditions for accelerating the pace of economic growth to levels that will allow the reduction of both unemployment and the level of NPLs. At the same time, following a series of extensive changes and drastic reorganisation measures, including major improvements to the regulatory and supervisory framework and the implementation of a framework for addressing the NPLs, the banking system is now able to work more efficiently. These developments will soon enable the banking sector to start funding more effectively the various sectors of growth, without the distortions of the past that led to unsustainable lending levels.

In recognition of these positive developments, the credit rating agencies upgraded the sovereign rating of Cyprus. Moreover, in October 2015 the full tranche of ten-year Cypriot bonds was sold on the international markets. The official exit of Cyprus from the MoU (Memorandum of Understanding) programme in March 2016 is further confirmation of the success of the policies pursued so far.

Further significant progress is needed for the full restoration of the credibility of Cyprus and the upgrading of its bonds to investment grade by the credit rating agencies. This is why the full implementation of the economy’s restructuring and recovery plan should remain the number one objective, without delays.

I would like to mention the developments in the country’s banking system. In 2015, the CBC worked hard to create all the conditions necessary for the banking sector to operate normally and to regain its role in the economic development of the country. As is well known, we had to face a large number of accumulated problems through the planning and implementation of various structural reforms and measures. As a result of the measures we have taken, the contraction in lending started to be reversed for the first time in three years. Specifically, new business loans recorded an increase of 0.9% in 2015 compared with a decrease of 0.4% in 2014. At the same time, the negative rate of change in domestic household loans, despite the
ongoing deleveraging, decelerated further in 2015 with prospects for stabilisation taking place in the near future.

The increase of lending by the banking sector to households, especially to businesses and the productive sectors of the economy, is a prerequisite for an effective reversal of the consequences of the recession. Prudent practices regarding new lending should be undertaken so that excessive lending does not lead to the unsustainable imbalances observed in the past. In this respect, I believe that the decision of the CBC to encourage the reduction of the maximum deposit rate by one percentage point in February 2015 significantly strengthened its efforts to substantially reduce the financing costs in the real economy. This decision led to a reduction of approximately 100 basis points in lending rates, which resulted in a small increase in the demand for new loans. Although overall demand remained weak in 2015, we expect that the benefits of these measures will intensify in 2016.

During 2015 the challenge for an appropriate management of emerging risks in our banking system was also very crucial, both in relation to developments in Greece as well as to the complete abolition of capital controls, which took place in April 2015 without any adverse effects.

Regarding NPLs, the CBC played an important role in the setting up of a new framework that creates the right conditions and provides the right incentives to borrowers and lenders to find mutually beneficial solutions. The continuous monitoring of the implementation of the new framework is certainly necessary in order to correct any shortcomings or weaknesses. Currently, as a result of these actions, the rise in NPLs has finally begun to be reversed after two years of a rising trend, reflecting the efforts of all parties involved. It should be noted that based on international experience, NPLs usually peak two years after a crisis and a significant decrease is normally observed between three and five years, particularly when economic recovery takes place. Therefore, strengthening the positive, but still subdued, GDP growth is an essential requirement, over and above any regulatory measures taken, for the complete elimination of this problem.

In conclusion, I would say that 2015 is the first year after the crisis in which the first tangible positive results were recorded, both in relation to the economy and the financial system. Year 2016 is expected to be more promising with growth rates projected to reach 2.7%. The significant challenge to completely reverse the effects of the crisis and return to sustainable growth, remains. However, I have no doubt that if decision making continues with the same effectiveness and if we do not return to the attitudes that led us to the enormous economic problems in the past, then the country will soon be able to present itself as an important example of successful economic adjustment in the euro area. Most importantly, we will be able to return to healthy growth rates and full employment for the benefit of our country’s citizens.

Chrystalla Georghadji
Governor
2. MANAGEMENT AND ORGANISATION OF THE BANK

2.1 BOARD OF DIRECTORS

Chrystalla Georghadji
Governor and Chairperson from 11 April 2014.

George Syrichas
George Syrichas studied Economics at the Athens University of Economics and Business and continued his studies at the University of Essex, from where he received his Master of Arts (MA) in Economic Development and Doctor of Philosophy (PhD) in Economics. He worked as a lecturer / instructor in Economics at the University of Essex. He has also lectured in the Department of Economics at the University of Cyprus and was a part-time lecturer at the Academy of Public Administration.

From 2008 until September 2013, he held the position of Senior Director of the Economic Research Department as well as other departments at the Central Bank of Cyprus (CBC). Until April 2012, he accompanied the Governor to the meetings of the General and Governing Council of the European System of Central Banks (ESCB). He also participated in the Monetary Policy Committee (MPC) and the Heads of Research Committee of the European Central Bank (ECB), as well as the Economic and Financial Committee (EFC) of the European Union (EU). He is a member of the Economics Research Centre (ERC) Council and the Cyprus Economic Society (CES). He has published several articles and papers in journals and has given numerous lectures in Cyprus and abroad on topics related to the Cyprus economy as well as on monetary and exchange rate issues. He was appointed as an Executive Director, executive member of the CBC Board, in September 2013.
**Philippos Mannaris**

Philippos Mannaris graduated from The London School of Economics and Political Science (LSE) with a Bachelor of Science (BSc (First Class Honours)) in Actuarial Studies. He is a qualified actuary and a member of the Association of Actuaries of Cyprus and the UK. He joined Aon Hewitt in 2003 and is currently the Managing Director for Cyprus, with additional responsibility for actuarial and investment services of the Group for the Middle East. He is a Partner of Aon Hewitt’s International Retirement and Investment Practice and works with institutional clients on the full range of actuarial and investment issues, including investment and funding strategies, manager selection and investment governance. He is the lead adviser for a number of large local and multinational companies as well as pension funds and social security funds in Cyprus, Greece, Egypt and the Middle East. He was appointed as a non-executive member of the CBC Board in October 2013.

**Andreas Persianis**

Andreas Persianis graduated from the University of Cambridge in 1986 with an undergraduate (Master of Arts (MA) Honours) degree in Engineering. He subsequently completed a Master in Business Administration (MBA) in Finance at Wharton Business School in 1989.

In 1989, he joined Bain & Company, the second largest management consultancy in the world with headquarters in Boston as a Management Consultant and left in 1994 as a Senior Manager. He participated in various assignments, including strategic development, mergers and acquisitions, advisory and business reengineering for the Financial Times Stock Exchange 100 (FTSE 100) companies. He is the founder (1994) and Managing Director of Centaur Financial Services Ltd, a regulated discretionary management firm initially in the UK and now in Cyprus. The firm manages funds for private individuals and institutions. He was appointed as a non-executive member of the CBC Board in February 2014.
Michalis Polydorides
He is a fellow member of the Institute of Chartered Accountants in England and Wales (ICAEW), a member of the Institute of Certified Public Accountants of Cyprus (ICPAC), a fellow of the Chartered Management Institute (CMI) and a member of the Institute of Directors (IoD). He is a Director of Polydorides & Associates Consultants Ltd, providing consultancy and management support to businesses; non-executive Director of Interfund Investments Plc and a board member of other private companies. From 1970 to 1987 he was a Partner of the auditing firm Scottis & Polydorides and then Managing Partner of Peat Marwick Mitchell & Co. In 1987 he was appointed Managing Director of KEO Plc, a post he held until 1996. Between 1993 and 1999 he was President of the Limassol Chamber of Commerce and Industry and since then he has been an Honorary President of the Chamber. He also served as a member of the Executive Committee of the Cyprus Chamber of Commerce and Industry (CCCI) from 1993 to 2002. He was appointed as a non-executive member of the CBC Board in July 2013.

Phivos Vakis
Phivos Vakis graduated in 1984 from The London School of Economics and Political Science (LSE) with a Bachelor of Science degree (BSc (Econ)) in Econometrics and Mathematical Economics. Between 1984 and 1987, he joined Deloitte in London, which led to his professional qualification as a Chartered Accountant in 1988. In the following year, he was promoted to the company’s management team.

In 1989 he returned to Cyprus and joined Klynveld Peat Marwick Goerdeler (KPMG) in Nicosia as Manager in the Audit Department. In 1990 he joined Columbia Shipmanagement Ltd and Schoeller Holdings Ltd in Limassol and in 1992 he was appointed as Finance Director of the group, a position he still holds. He is a member of The Institute of Chartered Accountants in England and Wales (ICAEW) and of The Institute of Certified Public Accountants of Cyprus (ICPAC). For a number of years, he served as a member of the Institute’s committees, as well as The Cyprus Shipping Chamber (CSC). Since 2008, he is a Board member of The Cyprus Football Association (CFA) and a member of The Union of European Football Associations (UEFA) and serving, since 2009, on the Fair Play and Social Responsibility Committee in Switzerland. From 2014 until recently, he was a Board member of The Cyprus Ports Authority (CPA). He was appointed as a non-executive member of the CBC Board in November 2015.
Andreas Yiasemides

Andreas Yiasemides graduated from The University of Manchester in 1999, with a Bachelor of Arts degree (BA (Econ)) in Accounting, Finance and Economics. He is a member of The Institute of Chartered Accountants in England and Wales (ICAEW) and of The Institute of Certified Public Accountants of Cyprus (ICPAC). He is also a holder of an Audit Practising Certificate in Malta, as well as a founding member and member of the Board of Directors of The Cyprus Investment Funds Association (CIFA). Between 2013 and 2014, he served as a member of the Board of Directors of the Bank of Cyprus Group and, during the same period, he served as Chairman of the Board of the Bank of Cyprus in Channel Islands, as well as Chairman of The Cyprus Investment and Securities Corporation Ltd (CISCO).

From 1999 until 2003, he was a member of the Financial Services Audit Department of PricewaterhouseCoopers (PwC) in Nicosia. Between 2003 and 2006, he worked in the Leasing Department of the Bank of Cyprus in Athens and from 2006 until 2007 he worked in the Credit Review Department of the Bank of Cyprus in Nicosia. From 2007 until 2010, he worked in Bucharest for the organisation of the Bank of Cyprus in Romania, while during the period 2010 to 2013 he worked for the establishment of the Custody and Trust Department of the Bank of Cyprus in Nicosia. Since 2013 to the present, he is a Director in Treppides Fund Services and a Partner in K. Treppides & Co Ltd in Nicosia. He was appointed as a non-executive member of the CBC Board in November 2015.
2.2 SENIOR MANAGEMENT TEAM

Chrystalla Georgadji
Governor

C. Papadopoulos
Senior Director

P. Frank
Senior Director

Y. Demetriou
Acting Senior Director

K. Stavrou
Acting Senior Director
2.3 ORGANISATIONAL CHART
23 NOVEMBER 2015*

- Governor C. Georghadji
- Board of Directors
  - P. Frank Senior Director
  - C. Papadopoulos Senior Director

- Human Resources, Organisation & Methods Department
  - A. Mylona

- Information Technology Department
  - M. Neophytou

- Statistics Department
  - A. Kapatais

- Technical Support Section
  - P. Neophytou

- Financial Stability Department
  - C. Phanopoulos

- Economic Research Department
  - G. Kyriacou

- Payment Systems & Accounting Services Department
  - G. Nicolaou

- Domestic Banking Operations Department
  - M. Michaelides
  - M. Othonos

- Financial Markets Department
  - K. Stavrou

- European & International Affairs Unit
  - A. Mylona

- Supervision Department
  - Y. Demetriou

- Internal Audit Department
  - D. Loizides

- Security Section
  - P. Neophytou

- Legal Services Unit

- Risk Management Office

- Governor’s Office & Communications
  - K. Stavrou

- Resolution Unit
  - M. Stylianou

* On 24 November 2015, an interim structure was adopted until the implementation of a new structure in February 2016.

Departments / Sections / Offices are shown in the same order as the Greek language version.
### 3. Economic developments

#### External developments

Global economic activity remained subdued in 2015. Trade, financial and foreign exchange markets were negatively affected by a series of events, including the continuation of the economic and geopolitical uncertainty in emerging markets, the financial crisis in China and the worsening economic climate in Greece.

Annual GDP growth in the euro area is estimated to have reached 1.5% in 2015 (Chart 3.1), mainly due to deleveraging, limited investment, the prolonged period of low inflation and the high, albeit improved, unemployment level. In December 2015, the ECB Governing Council decided to adopt further standard and non-standard monetary measures, including the following:

- Lower the deposit facility rate by 10 basis points to -0.30%
- Extend the asset purchase programme (APP) to at least the end of March 2017
- Reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary.

It should be noted that the interest rate on the main refinancing operations of the ECB and the Bank of England’s base rate, remained unchanged in 2015. In contrast, the US Federal Reserve raised the range of its official interest rate for the first time since 2006 to 0.25%-0.5%. According to the Fed, this action marked the end of a very long period of expansionary monetary policy.

Global inflation declined further during 2015 to 0.2%, 0.7% and 0.2% in the euro area, the US and the UK, respectively. This was mainly due to the excess global capacity, the sharp decrease in the international price of oil and the subsequent drop in global energy prices (Chart 3.2).

As regards exchange rates, during 2015 the euro weakened by 9.1%, 5.9% and 9.2% against the dollar, sterling and the yen, respectively, largely due to the continuation of the ECB’s expansionary monetary policy measures (Chart 3.3, p. 19).

The latest GDP forecasts from international organisations and analysts for 2016 point towards a positive growth rate of 1.7% for the euro area and to 2.3% and 2.6% for the UK and the US, respectively (Chart 3.1). Inflation is expected to increase to 1.0% in the euro area, 1.6% in the US and 1.4% in the UK (Chart 3.2).
Domestic developments

Monetary developments

In 2015 the domestic financial sector exhibited signs of further recovery and stabilisation. Contributing factors include the structural reforms adopted as part of the Troika’s economic programme, the domestic economic recovery, and the co-financing of programmes offered to small and medium size enterprises (SMEs) by international financial institutions (EIB, EBRD).

The annual growth rate of loans to the domestic private sector increased marginally to 0.2% in December 2015 compared with a decrease of 0.8% at the end of 2014. Growth of loans remained subdued due to the continuous effort of domestic banks and the heavily indebted non-financial private sector for further deleveraging in order to correct their balance sheets.

The annual rate of change of domestic NFC loans was positive and stood at 0.9% in December 2015 compared with -0.4% in December 2014. On the other hand, the annual rate of change of domestic household loans recorded a decrease by 0.9% at the end of 2015 (Table 3.1) compared with -1.9% at the end of 2014.

Similarly, the annual growth rate of domestic deposits was positive during the period May 2015 - December 2015, mostly due to the acceleration in NFC deposit inflows. Improvement was also observed in the deposits of domestic households (Table 3.2). The annual rate of change in domestic private sector deposits reached 1.7% in December 2015 compared with -2.1% in December 2014.

1. All monetary data, including interest rates, refer to data excluding the CBC and/or the Eurosystem. It should also be noted that all data analysed in this section refer to domestic residents of Cyprus and exclude organisations or corporations with a physical presence on the island (special purpose entities-SPEs). SPEs are excluded in order to present domestic developments more clearly and achieve comparability of historical data.
2. For details please refer to the CBC publication Monetary and Financial Statistics, which is available on the CBC website.
3. Excluding deposits from MFIs and deposits of the Central Government.
Interest rates

In 2015 domestic deposit interest rates recorded a significant decline compared with 2014 and currently stand at historically low levels, mainly due to the CBC revised directive on the maximum deposit rate\(^4\). Indicatively, the average new business deposit interest rate for NFCs with agreed maturity of up to 1 year in Cyprus decreased to 1.49% at the end of 2015 from 2.54% at the end of 2014, while the corresponding rate for households for the same reference period declined to 1.54% from 2.63% (Chart 3.4).

A noticeable reduction was also observed in most domestic lending rates, due mainly to the pass-through of the reduction in banks’ funding costs to households and NFC lending rates. The average interest rate for new business NFC loans up to €1 million\(^5\) decreased to 4.75% in December 2015 compared with 5.64% at the end of 2014. Similarly, the average new business interest rate for loans to households for house purchase\(^6\) declined to 3.28% from 4.36% (Chart 3.5).

Inflation

The Harmonised Index of Consumer Prices (HICP) in Cyprus continued to record negative annual

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5. With a floating rate and up to 1 year initial rate of fixation.
6. With a floating rate and up to 1 year initial rate of fixation.
growth rates reaching, on average, -1.6% in 2015 (Chart 3.6) compared with -0.3% in 2014. The negative inflation is driven mostly by the continuous drop in oil prices and the downward adjustment in the prices of various products and services as a result of the structural changes and subdued domestic economic activity. In 2015 inflation in Cyprus was on average lower than the respective euro area inflation.

Domestic core inflation also fluctuated around negative levels in 2015, mainly due to reductions in the prices of services, particularly in the tourism sector. Specifically, inflation excluding the food and energy category, registered a decrease of 0.4% in 2015 compared with an increase of 0.1% in 2014, while inflation excluding energy stood at -0.2% compared with zero growth in 2014 (Chart 3.6).

National accounts
According to preliminary data for 2015, GDP recorded a growth of 1.6% for the year, compared with a contraction of 2.5% in 2014. During the first nine months of 2015, the economy grew by 1.3%, driven mainly by the 1.7% increase in private consumption and the 17.7% increase in gross fixed capital formation. At the same time, exports and imports of goods and services registered an increase of 1.6% and 2.4%, respectively. Excluding the transfer of economic ownership of mobile transport equipment from special purpose entities (SPEs), exports grew even higher, while imports deteriorated slightly, consequently impacting gross fixed capital formation, which continues to grow but at a slower pace.

Based on the data for the first three quarters of the year, most sectors of production recorded positive growth rates (Table 3.3, p. 22). The financial and insurance activities sector registered an increase of 2.1% in the first nine months of the year, registering consecutive positive growth rates since 2015Q1. Wholesale and retail, accommodation and food services, and transport and storage grew by 2.3%. Similarly, the professional, scientific, technical and other activities sector registered an increase of 4.8%, reflecting the sector’s resilience. Finally, although a contraction of 9.6% was recorded in the construction sector for the first nine months of the year, it should be noted that an increase of 0.4% was registered in 2015Q3, the first since 2008Q3.

Current account balance
The current account balance over the first nine months of 2015 recorded a deficit of €680.4 million (or 5.2% of GDP) compared with a deficit of €586.5 million (or 4.5% of GDP) in the corresponding period of the previous year. The deterioration in the current account was mainly due to the significant worsening in the goods balance (Table 3.4, p. 23).

Specifically, the deficit in the goods category increased to 18.4% of GDP over the first nine months of 2015, mainly due to the decrease in the exports of goods. Excluding SPEs transactions, the
deficit in the goods balance improved. In the same period, the surplus in the services account declined marginally from 17% to 16.8% of GDP, primarily due to the reduction in transport and financial services, and despite the increase in telecom and insurance categories and tourism. The significant improvement recorded in revenue from tourism in the first ten months of the year, continued until the end of 2015, reflecting the significant increase in tourist arrivals.

The primary income deficit improved considerably by €255.3 million, mainly due to the increase in direct investment income.

The current account deficit over the first nine months of 2015 was mainly financed by liquidations in portfolio investments and in particular debt securities in the banking sector as well as the issuance of government bonds.

Labour market, productivity and labour costs
The labour market continued to reflect developments in economic activity and registered signs of improvement, with employment registering annual growth of 0.9%, 0.4% and 0.8% in the first three quarters of the year, respectively (Chart 3.7, p. 24). According to the Labour Force Survey, the unemployment rate reached 15.8% for the first nine months of the year, whereas in Q3, unemployment declined to 14.8%, still remaining at high levels (Chart 3.7, p. 24).

At the same time, compensation per employee recorded an annual decrease of 0.6% in the first nine months of 2015. As a result, unit labour costs recorded an annual decline of 1.1% (Chart 3.8, p. 24).

Public finances
The general government budget deficit-to-GDP ratio reached 0.2% in 2014. The deficit is estimated to be around 0.5% of GDP in 2015, recording a slight deterioration compared with the previous year. Excluding the increased interest payments for the year, the primary surplus as a percentage of GDP is expected to be 2.7% in 2015, compared with 2.6% in 2014.

Public revenues registered an annual decrease

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8. Does not include the equity injection to restore the capital base of the Cooperative Central Bank (€1.5 billion).
### TABLE 3.4 Balance of payments

<table>
<thead>
<tr>
<th></th>
<th>2014 Q1-Q3 (prov.)</th>
<th>2015 Q1-Q3 (prov.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit</strong></td>
<td><strong>Debit</strong></td>
<td><strong>Balance/Net</strong></td>
</tr>
<tr>
<td>1. Current account</td>
<td>12,029.6</td>
<td>12,616.1</td>
</tr>
<tr>
<td>Goods and services</td>
<td>7,919.5</td>
<td>7,797.4</td>
</tr>
<tr>
<td>Goods</td>
<td>2,259.8</td>
<td>4,335.6</td>
</tr>
<tr>
<td>General merchandise</td>
<td>2,068.8</td>
<td>4,335.6</td>
</tr>
<tr>
<td>General merchandise on</td>
<td>32,777.0</td>
<td>32,811.2</td>
</tr>
<tr>
<td>Non-monetary gold</td>
<td>4,335.6</td>
<td>-2,409.1</td>
</tr>
<tr>
<td>Services</td>
<td>5,659.7</td>
<td>3,439.8</td>
</tr>
<tr>
<td>Manufacturing services</td>
<td>14.9</td>
<td>0</td>
</tr>
<tr>
<td>Maintenance and repair</td>
<td>4.0</td>
<td>27.6</td>
</tr>
<tr>
<td>Transport</td>
<td>1,732.7</td>
<td>1,035.6</td>
</tr>
<tr>
<td>Travel</td>
<td>1,784.1</td>
<td>750.8</td>
</tr>
<tr>
<td>Construction</td>
<td>12.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Insurance and pensions</td>
<td>14.9</td>
<td>91.5</td>
</tr>
<tr>
<td>Financial services</td>
<td>1,211.5</td>
<td>526.2</td>
</tr>
<tr>
<td>Charges for the use of</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Telecommunications,</td>
<td>C</td>
<td>5</td>
</tr>
<tr>
<td>Computer and services</td>
<td>76.0</td>
<td>297.0</td>
</tr>
<tr>
<td>Personal, cultural</td>
<td>31.0</td>
<td>24.8</td>
</tr>
<tr>
<td>and recreational</td>
<td>52.6</td>
<td>40.4</td>
</tr>
<tr>
<td>Services not allocated</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Primary income</strong></td>
<td>3,937.2</td>
<td>4,345.4</td>
</tr>
<tr>
<td>Compensation of</td>
<td>37.4</td>
<td>46.9</td>
</tr>
<tr>
<td>employees</td>
<td>3,828.9</td>
<td>4,280.7</td>
</tr>
<tr>
<td>Direct investment</td>
<td>2,366.6</td>
<td>2,711.5</td>
</tr>
<tr>
<td>Portfolio investment</td>
<td>369.1</td>
<td>362.7</td>
</tr>
<tr>
<td>Other investment</td>
<td>1,081.1</td>
<td>1,196.5</td>
</tr>
<tr>
<td>Reserve assets</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Other primary income</td>
<td>71.0</td>
<td>17.8</td>
</tr>
<tr>
<td><strong>Secondary income</strong></td>
<td>172.9</td>
<td>473.3</td>
</tr>
<tr>
<td>General government</td>
<td>58.9</td>
<td>127.9</td>
</tr>
<tr>
<td>Other sectors</td>
<td>114.0</td>
<td>345.0</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>155.2</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>2,759.0</td>
<td>4,235.4</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>421.0</td>
<td>-768.2</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>201.5</td>
<td>1,210.4</td>
</tr>
<tr>
<td><strong>Portfolio investment, financial derivatives (other than reserves) and employee stock options</strong></td>
<td>5,337.1</td>
<td>7,663.2</td>
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<tr>
<td>Debt instruments</td>
<td>6,417.1</td>
<td>7,572.0</td>
</tr>
<tr>
<td>Other investment</td>
<td>3,176.2</td>
<td>3,852.0</td>
</tr>
<tr>
<td>Currency and deposits</td>
<td>194.6</td>
<td>-4,093.1</td>
</tr>
<tr>
<td>Loans</td>
<td>-3,598.3</td>
<td>2,076.3</td>
</tr>
<tr>
<td><strong>Net errors and omissions</strong></td>
<td>-24.3</td>
<td>-6.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: CBC.

C denotes primary confidentiality (i.e. the number of statistical units under a cell is less than 3 or the dominance of one or two units in the data cell is larger or equal to 90%).

S denotes secondary confidentiality (i.e. cell is not primary confidential, but it is suppressed in order to prevent observations flagged as "primary confidential" to be indirectly deduced).
of 0.6% in 2015 (Table 3.5), primarily due to a decrease of 3.1% in the “current taxes on income and wealth” category, and more specifically from lower defence contributions. This category includes revenues from taxes on deposits as well as deemed dividend distribution for 2012, which was a year of economic contraction. Public expenditure (Table 3.5) remained unchanged in 2015. This was due to lower spending on other capital transfers (42%) and compensation of employees (2.9%), matched by higher spending on social benefits (3.4%) (Table 3.5).

The general government consolidated gross debt-to-GDP ratio reached 108.2% in 2014, while it stood at 111.1% as at November 2015 (Chart 3.9, p. 25). This increase is mainly due to the accumulation of government deposits, a result of the successful bond issuances in 2015.

Forecasts

The prospects for the Cyprus economy for the period 2016-2017 have been revised upwards compared to the previous CBC forecast, despite the deterioration in the international economic environment. More specifically, real GDP growth in

2016 is expected to reach 2.7%. Economic activity in 2017 is anticipated to further improve, with a projected growth rate of 2.9%.

HICP is expected to reach -0.9% and 1% in 2016 and 2017, respectively, mainly driven by developments in domestic demand.

There are some downside risks to the aforementioned forecasts, mainly drawing from the uncertainty in the international economic and political environment. However, GDP risks are considered balanced on the basis of a faster than expected recovery of the domestic economy and a higher realisation of investment projects, both by the government and the private sector. Overall, downward risks are more prevalent for the inflation forecasts.
4. Functions of the Bank

4.1 Regulation and Supervision of the Banking Sector

Developments in the regulatory framework of banking supervision and operation of credit institutions

The Memorandum of Understanding (MoU) signed between the Republic of Cyprus and the EU, ECB and IMF (collectively, the Troika) in March 2013, contains several provisions that aim to resolve and restructure the banking system as well as restore its solvency and the confidence of its depositors and investors. The MoU also aims to strengthen the supervisory and regulatory framework that governs the operation of credit institutions.

The ongoing implementation of the MoU signed between the Republic of Cyprus and the Troika in March 2013, has contributed to the improvement and strengthening of the supervisory and regulatory framework as well as to the further alignment with international practices.

During 2015:

(a) The CBC carried out additions/amendments to the regulatory framework of credit institutions.
(b) The legislation on the sale of loans, which provides banks with an important tool in their effort to address the problem of non-performing loans, was completed and passed by the House of Representatives.
(c) The setting of targets for the pace and quality of banks’ restructuring of loans and loans presenting arrears, so that these do not become non-performing, was institutionalised. This framework aims to reduce non-performing loans. Within this framework, the CBC evaluates, on a quarterly basis, the attainment of targets for each bank and examines whether there were any obstacles in the process of restructuring and takes appropriate action if deemed necessary, including the revision of targets.
(d) The framework of regular reporting by banks to the CBC in relation to the evolution of loan portfolios and loan restructurings was strengthened, with the submission, on a monthly basis, of detailed data through which the progress of each bank in the management of non-performing loans was recorded.
(e) The CBC participated in a working group, composed of the Department of Lands and Surveys and the Ministry of Finance, which prepared and sent to Parliament a bill on "enclaved" property buyers. The bill allows buyers who have demonstrably paid the purchase price of their property, to receive their title deeds without incurring any charges related to the obligations of the land development company.

Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ("Single Supervisory Mechanism")

The operation of the Single Supervisory Mechanism (SSM), which was established by the aforementioned Regulation and launched on 4 November 2014, successfully completed its first year of life.

The SSM has created a new system of financial supervision, which includes the ECB and the national competent authorities of participating countries of the EU. Participating countries are the euro area countries and any other countries that decide to cooperate closely with the SSM.

The main objectives of the SSM are the safe-
guarding of the security and soundness of the European banking system as well as the enhancement of financial integration and stability in Europe.

The ECB is responsible for the effective and consistent operation of the SSM, in cooperation with the national competent authorities of the participating member states of the EU.

Countries in the euro area participate automatically in the SSM whereas countries outside the euro area may elect to participate in the SSM through the establishment of close cooperation between the national competent authorities and the ECB. Within the framework of the SSM, the ECB supervises directly 127 credit institutions, which represent almost 85% of the total assets of the euro area’s banking system.

The supervision of all remaining credit institutions established in the participating countries continues to be exercised by the national competent authorities, albeit under the indirect supervision of the ECB. The ECB may, at any time, decide to exercise direct supervision of any of these credit institutions in order to safeguard the consistent application of supervisory standards.

**Restrictions on the transactions of banking institutions with their customers**

The restrictive measures on credit institutions’ transactions with their customers, which came into force with the Decree of the Minister of Finance in March 2013, were fully lifted in early April 2015 without adverse deposit outflows. Indeed, deposits continued to follow the same stable path exhibited in early 2015.

**Prevention and suppression of money laundering activities**

In accordance with article 59(1)(a) of the Prevention and Suppression of Money Laundering Activities Law, 2007-2014 (‘the AML Law’), the CBC is the competent authority for the enforcement of the provisions of the legislation regarding the financial business of credit institutions, payment institutions and electronic money institutions. In this connection, the CBC has issued to credit institutions the Directive on the Prevention of Money Laundering and Terrorist Financing (‘the AML Directive’), which sets out the details and specifies the implementation of the provisions of the AML Law.

The AML Law transposes the requirements of the Third Directive of the European Union (Directive 2005/60/EC) into Cypriot legislation. In monitoring, assessing and supervising the enforcement of the requirements of the AML Law and the AML Directive, the CBC also takes into consideration the assessments, decisions and recommendations of other regional bodies, such as the Moneyval Committee of the Council of Europe, the IMF and the World Bank. Moreover, in drafting the guidelines for supervised entities, the CBC takes into account the trends and risks associated with money laundering and terrorist financing as well as best practices promoted by other supervisory authorities.

Within the framework of the MoU between the Cypriot authorities and the Troika, an action plan for the prevention and suppression of money laundering activities and terrorist financing (‘the AML/CFT action plan’) was agreed on the basis of a very tight schedule, aimed at rectifying any deficiencies identified during the evaluations conducted by Moneyval and Deloitte Italy. Details of the AML/CFT action plan are in Appendix 2 of the MoU.

During 2015, as part of the AML/CFT action
In December 2015, as part of the 49th plenary meeting of the Moneyval Committee of the Council of Europe, the Cypriot delegation, consisting of the CBC and the Unit for Combating Money Laundering (MOKAS), presented the two-year progress report on the assessment of Cyprus. This was done under the fourth evaluation round and following the updated report on the actions taken as a result of the Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector, which was conducted in April 2013 as a precondition of the MoU. The Moneyval Committee’s plenary unanimously agreed that the response of the Republic of Cyprus was complete, congratulated the Cypriot delegation for the completion of the process, and decided to revert to the normal procedure for reporting in the plenary sessions.

4.2 Resolution of Credit and Other Institutions
During 2015 the CBC monitored the implementation of the resolution measures for Cyprus Popular Bank Public Co Ltd (CPB) and the branch of FBME Bank Ltd (FBME) in Cyprus. The Resolution Unit provided technical support to the CBC in its capacity as the Resolution Authority. Other operations during 2015 included the preparation for the transposition into national law of Directive 2014/59/EU and participation in working groups for the establishment and operation of the Single Resolution Mechanism in accordance with the provisions of Regulation (EU) No. 806/2014.

The resolution measures for CPB provided for the sale of its remaining assets, which mostly include investments in foreign subsidiary banks as well as in ordinary shares of Bank of Cyprus. The shares in Bank of Cyprus were issued to CPB in
exchange for the fair value of the net assets transferred by CPB to Bank of Cyprus on 29 March 2013. To this end, the Special Administrator of CPB, with the approval of the Resolution Authority, contracted on 6 May 2015 the Investment Bank of Greece, a Greek subsidiary of CPB, to provide advisory services for the sale of the remaining foreign subsidiaries of CPB. The sale process for these subsidiaries is proceeding on the basis of a roadmap. The first step is the assessment of the value and prospects of their activities in the markets that they operate and subsequently the obtaining and evaluation of offers from potential buyers on the basis of due diligence by an independent audit firm. The Special Administrator is progressing with the necessary procedures for the CPB’s equity participation in the Investment Bank of Greece and Bank of Cyprus.

The resolution measures for the FBME branch in Cyprus were adopted on 21 July 2014. This was on the basis of the announcement issued on 17 July 2014 by the Financial Crimes Enforcement Network of the US Treasury Office (FinCEN) – which named FBME as a financial institution of primary money laundering concern – regarding the operations, liquidity and viability of the branch. As a result of not receiving any offers from credit institutions for the acquisition of the operations of the branch, the Resolution Authority decided on 15 October 2015, pursuant to Section 7(3) of the Resolution of Credit and Other Institutions Law, the suspension of the resolution measure of the sale of operations. Having determined that there was no other appropriate resolution measure that could have been applied, the Resolution Authority recommended, as provided in Section 7(3), the revocation of the licence granted to FBME for the operation of a branch in Cyprus.

The CBC participated in a working group established under the auspices of the Ministry of Finance for the preparation of draft laws for the transposition of Directive 2014/59/EU. This Directive is the single rulebook for the harmonisation and enhancement of tools for dealing with financial crises throughout the European Union, and came into force on 1 January 2015. In December 2015, a bill was submitted to the House of Representatives which provides for the annulment of the current Resolution of Credit and Other Institutions Law and the transposition into a new law of the provisions of the said EU Directive for the resolution of credit institutions and investment firms.

In January 2015, the Single Resolution Board (SRB) was set up pursuant to Regulation (EU) No. 806/2014 for the establishment of the Single Resolution Mechanism as the second pillar of the Banking Union. The Single Resolution Mechanism came into force on 1 January 2016. During 2015 the CBC participated in SRB committees mandated to prepare manuals for resolution planning, crisis management and resolution, cooperation and decision making within the SRM. The CBC also provided technical support to the SRB for the preparation of transitional resolution plans of the significant credit institutions under its direct responsibility pursuant to Regulation (EU) no. 806/2014.
4.3 Financial Stability

4.3.1 Macro-prudential oversight
The CBC is the competent macro-prudential authority of Cyprus. Macro-prudential oversight focuses on the monitoring and assessment of the stability of the financial system of Cyprus as well as the implementation of macro-prudential policy tools with the objective to limit the build-up of systemic risks. The CBC has:

- Set out the intermediate objectives of macro-prudential policy and the macro-prudential policy tools.
- Established a sound framework for the application of macro-prudential instruments by linking the ultimate objective of macro-prudential policy of safeguarding financial stability with the intermediate objectives and macro-prudential tools.

In order to fulfil its macro-prudential objectives, the CBC takes decision for the activation or amendment of the macro-prudential tools available at its disposal.

The CBC, through its macro-prudential policy, analyses the cyclical and structural developments in the financial system and the wider macroeconomic and financial environment, with a view to identifying, monitoring, assessing and limiting risks to financial stability of the financial system of Cyprus. The main focus is on financial institutions, mostly in the banking sector, which constitutes the largest component of the broader domestic financial system and the primary channel for the propagation of risks within the financial system and to the real economy. In addition, developments in the non-bank financial sector are monitored, especially in the insurance sector, the investment services sector, the investment funds sector and the occupational retirement benefit funds sector. In parallel, macroeconomic and financial developments are analysed by focusing on macroeconomic conditions and on households, non-financial corporations, the real estate sector and public finances.

Macro-prudential oversight of the financial system is complementary to the micro-prudential supervision of individual banking and other financial institutions carried out by the CBC and the competent supervisory authorities of the financial system in Cyprus, respectively.

Reporting of Cyprus banking sector data and financial indicators to international organisations
In 2015 the CBC continued to regularly compile and submit aggregate data and financial indicators for the banking sector to the ECB and the IMF, which are published on their respective websites.

Specifically, the consolidated banking data (CBD) for banks operating in Cyprus, which are used for macro-prudential analysis conducted by the ECB and the CBC, are submitted to the ECB on a quarterly basis. The CBD contain information on the profitability, balance sheets, asset quality and capital adequacy of banks. Data regarding the aggregate financial soundness indicators (FSIs) for credit institutions operating in Cyprus are submitted to the IMF on a quarterly basis. These indicators have been developed by the IMF with the aim of supporting macro-prudential analysis.

Main macro-prudential policy decisions
In 2015, in accordance with the provisions of the Macro-prudential Oversight of Institutions Law, 2015, the CBC:

- Designated the “Other Systemically Impor-
tant Institutions” (O-SIs) and determined the O-SII capital buffer rate for each O-SII credit institution

- Set the countercyclical capital buffer rate for all licensed credit institutions.

Financial Stability Report
The CBC published its assessment of the stability of the financial system in its first annual Financial Stability Report. The purpose of this analysis is to promote awareness of issues that are relevant for safeguarding the stability of the financial system of Cyprus.

Participation in the committees and sub-structures of the European Systemic Risk Board (ESRB), the European System of Central Banks and the EU
In 2015 the Governor, as a member of the General Board of the ESRB, participated in the meetings of the General Board. CBC staff participated in the meetings and deliberations of the Advisory Technical Committee (ATC) of the ESRB and its working groups. The ATC provides advice and assistance on matters relevant to the work of the ESRB. CBC staff participated in the meetings and deliberations of the Financial Stability Committee (FSC) of the ESCB and its working groups. The FSC provides support to the decision making bodies of the ECB in the fulfilment of their tasks in the field of macro-prudential oversight and safeguarding the stability of the financial system. CBC staff participated in the meetings of the Financial Stability Table (FST) of the EU Economic and Financial Committee (EFC). The EFC-FST is responsible for preparing the ECOFIN Council’s discussions on financial stability matters.

Participation in consultations with Troika representatives
In 2015 CBC staff participated in the consultations with representatives of the Troika on issues relevant to the financial stability of Cyprus.

4.3.2 Administration of Deposit Protection Scheme (DPS) and the Investor Compensation Fund for Clients of Banks
The purpose of the DPS is twofold: on the one hand it is the means by which the depositors of covered institutions are compensated in the event that a credit institution is unable to repay its deposits; on the other hand, it provides funding for the implementation of certain resolution measures.

The DPS is constituted as a separate legal entity. The exercise of powers of the DPS and the administration of the three funds that constitute the Scheme, i.e. the Deposit Protection Fund for banks, the Deposit Protection Fund for Cooperative Credit Institutions and the Resolution of Credit and Other Institutions Fund (Resolution Fund), is carried out by a Management Committee. The Management Committee consists of representatives from the Ministry of Finance and the Central Bank of Cyprus.

Participation in the DPS is compulsory for all banks and licensed credit institutions. These include their branches operating abroad, all cooperative credit institutions established in the Republic of Cyprus, as well as all branches of foreign banks from non-EU member states. The DPS provides coverage of up to €100,000 for the aggregate amount of deposits held with a particular credit institution by natural or, with certain exemptions, a legal person. It is worth mentioning that during 2015, as in previous years, there was no need for the activation of the DPS.
Regarding developments at a European level, in June 2015 the “Five Presidents Report” was published, officially setting out the plan for introducing a European Deposit Insurance Scheme (EDIS) by 2025 thus constituting the third pillar of the Banking Union. In July 2015, the new EU Directive 2014/49/EU on deposit guarantee schemes came into force. The legal framework which transposes this Directive was prepared and submitted to the House of Representatives in August 2015 for enactment.

With regard to the transposition of the aforementioned Directive, another bill was submitted to the House of Representatives at the end of the year regarding the transposition of the European Directive 2014/59/EU for the establishment of a framework for the recovery and resolution of credit institutions and investment firms. This Directive places an obligation on member states to establish national resolution funds for credit institutions and investment firms. The aforementioned bills provide for the Cyprus resolution fund to remain under the auspices of the DPS. As of 1 January 2016, banks contribute to the European Single Resolution Fund, which is administrated by the Single Resolution Board. The national resolution fund covers only investment firms with certain exemptions and the branches of banks from non-EU member states.

In accordance with the new legislative framework, contributions to both deposit protection funds and the Resolution Fund are calculated by taking into account covered deposits and the risk profile of each institution.

**Investor Compensation Fund for Clients of Banks (ICFCB)**
The ICFCB, which has been operating since 2004 under the auspices of the CBC, continued its operation in 2015, aiming to ensure the stability in the financial sector.

Through the Fund’s operation, further security is provided to clients of banks regarding claims they might have in connection with the provision of investment services. In accordance with the regulations governing the operation of the ICFCB, participation is obligatory for all banks which have been incorporated in the Republic of Cyprus and provide investment services and/or have been established in other countries and operate in Cyprus through branches. The maximum amount of compensation payable to each covered client-investor cannot exceed €20,000, irrespective of the number of accounts maintained, the currency or the country from which the investment services are proved.

During the year under review, 14 banks participated as members of the ICFCB. The Management Committee of the ICFCB determined the contributions that members of the ICFCB would be required to make following evaluation of each bank’s obligations.

**4.4 Payment and Securities Settlement Systems**
The resilient, efficient and smooth functioning of payment systems and payment instruments is of utmost importance to the maintenance of financial stability.

In accordance with the Central Bank of Cyprus Law, 2002-(No 3)2014, the CBC has responsibility for the promotion, regulation and oversight of the smooth operation of the payment, clearing and/or settlement systems operating in Cyprus. For the exercise of its responsibility the CBC operates at national as well as at European levels. Specifically, the CBC:
- Cooperates with the Ministry of Finance and other competent authorities of the Republic of Cyprus in fulfilling the obligations of Cyprus as a member state of the EU
- Implements and transposes into Cyprus law regulations, directives and relevant recommendations of the EU, the ECB and other European bodies,
- Has established the National Payments Committee (NPC) which aims at developing and implementing a national payments policy.

At a European level, the CBC actively participates in relevant bodies of the Eurosystem, the Commission and Council of the EU dealing with issues related to financial market infrastructures and payments.

The EU legal framework for retail payments in the EU has seen important developments in 2015, the main ones being:

- Regulation (EU) 2015/71 with respect to interchange fees for card-based payment transactions (Multilateral Interchange Fees Regulation – IFR).

In progress in 2015:

- Directive with respect to payment services in the internal market (Payment Services Directive II - PSD II).

Payment and securities settlement systems and payment instruments in Cyprus

In 2015 one large value payment system, four payment systems and one securities settlement system were operating in Cyprus, as follows:

Large Value Payment System
- TARGET2-CY, being the CBC’s component of the Eurosystem’s real time, large value payments settlement system.

Retail Payment Systems
- The Cyprus Clearing House for cheques (CCH)
- JCC Cards Payment System
- JCC SEPA Direct Debits scheme (JCC-SDD).

Securities Settlement System (SSS)
- The Securities Settlement System of the Cyprus Stock Exchange, which is the Central Depository Central Registry (CDCR).

TARGET2-CY
TARGET2-CY is one of the components of TARGET2, the real time gross settlement (RTGS) system belonging to and operated by the Eurosystem. Apart from the CBC, 22 banks operating in Cyprus participate in TARGET2-CY. Eighteen of these are direct participants, while the remaining four are indirect participants.

In 2015 the use of TARGET2-CY by all participants remained overall unchanged in value vis-à-vis the remaining TARGET2 components.
(cross-border transactions). This is illustrated in Chart 4.1.

In 2015 the volume of domestic transactions that were settled through TARGET2-CY remained overall at 2014 levels, while the corresponding value of domestic transactions decreased by 60% to €33.2 billion (Chart 4.2).

**Cyprus Clearing House (CCH)**

The CCH has been operating since 1964 and it aims to achieve uniformity in the processes governing the exchange of cheques among participating credit institutions. The CCH has 19 active members, 15 of whom participate in the electronic cheque truncation system.

As shown in Chart 4.3, in 2015 the volume and value of cheques of the private sector cleared through the CCH decreased by 11% and 3%, respectively, compared with 2014. The use of government cheques cleared through the CCH also decreased in 2015 in volume and value by 14% and 17% respectively, compared to 2014.

**Payment instruments**

Chart 4.4 (p. 35) illustrates payment transactions by payment instruments’ use. In 2014 usage of credit transfers decreased, while usage of direct debits significantly increased as a result of the commencement of operations of SEPA Direct Debit (JCC-SDD) in March 2014. The volume of cheques and payment cards decreased marginally.

It should be noted that the methodology for the submission of payment statistics has been enhanced from the reporting year 2014. The new requirements are laid down in the corresponding Regulation (ECB2013/43). Due to methodological amendments there have been shifts in the existing time series making the comparison of data over the entire period under review difficult.
Other developments

Establishment of the National Payments Committee

In 2015 the National Payments Committee (NPC) was established, comprising the providers and the users of payment services. The NPC aims at: (i) assessing the implications and challenges of the new European legal framework in the local payments landscape; and (ii) promoting more efficient and innovative payment instruments, electronic invoicing and applications by payment services providers.

Central Information Register for Issuers of Dishonoured Cheques (CIR)

The CIR data show a steady decline in the average number of listings recorded in the preliminary register (Chart 4.5) in terms of number and value. The average monthly number and value of dishonoured cheques reached the lowest levels since 2003.

TARGET2-Securities (T2S)

T2S is the Eurosystem infrastructure that aims to provide European CSDs with a single, pan-European platform for securities settlement in central bank money.

At the present juncture, the CBC is taking the necessary steps to enable it to offer, to the extent possible, T2S services to the national banking community.

Oversight of payment and settlement systems

The CBC continues to exercise its role as a catalyst by ensuring that the operators of the payment systems take appropriate measures to maintain the smooth functioning of these systems.

The CBC has placed under its oversight the payment, clearing and settlement systems operating in Cyprus. In 2015 the CBC, in line with the Eurosystem’s new oversight framework for retail payment systems, launched the oversight engagements for JCC Cards Payment System (a ‘prominently important retail payment system’) and CCH (an ‘other retail payment system’).

As for TARGET2-CY, the CBC continues to oversee the local features of TARGET2-CY.

Moreover, the CBC carried out supervisory and monitoring activities with respect to the compliance of local payment service providers using the EBA’s guidelines for the security of internet payments.
4.5 Euro Banknotes and Coins
The issuing of currency (banknotes and coins) into circulation falls within the competence of the CBC. The CBC is thus tasked with the establishment of the necessary legal framework, participation in the ECB pooled banknote production arrangements, the minting of coins, the processing and distribution of banknotes and coins and the withdrawal and destruction of banknotes and coins that are unfit for recirculation.

At the end of 2015, the total amount of euro banknotes in circulation issued by the Eurosystem reached €1.083.430 million representing an increase of 6,6% compared with the end of 2014. The actual value of euro banknotes in circulation per euro area member state cannot be measured accurately because the free movement of people and goods in the euro area creates a continuous migration of euro banknotes.

Cash cycle
During 2015 118,8 million pieces of euro banknotes were processed for authenticity and fitness checking prior to their circulation by the company subcontracted by nine banks to store and process their banknotes. Out of these processed banknotes, 32,4% (38,5 million pieces) were considered as unfit for recirculation and were returned to the CBC for further processing. During the same period, the CBC carried out appropriate inspections of the banknote processing machines used by the subcontracted company. The CBC also performed a number of on site inspections at the premises of banks to ensure that the provisions of the relevant Directive issued by the CBC in April 2014 on the authentication and fitness checking of banknotes prior to their recirculation, were observed.

During 2015 20,5 million euro coins were processed by the company to which the CBC contracted the storage and processing of coins. Out of these processed coins 0,1% (20,561 coins) were considered as unfit for recirculation. Furthermore, the CBC carried out on site inspections at a number of credit institutions to establish that the provisions of Regulation (EU) 1210/2010 concerning authentication and handling of euro coins unfit for circulation were observed.

Counterfeit euro banknotes and coins detected in Cyprus during 2015
During the year under review, 678 counterfeit euro banknotes of various denominations were detected in circulation, compared with 472 pieces in 2014. The €20 and €50 banknote were the most frequently counterfeited denominations representing 36,9% and 32,9% of the total, respectively. Most counterfeits withdrawn from circulation were detected by bank cashiers. The number of counterfeit euro banknotes detected in circulation in Cyprus during the year under review was very small and was one of the lowest in the euro area.

During the processing of euro coins a very small number of counterfeit coins (356 coins) were detected. The denominations were €2, €1, and €0,50.

Numismatic matters
- Collector set
In May 2015, the CBC issued 7.000 collector sets of the Cyprus euro coins minted in 2015 in brilliant uncirculated condition. The set initiated the new series of Cyprus euro coins dedicated to the Religious Monuments of Cyprus. The issue was successfully sold in Cyprus and abroad.
• Collector coin
In 2015 the CBC issued a silver collector coin with a nominal value of €5, in proof condition, in honour of the goddess Aphrodite of Cyprus. The coin, designed by the artist George Stamatopoulos, depicts a marble statue of the goddess Aphrodite. The statue belongs to the Hellenistic period, 1st century AD and was found in the area of Soloi in Cyprus. It can be visited at the Cyprus Museum in Nicosia and is considered as a point of reference for the cult of Aphrodite in Cyprus. The coin was issued in October 2015 with a mintage of 4,000 pieces and generated interest both in Cyprus and abroad.

• Commemorative coin
The CBC issued in November 2015 the third Cyprus euro commemorative coin in line with the decision of the European Commission for a common issue of the euro area member states to commemorate 30 years of the European Union flag. The mintage of the Cyprus euro commemorative coin was 350,000 pieces, out of which 8,000 of proof condition were placed in cases and 6,000 of brilliant uncirculated condition were placed in capsules for collectors.

Withdrawal of the Cyprus pound
The withdrawal of Cyprus pound banknotes continued during 2015. Banknotes with a total value of £0,22 million were exchanged for €0,37 million. The CBC will continue to exchange Cyprus pound banknotes until 31 December 2017.

4.6 Activities in the Financial Markets
4.6.1 Management of reserves and other activities
On 31 December 2015, the CBC’s reserves, including gold bullion holdings valued at €434,6 million, amounted to €1,428,5 million compared with €1,027,6 million at the end of 2014.

The CBC’s reserves were managed in accordance with the approved Investment Policy framework in an environment of extremely low and/or negative market interest rates and volatile financial market conditions throughout the year. The reinvestment of interest rate income, the marking to market of investments, the fluctuation of foreign currencies against the euro and other net flows in foreign currencies contributed to the change in the level of the reserves.
According to the CBC’s Investment Policy framework, the management of reserves in euro, foreign currencies and gold focuses on the long-term maximisation of their return, without sacrificing other long-standing objectives of critical importance, such as the safety of the reserves and overall capital preservation. The income derived from reserves’ management constitutes over time the major source of financing of the CBC’s operations and contributes to safeguarding its financial autonomy and independence.

The Investment Policy framework provides for the investment of the currency and gold reserves in approved asset classes, using approved financial instruments. Transactions are executed and processed through approved counterparties, such as banking institutions or investment banks. The cornerstone of the Investment Policy is the use of selected strategic benchmark portfolios.

During 2015 the general investment policy framework of the CBC has proved to be sufficiently appropriate under the prevailing market conditions, as it protected the value of the reserves during the global financial turmoil and investment uncertainty. In this regard, during the year under review the CBC held currency reserves primarily in euro, and to a much lesser degree, in dollars and sterling.

Net financial assets
In February 2016, the Eurosystem, as part of its commitment to greater transparency, decided to publish the Agreement on Net Financial Assets (ANFA), an agreement between the national central banks of the euro area and the ECB. ANFA sets rules and limits for holdings of financial assets which are related to tasks of the national central banks beyond monetary policy, such as financial assets related to the counterpart to their capital and accounting reserves or other specific liabilities, their foreign reserves or employee pension funds. ANFA, along with a relevant explanatory text, can be found on the ECB website. As at end 2015, the net financial assets of the CBC, as these are defined by ANFA, were €4.446 million.

Participation in the management of the foreign exchange reserves of the ECB
The management of the ECB’s foreign exchange reserves is decentralised and is conducted by the euro area national central banks which act as agents of the ECB. The CBC participates in the management of ECB foreign reserve assets with the management of its share carried out under a pooling arrangement with the Bank of Greece.

Participation in IMF programmes
Since March 2011, the Republic of Cyprus has been participating in the ‘New Arrangements to Borrow - NAB’ programme which operates under the supervision of the International Monetary Fund. The CBC, acting as the financial agent of the Republic, executes the transactions within this programme. During 2015, due to the ongoing implementation of the economic adjustment programme for Cyprus, there was no additional lending by the Republic under the NAB programme.

4.6.2 Implementation of monetary policy
On behalf of the ECB, which is responsible for formulating monetary policy in the euro area, the CBC participates in a uniform and equal way with the other euro area national central banks in the implementation of the single monetary policy as

set out by the decisions and guidelines of the ECB’s Governing Council. Consequently, the credit institutions that reside in and operate from Cyprus can participate in and have access, through the CBC, to the open market operations and standing facilities of the Eurosystem.

In light of the volatile and adverse financial market conditions that prevailed in 2015, both the regular and the supplementary open market operations of the Eurosystem continued to be carried out through fixed rate tenders with full allotment. This tender procedure will continue to be applied at least until the last reserve maintenance period in 2017.

In January 2015, the Governing Council of the ECB, in order to enhance the effectiveness of the targeted longer-term refinancing operations (TLTROs), decided to eliminate the 10 basis point spread over the MRO rate, applied to the TLTROs to be conducted until June 2016. The elimination of the spread reflects the reduction in term premia on market-based funding instruments for banks that has been observed since the announcement of the introduction of the TLTROs in June 2014. With this decision, the Governing Council underpinned the importance and effectiveness of the TLTROs as an instrument supporting bank lending to the non-financial private sector as well as enhancing the function of the monetary policy transmission mechanism.

In August 2015, the ECB’s Governing Council decided to further refine the rules applicable to counterparties to the Eurosystem’s monetary policy operations. Furthermore, it decided to include a new category of eligible non-marketable assets, namely, non-marketable debt instruments backed by eligible credit claims, into the collateral framework for liquidity provision.

**Asset purchase programmes**

In January 2015, the Governing Council of the ECB decided to expand the running asset purchase programmes. To this end, in addition to the ongoing private sector asset purchase programmes, that is the covered bond purchase programme (CBPP3) and the asset-backed securities purchase programme (ABSPP), a public sector purchase programme (PSPP) was announced in order to include purchases of euro-denominated bonds issued by euro area central governments, agencies and European institutions. The related purchases commenced on 9 March 2015. According to the same decision, the combined monthly asset purchases under the three programmes would amount to €60 billion and were intended to be carried out until at least September 2016 and, in any case, until a sustained adjustment in the path of inflation is observed, consistent with the aim of achieving inflation rates below, but close to, 2% over the medium term. On 3 December 2015, the Governing Council of the ECB decided to extend the duration of the expanded asset purchase programme until March 2017 or later, if needed, in order to steer the path of inflation rates in the euro area closer to the medium-term target.

The CBC participates in the implementation of the expanded asset purchase programme, conducting purchases under the CBPP3 and PSPP. Data for the asset purchases conducted by the Eurosystem are uploaded and updated on a monthly basis on the ECB website.

Under the PSPP, the CBC and the ECB conducted purchases of Cyprus government bonds of a total nominal amount of €285 million during 2015.

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conducted in periods following the positive review of the economic adjustment programme of Cyprus, namely in July and October 2015. The purchases involved Cyprus government bonds that traded both in the domestic and the international markets. Transactions were concluded with both domestic and overseas counterparties.

**Participation in the securities lending programme**

On 2 April 2015, the Governing Council of the ECB decided that bonds acquired by the euro area national central banks under the PSPP should be made available for lending in a decentralised manner. The Governing Council’s aim was to support bond and repo market liquidity without disrupting normal market activity. In this context, securities purchased by the CBC under the PSPP are made available for lending within an automated securities lending programme run by an international securities depository, solely in cases of failed settlement of transactions executed by the depository’s customers.

**4.7 Emergency Liquidity Assistance**

Emergency Liquidity Assistance (ELA) comprises of liquidity support provided by national central banks in exceptional circumstances to solvent and duly supervised credit institutions facing a temporary liquidity shortage.

Article 14.4. of the Statute of the European System of Central Banks and of the ECB states that national central banks may perform functions other than those determined in the Statute unless the Governing Council decides, with a majority of two-thirds of the votes cast, that such functions interfere with the objectives and tasks of the Eurosystem. Therefore, ELA operations, which are performed under the responsibility of national central banks and do not constitute part of the ESCB tasks, are assessed by the Governing Council of the ECB which provides its non-objection if it considers that there is no such interference. The CBC adopts and fully implements the relevant procedures which were introduced in the Eurosystem in 1999 and are reviewed occasionally. Under normal conditions, credit institutions secure their funding via the issuance of share capital, through the issuance of debt securities, in the interbank market, from customer deposits or from Eurosystem monetary policy operations. Within the framework established by the competent supervisory authorities, this funding is channelled in principle to customer loans as well as other assets in accordance with the investment policy of the credit institution concerned. If, under exceptional circumstances, a credit institution cannot secure the required liquidity through the above sources, then it may have to resort to ELA as the ultimate available source of liquidity.

As regards the policy for the provision of ELA approved by the Board of Directors of the CBC, liquidity may be provided at the discretion of the CBC but only to solvent credit institutions under specific conditions. These include the following:

- The support of the credit institution is significant for financial stability reasons
- The credit institution provides the CBC with sufficient collateral
- The credit institution submits an acceptable plan with regards to the management and replenishment of the required liquidity from other sources
- The credit institution provides constant updates on its liquidity status.

The CBC applies a higher interest rate than the rate applied by the Eurosystem for the marginal lending facility. The additional margin is determined by taking into consideration any relevant recommendations made by the Governing Council of the ECB.

ELA provision does not fall within the framework of the conduct of the Eurosystem's single monetary policy. As mentioned above, ELA is provided under the responsibility of the CBC, in accordance with the existing institutional framework of the Eurosystem and following the non-objection of the Governing Council of the ECB, where this is required contingent on the amount. Thus, the CBC bears the cost and the risks arising from the provision of ELA. Consequently, when ELA is provided, various risks, including credit risk, market risk and operational risk, are taken into consideration and appropriate provisions are created.

The provision of ELA is governed by terms and contractual obligations under which the CBC has the right to manage the assets constituting the collateral in the event that the credit institution fails to meet its obligation against the CBC. The collateral portfolio is assessed and valued by the CBC on a regular basis in the context of the implementation of the approved policy framework. When valuing the collateral portfolio and in order to reduce market and liquidity risks, the CBC applies appropriate valuation haircuts which are determined by, _inter alia_, the type of collateral.

The provision of ELA involves several organisational units within the CBC. The distribution of tasks is dependent on the area of expertise of each unit and is documented in a relevant internal manual of procedures. This manual documents the procedures that govern the activation of the ELA mechanism, in accordance with the ELA policy framework of the CBC.

The CBC provides ELA after first undertaking a proper assessment of each request and only if there is a positive decision by the Governor. Moreover, the release of funds proceeds only after the implementation of actions required by the CBC for taking hold of the collateral, e.g. assignment of credit claims and transfer of securities to a custody account of the CBC with a selected depository. This includes the signing of the required legal documents relating both to the collateral and to the ELA terms.

As at 31 December 2015, ELA provided by the CBC to domestic credit institutions amounted to €3.800 million (31 December 2014: €7.400 million).

4.8 Financial Risks Management

The CBC is exposed to financial risks stemming from its reserve management operations in euro, foreign currency and gold. There are also financial risks from the implementation of the Eurosystem’s single monetary policy and from its credit providing operations to domestic credit institutions, namely ELA.

The management of financial risks is carried out independently from the operations in the financial markets and in particular by the Risk Management Office, the CBC’s “second line of defence” function against risks. As from January 2013, the Risk Management Office has been given a broader mandate by assuming responsibility for operational risks and business continuity issues.

**CBC investment activities**

The CBC’s investment and risk control frameworks define, _inter alia_, the approved currencies in which reserves can be invested as well as the eligible countries, issuers, counterparties, asset classes and financial instruments that can be used for
investments by the CBC’s portfolio managers in money, capital and foreign exchange markets. The frameworks also stipulate, in line with the CBC’s set investment objectives and risk tolerance, the determination of strategic benchmark portfolios (SBs) on an annual basis, taking into account the prevailing and anticipated market developments. The SBs define the CBC’s risk tolerance and long-term investment strategy and enable the comparative evaluation of the CBC’s investment portfolios performance and risk exposures against the aforesaid reference benchmarks.

The measuring, monitoring, controlling and reporting of the risks related to the CBC’s reserves management operations, including the portfolio manager’s compliance with the set frameworks and guidelines, and the risk assessment methodologies used are evaluated and updated on a regular basis.

The main risks involved in the reserve management operations are the following:

**Market risk**
Market risk refers to the risk of losses from adverse movements in market prices of securities held by the CBC primarily due to changes in interest rates or foreign exchange rates. To manage the key dimensions of market risk, namely interest rate risk and foreign exchange risk, the CBC applies the following risk control measures:

- **Interest rate risk**: Risk of loss in the value of an investment due to fluctuations in market interest rates. This risk is mainly controlled through the selection of benchmark portfolios that, inter alia, reflect the CBC’s risk tolerance in terms of exposure to interest rate risk, namely maximum duration, which determines the sensitivity of a portfolio to interest rate changes, and the enforcement of permissible deviations from the approved duration level for each portfolio. Total exposure to interest rate risk is further reduced by maintaining most of euro denominated bonds in the held-to-maturity portfolio.

- **Foreign exchange risk**: Refers to the risk of incurring losses in the market value of investments due to fluctuations in the exchange rate of the euro against other currencies in which the CBC maintains reserves. During 2015 the CBC continued to hold its reserves primarily in euro and, to a much lesser extent, in dollars. Moreover, the CBC uses a number of hedging instruments to minimise the risk of losses in the event of unfavourable movements in the exchange rate of the euro against the dollar. For major currencies, the CBC also maintains open positions, up to a set amount, for the settlement of transactions or payments in those currencies. The open position in dollars is required to fulfil any ad hoc transfers of that currency to the ECB for possible intervention purposes.

**Credit risk**
Credit risk refers to the risk that a counterparty or an issuer of securities fails to fully or promptly meet its contractual or legal obligations for the entire or part of the amount due (default risk). Credit risk also includes the risk of a decline in the market value of the investments, due to a downgrading of the credit rating of an issuer of securities, an issue or a counterparty (downgrade risk). On account of the volatile market conditions, and with the aim to keep overall credit risk within the acceptable levels, the CBC maintained, as in previous years, prudent credit quality eligibility criteria and exposure limits.
for approved issuers and counterparties and limited its exposure to deposits.

**Liquidity risk**
Liquidity risk relates to the possibility that the CBC's direct access to the markets to secure the necessary liquidity might be disrupted or that liquidity cannot be obtained at a reasonable cost. However, the CBC's participation and use of the ESCB TARGET2 system has hugely minimised this risk.

Moreover, the CBC maintains a pre-defined amount of open positions to meet any unexpected obligations in major foreign currencies. Liquidity risk is further mitigated by the fact that the majority of the CBC's reserves are invested in highly liquid securities.

**Implementation of monetary policy and emergency liquidity assistance operations**
As regards the implementation of the Eurosystem's monetary policy, the CBC participates in the Eurosystem Risk Management Committee that is responsible, inter alia, for the effective management of risks originating from the single monetary policy, including the implementation of the non-standard measures. In this context, the Committee is responsible for the design, review and implementation of the appropriate frameworks, methodologies and guidelines as well as the monitoring, measurement and reporting of financial risks. The overriding aim is to ensure that the Eurosystem is appropriately and sufficiently protected against risks.

ELA funding to domestic credit institutions is provided in accordance with the approved policy framework and relevant manual of procedures and after obtaining the ECB's Governing Council's non-objection (see section 4.7 of this report).

Financial risks stemming from these operations are monitored within the relevant policy framework that governs the provision of such liquidity. These risks are also assessed in the context of the annual risk assessment exercise for the determination of the appropriate level of overall provisions for risks emanating from its main operations.

**4.9 Economic Research and Analysis**
The CBC is responsible for the in-depth analysis of the domestic economy as well as for monitoring the euro area and the international economic environment. Its staff contribute to the economic analysis of the ECB via their participation in relevant ESCB committees and regularly brief the Governor in the context of her participation in the ECB Governing Council. Other related activities include meetings with international organisations and organising presentations to stakeholders, such as academic institutions and other organised groups.

The CBC was also actively involved in discussions with representatives of the Troika, in the context of the consultation process for the assessment of economic developments of the Memorandum of Understanding (MoU), the production of macroeconomic and fiscal projections, and the assessment of developments regarding the structural provisions of the MoU, while at the same time providing input for discussions on various issues relating to the financial sector.

**Economic Bulletin**
In 2015 two issues of the Economic Bulletin, June and December, were published in Greek and English. The Bulletin presents the main macroeconomic and financial developments in the...
international and domestic environment as well as the projections for the Cyprus economy.

Governor support and participation in committees and working groups of the ESCB

In 2015 the CBC continued to contribute to the briefing of the Governor within the context of her participation in ECB Governing Council meetings, particularly on matters relating to the formulation and conduct of monetary policy.

The CBC also played an important role in relation to the systematic participation of its representatives in the ESCB Monetary Policy Committee and its working groups. These working groups cover the following: (a) economic forecasts, (b) econometric modelling and (c) analysis of public finances, while other ad-hoc working groups deal with specific economic issues. The Monetary Policy Committee and the aforementioned working groups monitor economic and monetary developments and prepare reports which are used as input to the decisions of the ECB Governing Council.

Through its representatives on the Working Group on Forecasting, the CBC takes part in regular projections exercises of the Eurosystem every June and December, which involve the projection of main macroeconomic aggregates. Additionally, inflation projections are prepared every March and September.

As part of the CBC participation in the Working Group of Econometric Modelling, the specialised CYMCM econometric model was employed. This working group supports the needs of the Working Group on Forecasting regarding technical issues, such as the analysis of various scenarios. In 2015 the CBC began work on adapting the ESA 2010 statistical methodology in the Cyprus model.

The CBC participates in the ESCB Working Group for Public Finances, which aims to prepare independent fiscal forecasts as well as related studies. In 2015 the CBC participated in the working team for the analysis of public debt sustainability in euro area economies.

In addition, the CBC actively participates in the European Commission working group that aims to monitor, prevent and correct adverse macroeconomic imbalances in the European Union. At the same time, it participates in the expert group for economic forecasts which are published three times a year, in line with the annual economic policy coordination cycle of the European Semester.

Other research activities

The Economic Research Department (ERD) supported the CBC Board in taking decisive measures for unwinding domestic lending rates by providing a detailed analysis on the trends of domestic market interest rates. The ERD continues to monitor developments in interest rates on a monthly basis.

In 2015 the quarterly Bank Lending Survey (BLS) continued within the Eurosystem framework. Since April 2015, the questionnaire has been enriched with additional questions for further analysis of the impact of the recent ECB’s standard and non-standard monetary policy measures. The CBC publishes on its website the aggregated results for Cyprus on a quarterly basis.

The CBC participates in an ESCB network which aims to collect information related to changes in the wage and price and setting policies of businesses (Wage Dynamics Network), for the purpose of investigation and analysis. The CBC conducted a sample survey via the use of a
harmonised questionnaire, which covered the period 2010-2013. Results of this research were published in the December 2015 issue of the Economic Bulletin.

In addition, the processing of the micro data of the second wave of the Household Finances and Consumption Survey (HFCS) was completed. The HFCS is a survey conducted by the Eurosystem, with the participation of the CBC since 2009, collecting micro financial data, including consumption behaviour of households. In the first half of 2015, the HFCS team continued with the technical validation of the collected data, while in October the process of sending the data to the ECB for validation was initiated.

Furthermore, the ERD proceeded with the conduct of a detailed analysis regarding the borrowing behaviour of Cypriot households. This analysis, which is a MoU obligation, covers macroeconomic and microeconomic aspects, utilising data from the two waves of the HFCS. The first draft of the analysis will be completed in 2016.

During 2015 the Real Estate Unit revised both the quarterly residential property price index (RPPI) and the RPPI by district. Furthermore, the commercial property price indices were approved for use by the partnered banks for the purposes of prudential oversight.

In liaison with the ECB, and within the framework of the European Stability Mechanism, the CBC participated in the discussions for the preparation of the macroeconomic scenarios, which will form the basis of the 2016 EU-wide stress testing exercise. This activity will continue until 2016Q3, when the individual results of EU banks will be published.

Visits by foreign experts
During 2015, the major credit rating agencies visited Cyprus, which review the Cyprus economy at regular intervals and publish independent evaluations. Also, in the context of the ongoing consultation process for the assessment of the MoU implementation, representatives of international lenders visited Cyprus four times during 2015. The CBC actively participated in the consultations and provided support for the implementation of various aspects of the Cypriot MoU.

Finally, CBC staff participated in presentations to stakeholders such as foreign observers, domestic stakeholders and academic institutions.

4.10 Statistics
During the year under review, the CBC continued its efforts to improve the completeness, quality, reliability and consistency of the statistics produced, through the strict implementation of international and Community statistical standards, as well as the national and Community statistical legislation currently in force.

Moreover, efforts focused on the best use of new technologies and available information from administrative sources, aimed at reducing the production time of statistics and minimise, to the extent possible, the burden on reporting units.

Equally important were the actions taken to improve the layout and content of the CBC website and other means of dissemination of statistics in order to meet, as far as possible, the needs of users. The content of press releases/reports issued were also upgraded, thus improving their informative value.

Money and banking statistics
Further to the implementation in December 2014 of the new ECB regulations on money and banking statistics due to the adoption of ESA
2010, during 2015 the quality of produced data was upgraded and historical data were derived based on the new methodology. Specifically, the automated production of the MFI balance sheet, interest rate statistics and investment funds statistics in accordance with the new regulations, was normalised.

The Register of Institutions and Affiliates Database (RIAD) was enriched with the inclusion of the list of payments statistics relevant institutions. In parallel, payments statistics were compiled in accordance with the new ECB regulation. During 2015 extensive discussions took place at the ESCB level, and the necessary preparatory measures were launched at national level, with regard to the requirements of the “AnaCredit” project (analytical credit datasets), with the aim of creating a shared credit and credit risk database. The granular credit and credit risk data will be based on a euro area wide collection of individual bank loan information, which will serve multiple needs, such as in the areas of statistics, monetary policy, micro and macro-prudential supervision, economic analysis, research and financial stability analysis. In December 2015, the ECB published the relevant draft ECB regulation and the CBC proceeded with informing the banks accordingly, in order to commence the necessary preparatory work and ensure an effective and timely implementation of the pertinent requirements. In the course of 2015, the CBC started the preparations for the implementation of the new ECB regulation on the statistical reporting requirements for insurance companies. It is worth noting that, the data submitted by insurance companies in the context of the Solvency II Directive shall also be utilised for the needs of the above regulation.

Financial accounts
In the course of 2015, the compilation process of statistics related to the quarterly financial accounts (QFA) was normalised, following the implementation of the new ECB guideline on QFA. Data related to security holdings statistics, which are derived in the context of the production of securities statistics, were also incorporated, aimed at the further improvement of the quality of the QFA.

Securities statistics
During the year under review, three new releases were introduced in the centralised securities database (CSDB), which is hosted by the ECB, and the corresponding adjustments and improvements were implemented in the related system at the CBC. The transmission of monthly data and the data quality management activities were improved with the updated requirements and new workflows. Moreover, the monthly securities issues statistics were compiled and submitted to the ECB in accordance with the new ECB guideline, while their production based on the CSDB database continued on an ESCB level on a testing basis. Furthermore, during 2015 new procedures and additional controls were implemented regarding securities holdings statistics that is security by security information on shares, investment fund units and bonds held by residents in Cyprus. The data are collected and transmitted to the ECB on a monthly basis, and constitute an important data source for the compilation of external statistics, investment funds statistics and the QFA.

External statistics
The year 2015 was marked by further improvements in the quality of external statistics.
In particular, following its commitment to the ECB, Eurostat and the IMF, the Balance of Payments Section, produced and published historical external statistics data based on the revised methodology laid out in BPM6 and ESA 2010 manuals, which was implemented in 2014.

The compilation of historical data based on the new statistical standards, provided an opportunity for further changes and revisions aimed at the improvement of coverage, quality and consistency of the statistics produced with other macro-economic statistics.

More specifically, in 2015 enhanced data for special purpose entities registered/incorporated in Cyprus, collected through a new survey jointly designed by Cystat and the CBC, were incorporated. Furthermore, in the context of achieving a better coverage, survey samples were redesigned.

Furthermore, the CBC automated and launched new/revised surveys. Specifically, a new survey on “external financial statistics” was launched, which replaced two existing surveys, namely “foreign direct investment” and “other investment”. Moreover, the automation of the “services survey” was implemented and a new process for the collection of data on investments in financial derivatives of investment firms’ customers was launched. In addition to the above, all the necessary measures for the forthcoming implementation of Directive (EC/260/2012) on the abolition of the collection of data from the banking system, were taken.

Aiming at familiarising the reporting entities with the requirements of the new surveys and providing explanations for their correct completion based on BPM6 methodology, three presentations were organised in 2015, which proved to be very fruitful.

In 2015, driven by the commitment for continuous improvements in terms of consistency, validity, reliability and suitability of external statistics, the CBC participated, for the fourth consecutive time, in a voluntary exercise conducted by Eurostat aimed at reducing the asymmetries between EU member states with regard to direct investment. Moreover, two expert visits (from the IMF and Eurostat) took place on external statistics issues with positive results, thus further enhancing the credibility of the statistics produced.

General statistics
In addition to the regular transmission of government finance statistics and statistics relating to the support of the financial sector of Cyprus, during 2015 the General Economic Statistics Section (GES) transmitted to the ECB additional quarterly government finance statistics, requested from member states on a voluntary basis as well as additional data and explanations for labour issues, the real estate sector and business demography.

In cooperation with the IT Department, the efforts to design the government finance statistics automation project were intensified. In order to minimise the codification problems of templates received from Cystat, the GES proceeded with their codification using SDMX codes as an alternative solution and provided the links to the ECB GFS tables.

Statistical publications
The monthly publication Monetary and Financial Statistics continued to be uploaded on the CBC website, providing users with important information regarding MFIs’ deposits and loans as well as interest rates. It also continued the publication of the quarterly Investment Funds
Statistics, which includes aggregate data from 2008 onwards. Additionally, in 2015 the publication Quarterly Financial Accounts, with reference data from December 2012, was launched.

During 2015 quarterly historical external sector statistics for the period 2008-2012 based on BPM6 and ESA 2010 methodology were published for the first time. In parallel, the Ship Management Survey was enriched and improved by using new databases and applying modern statistical methods in their analysis. The content of the annual External Statistics was revised and enriched with the compilation of data as from 2008 based on BPM6 methodology.

Finally, in response to demand from users, the annual Portfolio Investment was launched.

Cooperation with other statistical authorities
In the context of the close cooperation and coordination of the Statistics Department with other statistical authorities, a Memorandum of Understanding was signed between the CBC, the Ministry of Finance and Cystat, aiming at the systematic exchange of the necessary statistical data and other related information, with a view to enhancing the performance of their tasks in the statistical field. The signing of the Memorandum, which formalised the smooth, ongoing cooperation between the three authorities, is considered best practice by the EU.

4.11 Information Technology
During 2015 IT project priorities continued to be affected by extraordinary and urgent requests mainly as a result of the MoU with the Troika and requirements of the SSM.

In summary the main systems development projects related to the:

- Implementation of decisions concerning the supervision of banking institutions
- Timely and reliable provision of information internally and externally
- Implementation of ESCB and EBA revisions to applications.

For the administration of the IT infrastructure components, projects were realised for improving their availability and performance and, where necessary, upgrades of equipment to new versions were effected. Risk assessments were also conducted in application systems and their infrastructure, for reinforcing their security.

The IT Department also participated in the ESCB Information Technology Committee and its working groups, as well as in IT related working groups of the ESCB Statistics Committee and the EBA, and proceeded with all the necessary tasks for the local implementation of those institutions’ IT projects and related decisions.

IT systems implementation and maintenance projects
The priorities of IT projects, according to the IT projects portfolio, were revised based on new and unforeseen needs. Such projects mostly arose from the Supervision Department.

The development and implementation of the following systems have been completed:

- Further implementation in various departments of tools for extracting data from the CBC’s databases (e.g. business intelligence tools)
- Upgrade of systems based on revisions of ECB regulations for investment funds data
- Implementation of new standards for statistical and other data, for reporting purposes to the ECB
• Collection, processing and submission to the ECB of payment statistics data
• Expansion of the CBC’s payroll system to include staff on contract
• Activation of the Emergency Deposits Protection Scheme (one off)
• Implementation of a new ECB directive for consolidated banking data
• Development of a new e-Business platform for the collection and delivery of information to/from external partners.

The following enhancements to information systems have been completed:
• Automation of the collection, validation and processing of SSM files with banking supervision data (common / financial reporting), from banks and their submission to the ECB
• Revision of the common / financial reporting data and the application of new Key Risk Indicators (KRI) for all banks
• Qualitative and quantitative improvement of balance of payments data from external partners
• Improvement / upgrade of published monetary and financial statistics
• Upgrades in the CBC’s dealing system for new instructions from the ECB related to purchase of Cyprus bonds, creation of new reports and monitoring investments in securities.

Furthermore, IT projects that have started in 2015 and are running into 2016 include:
• Automation of compensation for travelling expenses
• Creation of a central register for bank loans/advances (Central Credit Registry)
• Further collection of statistical data, through new surveys from external partners
• Automation of Numismatic Unit operations
• Activation of the Regular Deposits Protection Scheme (new Directive 2015)
• Additional revisions of common / financial reporting for the purposes of the SSM
• Development of the connectivity to the Target2 Securities.

Information systems infrastructure
The purpose of the work completed was to:
• Maintain and enhance the availability and performance of the existing systems and services.
• Extend systems and services in order to provide new functionalities to meet new business requirements.
• Introduce new technologies in order to provide new services, automation capabilities and facilitation of the operations of the CBC.

Information systems security
The Information Systems Security Section continued to conduct information risk assessments of the CBC’s information systems. Technical security tests were also performed to assess the threats to the confidentiality, integrity and availability of CBC information on these systems, and new safeguards were implemented. These comprised of new security policies and procedures as well as technical changes to the IT infrastructure. Increasing the security awareness of users was also pursued.

4.12 Human Resources, Organisation and Methods
During 2015 a comprehensive analysis of the current organisational structure of the CBC was initi-
ated with the involvement of external consultants aiming to examine how the CBC can best fulfil its mission and meet future challenges. The Human Resources, Organisation and Methods Department was actively involved in this reorganisation project, with the participation of its officers in working groups and with extensive consultations both at the initial stage of analysis as well as at the implementation stage. The project is still in progress.

The CBC continued to actively support the introduction of best practices and achieve the efficient management of human resources. To this end a new secondment policy was introduced covering secondments to the ECB and other international organisations in fields relevant to the CBC’s operations.

With regard to human resources development, in-house seminars were organised for the development and enhancement of soft and IT skills as well as for health and safety issues. At the same time employee participation in various seminars organised in Cyprus as well as in-house seminars organised within the CBC and the ESCB was encouraged, and in-house staff presentations in relation to ESCB/SSM matters were organised.

Within the sphere of ESCB seminars the “Basics for working in the ESCB” seminar was organised in Cyprus, which provides a general overview of key features of working in the ESCB context. Furthermore, through its participation in the regular meetings of the Human Resource Conference, the CBC significantly contributed to the training efforts of the ESCB / SSM.

In the context of resource sharing within the ESCB, the CBC was actively involved in staff exchanges with other NBCs and the ECB.

The Organisation & Methods Section provided support to the CBC’s departments, by introducing new procedures, conducting studies and submitting recommendations to the CBC’s management.

Health and safety

The CBC gives utmost importance to health and safety (H&S) issues, especially with regard to:
- Safeguarding the safety and health of staff as well as third parties (visitors, partners)
- Complying with the relevant legislation in force in the Republic of Cyprus.

In 2015, as in previous years, the primary objective was the assessment and prevention of H&S related risks. During the year, the H&S risk landscape was brought up to date, work instructions were improved, training activities for the first-aid teams and the Emergency Response Team took place. A drill exercise was conducted on the preparedness / evacuation of the CBC building and educational programmes were carried out on health and safety issues.

Corporate social responsibility

The CBC developed a corporate social responsibility (CSR) policy aiming to further enhance its positive contribution on issues related to the environment, society and culture. During the year, a number of events and activities were initiated in the context of employee volunteerism and employee welfare.

In addition the CBC, aiming to become an employer of choice, participated in the summer internship programme of the University of Cyprus as well as the internship programme for the undergraduate trainees of Deutsche Bundesbank. The CBC also participated in the Human Resource De-
velopment Authority’s programme for the placement of unemployed young graduates, providing them with the opportunity to experience a real life working environment, and at the same time covering temporary staff needs in a number of departments.

**CBC restructuring project**

Following an international procurement process, the CBC selected the German consultancy firm, Roland Berger GmbH, to carry out an independent study on its organisational structure and future capabilities. The study addressed four primary pillars: 1) the CBC’s organisational structure; 2) internal procedures and practices; 3) human resources; and 4) governance.

The firm’s final report was handed over to the CBC Board in July 2015, which decided in September 2015 to adopt the suggestions and findings of the report as the basis for the modernisation of the CBC’s organisational structure. The report was also adopted by the Board for the purpose of developing the CBC’s capabilities in order to strengthen its independent role and responsibilities at both the national and Eurosystem levels, as well as being able to meet future challenges.

The deadline for completing the restructuring project was set at 31 December 2016. With this aim, an internal Project Management Office was established with a mandate to plan, coordinate and monitor the project. The Office’s remit was also to submit suggestions to the CBC’s decision making bodies on implementation matters.

In November 2015, the Board approved the CBC’s new organisational structure, with an implementation window until February 2016. Based on this structure, four Divisions were formed: 1) Supervision; 2) Economics, Statistics & Financial Stability; 3) Banking Operations; and 4) Corporate Services.

**4.13 Legal Developments**

**Investigation Team for the economy**

Since August 2013, the CBC has been receiving a number of requests from the Cyprus Police Investigation Team. The team was appointed initially in July 2013 to investigate possible criminal offences in connection with the state of the Cypriot banking system and, more generally, the economy. These requests concern the disclosure of documents and provision of information with regard to the operations of the CBC. The requests are being submitted to the CBC pursuant to relevant criminal procedure rules. During 2015 the CBC continued disclosing documents and preparing and delivering reports to the Investigation Team. CBC officials gave statements on matters falling within the scope of their duties.

**International arbitration on investment disputes**

Since 2013 the CBC has been devoting resources to the Republic of Cyprus’s response to investment disputes brought before international arbitration tribunals concerning the financial sector. In the course of 2015, the CBC continued contributing, through the Law Office of the Republic, to the Republic’s response insofar as it concerns the CBC’s operations.

**Pending litigation**

With the help of its external legal counsels and with the contribution of its competent departments, the CBC continued handling the pending litigation against it in connection with its operations. This litigation comprises lawsuits relating to the 2012 and 2013 financial crisis.
Cases before the Court of Justice of the European Union
The CBC sometimes assists the Law Office of the Republic of Cyprus in examining cases pending before the Court of Justice of the European Union which touch upon the CBC’s tasks. These cases consist mainly of questions referred to the Court of Justice of the European Union by national courts of member states, other than the Republic, for a preliminary ruling. The main purpose of this work is to assess the option for an intervention by the Republic and to prepare the intervention in cases where such intervention is to be made. In the course of 2015, the CBC assisted with cases before the Court of Justice of the European Union which concern the resolution of credit institutions and therefore are of interest to the Republic and the CBC.

4.14 Security and Premises
The main responsibilities of the Security and Technical Support Department include:
(i) The implementation of strict security measures for the protection of the building, installations, personnel, visitors and the assets of the CBC
(ii) The maintenance of the building’s installations.

Within the above framework, the training of the security staff during the year under review continued in cooperation with the police. Also, during 2015 CBC staff participated in the ESCB’s Security Inspectors Group, which deals with security issues related to the euro, as well as in the Heads of Security of EU and G10 Central Bank Group, which deals with central bank security issues.

The building’s environmental conditions as well as the operation of the equipment were continuously monitored and controlled. Various mechanical and electrical equipment were upgraded with new technology equipment in order to reduce energy consumption. As a result of the energy saving measures taken during the last few years, electricity consumption was reduced by 34%.

Looking ahead, the CBC is planning the replacement of part of the mechanical and electrical equipment in order to further reduce energy consumption.
Central Bank of Cyprus
Eurosysteem

### BALANCE SHEET AS AT 31 DECEMBER 2015

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>31 Dec. 2015 €’000</th>
<th>31 Dec. 2014 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Gold and gold receivables</td>
<td>434,625</td>
<td>441,497</td>
</tr>
<tr>
<td>2 Claims on non-euro area residents denominated in foreign currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Receivables from the IMF</td>
<td>228,847</td>
<td>228,422</td>
</tr>
<tr>
<td>2.2 Balances with banks and security investments, external loans and other external assets</td>
<td>146,242</td>
<td>123,349</td>
</tr>
<tr>
<td>3 Claims on euro area residents denominated in foreign currency</td>
<td>11,543</td>
<td>15,153</td>
</tr>
<tr>
<td>4 Claims on non-euro area residents denominated in euro</td>
<td>5,063</td>
<td>5,069</td>
</tr>
<tr>
<td>4.1 Balances with banks, security investments and loans</td>
<td>5,063</td>
<td>5,069</td>
</tr>
<tr>
<td>4.2 Claims arising from the credit facility under ERM II</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5 Lending to euro area credit institutions denominated in euro related to monetary policy operations</td>
<td>886,000</td>
<td>1,116,000</td>
</tr>
<tr>
<td>5.1 Main refinancing operations</td>
<td>150,000</td>
<td>380,000</td>
</tr>
<tr>
<td>5.2 Longer-term refinancing operations</td>
<td>736,000</td>
<td>736,000</td>
</tr>
<tr>
<td>5.3 Fine-tuning reverse operations</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.4 Structural reverse operations</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.5 Marginal lending facility</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.6 Credits related to margin calls</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6 Other claims on euro area credit institutions denominated in euro</td>
<td>3,800,008</td>
<td>7,400,088</td>
</tr>
<tr>
<td>7 Securities of euro area residents denominated in euro</td>
<td>2,225,926</td>
<td>855,644</td>
</tr>
<tr>
<td>7.1 Securities of euro area residents denominated in euro held for monetary policy purposes</td>
<td>1,322,945</td>
<td>353,824</td>
</tr>
<tr>
<td>7.2 Other securities of euro area residents denominated in euro</td>
<td>902,981</td>
<td>501,820</td>
</tr>
<tr>
<td>8 General Government debt denominated in euro</td>
<td>1,241,590</td>
<td>1,296,983</td>
</tr>
<tr>
<td>9 Intra-Eurosystem claims</td>
<td>2,902,277</td>
<td>127,151</td>
</tr>
<tr>
<td>9.1 Participating interest in ECB</td>
<td>39,471</td>
<td>39,471</td>
</tr>
<tr>
<td>9.2 Claims equivalent to the transfer of foreign reserves</td>
<td>87,580</td>
<td>87,580</td>
</tr>
<tr>
<td>9.3 Claims related to promissory notes backing the issuance of ECB debt certificates</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9.4 Net claims related to the allocation of euro banknotes within the Eurosystem</td>
<td>401,567</td>
<td>-</td>
</tr>
<tr>
<td>9.5 Other claims within the Eurosystem (net)</td>
<td>2,373,559</td>
<td>-</td>
</tr>
<tr>
<td>10 Items in course of settlement</td>
<td>34,799</td>
<td>36,818</td>
</tr>
<tr>
<td>11 Other assets</td>
<td>87,549</td>
<td>82,871</td>
</tr>
<tr>
<td>11.1 Coins of euro area</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11.2 Fixed assets</td>
<td>7,726</td>
<td>8,900</td>
</tr>
<tr>
<td>11.3 Other financial assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11.4 Off-balance sheet instruments revaluation differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11.5 Accruals and prepaid expenses</td>
<td>58,377</td>
<td>52,345</td>
</tr>
<tr>
<td>11.6 Sundry</td>
<td>21,446</td>
<td>21,626</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>12,004,469</strong></td>
<td><strong>11,729,045</strong></td>
</tr>
</tbody>
</table>

The “Notes to the Financial Statements” on pages 57 to 81 form part of these accounts.
# Central Bank of Cyprus

**Eurosystem**

## BALANCE SHEET AS AT 31 DECEMBER 2015

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>31 Dec. 2015 €’000</th>
<th>31 Dec. 2014 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Banknotes in circulation</td>
<td>2,139,772</td>
<td>2,022,911</td>
</tr>
<tr>
<td>2 Liabilities to euro area credit institutions related to monetary policy operations</td>
<td>7,296,060</td>
<td>4,130,796</td>
</tr>
<tr>
<td>2.1 Current accounts (covering the minimum reserve system)</td>
<td>5,195,060</td>
<td>1,995,296</td>
</tr>
<tr>
<td>2.2 Deposit facility</td>
<td>2,101,000</td>
<td>2,135,500</td>
</tr>
<tr>
<td>2.3 Fixed-term deposit</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.4 Fine-tuning reverse operations</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.5 Deposits related to margin calls</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3 Other liabilities to euro area credit institutions</td>
<td>-</td>
<td>9,936</td>
</tr>
<tr>
<td>4 Debt certificates issued</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5 Liabilities to other euro area residents denominated in euro</td>
<td>901,728</td>
<td>1,250,489</td>
</tr>
<tr>
<td>5.1 General government</td>
<td>862,462</td>
<td>1,210,786</td>
</tr>
<tr>
<td>5.2 Other liabilities</td>
<td>39,266</td>
<td>39,703</td>
</tr>
<tr>
<td>6 Liabilities to non-euro area residents denominated in euro</td>
<td>21,359</td>
<td>8,971</td>
</tr>
<tr>
<td>7 Liabilities to euro area residents denominated in foreign currency</td>
<td>74,094</td>
<td>62,783</td>
</tr>
<tr>
<td>8 Liabilities to non-euro area residents denominated in foreign currency</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8.1 Deposits, balances and other liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8.2 Liabilities arising from the credit facility under</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9 Counterpart of special drawing rights allocated by the IMF</td>
<td>169,031</td>
<td>158,354</td>
</tr>
<tr>
<td>10 Intra-Eurosystem liabilities</td>
<td>-</td>
<td>2,675,532</td>
</tr>
<tr>
<td>10.1 Liabilities equivalent to the transfer of foreign reserves</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem</td>
<td>-</td>
<td>177,667</td>
</tr>
<tr>
<td>10.4 Other liabilities within the Eurosystem (net)</td>
<td>-</td>
<td>2,497,865</td>
</tr>
<tr>
<td>11 Items in course of settlement</td>
<td>35,030</td>
<td>37,043</td>
</tr>
<tr>
<td>12 Other liabilities</td>
<td>292,890</td>
<td>280,901</td>
</tr>
<tr>
<td>12.1 Off-balance sheet instruments revaluation differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12.2 Accruals and income collected in advance</td>
<td>5,934</td>
<td>5,500</td>
</tr>
<tr>
<td>12.3 Sundries</td>
<td>286,956</td>
<td>275,401</td>
</tr>
<tr>
<td>13 Provisions</td>
<td>285,000</td>
<td>285,000</td>
</tr>
<tr>
<td>14 Revaluation accounts</td>
<td>424,425</td>
<td>424,271</td>
</tr>
<tr>
<td>15 Capital and reserves</td>
<td>249,024</td>
<td>215,766</td>
</tr>
<tr>
<td>15.1 Capital</td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>15.2 General Reserve Fund</td>
<td>159,024</td>
<td>125,766</td>
</tr>
<tr>
<td>16 Surplus for the year</td>
<td>116,056</td>
<td>166,292</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>12,004,469</td>
<td>11,729,045</td>
</tr>
</tbody>
</table>

The "Notes to the Financial Statements" on pages 57 to 81 form part of these accounts.
## Income Statement

**Central Bank of Cyprus**  
**Eurosystem**

**Year 2015**

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 €’000</th>
<th>2014 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Interest income</td>
<td>150,204</td>
<td>205,902</td>
</tr>
<tr>
<td>1.2 Interest expense</td>
<td>(620)</td>
<td>(12,323)</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>149,584</strong></td>
<td><strong>193,579</strong></td>
</tr>
<tr>
<td>2.1 Realised gains arising from financial operations</td>
<td>2,281</td>
<td>459</td>
</tr>
<tr>
<td>2.2 Writedowns on financial assets and positions</td>
<td>(109)</td>
<td>(8)</td>
</tr>
<tr>
<td>2.3 Transfer to provisions for foreign exchange and price risks</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net result of financial operations, writedowns and risk provisions</strong></td>
<td><strong>2,172</strong></td>
<td><strong>451</strong></td>
</tr>
<tr>
<td>3.1 Income from fees and commission</td>
<td>12,162</td>
<td>14,697</td>
</tr>
<tr>
<td>3.2 Fees and commissions expense</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net income from fees and commissions</strong></td>
<td><strong>12,162</strong></td>
<td><strong>14,697</strong></td>
</tr>
<tr>
<td>4 Income from equity shares and participating interests</td>
<td>2,325</td>
<td>2,138</td>
</tr>
<tr>
<td>5 Net result from the pooling and redistribution of monetary income</td>
<td>(9,241)</td>
<td>930</td>
</tr>
<tr>
<td>6 Other income</td>
<td>268</td>
<td>787</td>
</tr>
<tr>
<td><strong>Total Net Income</strong></td>
<td><strong>157,270</strong></td>
<td><strong>212,582</strong></td>
</tr>
<tr>
<td>7 Staff costs</td>
<td>(25,283)</td>
<td>(25,358)</td>
</tr>
<tr>
<td>8 Administrative expenses</td>
<td>(11,946)</td>
<td>(4,899)</td>
</tr>
<tr>
<td>9 Depreciation of tangible fixed assets</td>
<td>(1,505)</td>
<td>(1,527)</td>
</tr>
<tr>
<td>10 Banknote acquisition cost</td>
<td>(1,052)</td>
<td>(714)</td>
</tr>
<tr>
<td>11 Other expenses</td>
<td>(1,428)</td>
<td>(11,828)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>41,214</strong></td>
<td><strong>44,326</strong></td>
</tr>
<tr>
<td><strong>Surplus for the year</strong></td>
<td><strong>116,056</strong></td>
<td><strong>168,256</strong></td>
</tr>
<tr>
<td>Deficit from actuarial valuation of 2013</td>
<td>-</td>
<td>(1,964)</td>
</tr>
<tr>
<td><strong>Surplus for the year for allocation</strong></td>
<td><strong>116,056</strong></td>
<td><strong>166,292</strong></td>
</tr>
<tr>
<td>General Reserve Fund</td>
<td>23,211</td>
<td>33,258</td>
</tr>
<tr>
<td>Consolidated Fund of the Republic</td>
<td>92,845</td>
<td>133,034</td>
</tr>
<tr>
<td><strong>Surplus for the year</strong></td>
<td><strong>116,056</strong></td>
<td><strong>166,292</strong></td>
</tr>
</tbody>
</table>

The "Notes to the Financial Statements" on pages 57 to 81 form part of these accounts.
NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING POLICIES

General principles for the preparation of the financial statements
The financial statements of the CBC are prepared in accordance with Article 57(2) of the Central Bank of Cyprus Law, 2002 - (Art.3) 2014, on the basis of approved accounting principles applicable in the European System of Central Banks. The accounting principles have been determined by Guideline ECB/2010/20 and amended by Guidelines ECB/2011/27, ECB/2012/29, ECB/2014/54 and ECB/2015/24.

These principles are based on generally accepted accounting principles, and have been designed to take account of the specialised operational framework of the national central banks (NCBs) of the Eurosystem.

Main accounting principles
For the accounting treatment of transactions, assets and liabilities and the establishment of accounting rules, the following basic accounting principles are applicable:

- Economic reality and transparency: The accounting methods and financial reporting shall reflect economic reality, be transparent and promote the qualitative characteristics of clarity, relevance, reliability and comparability. Transactions shall be accounted for and presented in accordance with their substance and economic reality, and not merely with their legal form.

- Prudence: The valuation of assets and liabilities and income recognition shall be carried out prudently. Specifically, unrealised gains shall not be recognised as income in the profit and loss account, but shall be recorded directly in a revaluation account. Unrealised losses shall be taken at year-end to the profit and loss account if they exceed previous revaluation gains registered in the corresponding revaluation account. Hidden reserves or the deliberate misstatement of items in the balance sheet and in the profit and loss account shall be considered to be inconsistent with the principle of prudence.

- Post-balance sheet events: Assets and liabilities shall be adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the relevant bodies, if they affect the condition of assets or liabilities at the balance sheet date. No adjustment shall be made for assets and liabilities, but disclosure shall be made of those events occurring after the balance sheet date, if they do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

- Materiality: Deviations from the accounting rules, including those affecting the calculation of the profit and loss accounts of the CBC, shall only be allowed if they can be reasonably considered as immaterial in the overall context and presentation of the CBC’s financial accounts.

- Going concern basis: Accounts are prepared on a going concern basis.

- The accruals principle: Income and expenses shall be recognised in the accounting period in which they are earned or incurred, and not in the period in which they are received or paid.

- Consistency and comparability: The criteria for balance sheet valuation and income recognition shall be applied consistently in terms of
commonality and continuity of approach within the Eurosystem, to ensure comparability of data in the financial statements.

**Accounting rules**

- **Recognition of assets and liabilities**
  A financial asset/ liability is recognised in the balance sheet only if: a) it is expected that any future economic benefit or cost will flow to or from the CBC; b) all the risks and rewards have been substantially transferred to the CBC; and c) the cost or value of the asset or liability can be measured reliably.

- **Valuation of assets and liabilities**
  The assets and liabilities of the CBC in foreign currency and gold are valued on the basis of the ruling exchange rates on the reporting day, as these appear in the currency exchange rates report of the ECB.
  The valuation of gold is based on the price of gold in euro per fine ounce, as determined from the euro/dollar exchange rate on the reporting day. With the exception of marketable securities held to maturity and financial instruments held to maturity, any assets/ liabilities relating to on- and off-balance sheet financial instruments are valued in current prices at the end of the financial year.
  The re-adjustment of the value of assets and liabilities in foreign currency is carried out on a currency by currency basis, including both on- and off-balance sheet items.
  Capital gains or losses on the assets and liabilities denominated in foreign currency, which arise from fluctuations as a result of valuations, are presented separately from the readjustment of their value due to changes in the exchange rate.

- **Recognition of transactions**
  Foreign currency transactions, financial instruments denominated in foreign currency and accrued interest are recorded at the spot settlement date (economic approach).
  Interest accrued on financial instruments, including amortised premiums or discounts, are calculated and recorded on a daily basis. Income and expenses are translated into euro, using the exchange rates ruling at the time of the transaction.

**Measurement of income and expenses**

Gains and losses, realised in the course of transactions in foreign currency and debt securities, are transferred to the income and expenditure account. The average cost method for the respective asset is used on a daily basis for disposed assets, taking into consideration any effects of exchange rate and/ or market price movements.

Unrealised revaluation gains arising from the revaluation of a debt security or currency or holdings in gold, are not recognised in the income and expenditure account, but transferred directly to revaluation accounts on the balance sheet. Unrealised losses are recognised in the income and expenditure account when they exceed previous revaluation gains registered in the corresponding revaluation account; they may not be reversed against unrealised gains in subsequent years. These unrealised losses on a specific security, currency or holdings in gold are not offset against unrealised gains on other securities, currency or gold. In the event of such unrealised losses, which are transferred to the income and expenditure account, the average cost of this asset is reduced to its exchange rate or market price at the end of the year.
Impairment losses are taken to the income and expenditure account, and are not reversed in subsequent years, unless the impairment decreases and the decrease can be related to an observable event that occurred after the impairment was first recorded.

Premiums or discounts are calculated and presented as part of interest income, and are amortised over the remaining life of the debt securities.

**Accounting treatment**

- **Portfolio of debt securities**

  Marketable securities, other than those held to maturity, are valued at the mid-market prices prevailing at the balance sheet date, on a security by security basis (by ISIN). Securities held for monetary policy and securities classified as held to maturity, are valued at amortised cost and are subject to impairment tests.

- **Fixed assets**

  Fixed assets are valued at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected useful economic life of the assets:

  **Asset category** | **Depreciation period**
  -------------------|-------------------
  Buildings          | 25 years          
  Furniture, building and other equipment | 10 years          
  Computer software and hardware | 4 years
  Motor vehicles     | 4 years

  *Assets with a market value of under €10,000 are depreciated in the year of acquisition. Land and works of art are not depreciated.

- **Banknotes in circulation**

  Euro banknotes are issued by the ECB and the NCBs, which together comprise the Eurosystem. An 8% share of the total value of banknotes in circulation is allocated to the ECB and the remaining 92% is distributed among the NCBs. The total value of banknotes in circulation constitutes a liability item, and is allocated to the NCBs of the Eurosystem on the last working day of each month according to the banknote allocation day, which equals the Eurosystem allocation key adjusted to the 92% share that is allocated to the NCBs of the Eurosystem.

  The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts in circulation, gives rise to remunerated intra-Eurosystem balances.

- **ESCB capital key**

  The capital key is essentially a measure of the relative size of each ESCB member state, and is calculated to be 50% of the share of the member state in the population of the EU and 50% of the share of the member state in the GDP of the EU (Article 29 paragraph 1 of the Statute of the ESCB). The capital key is used as the basis for allocating each NCB’s share in the ECB capital, and is adjusted every five years and every time a new member joins the EU.

  The Eurosystem key is the adjusted capital key for Eurosystem NCBs only, and is used as the basis for the allocation of monetary income, banknotes in circulation and the ECB’s profit/loss, as well as for the distribution of provisions and losses that may arise from monetary policy operations.
• Pension scheme
The CBC operates for its employees who held a permanent and pensionable post before 1 October 2011, a pension scheme which provides retirement benefits to retired employees. The employees’ pensionable service liability of the CBC is recognised in the balance sheet under liability item "L12.3 Sundries» and is calculated as the present value of the defined benefit obligation at the balance sheet date. The actuarial gain and losses which arise in respect of remeasurements on the pension scheme liability are shown under balance sheet item “L14 Revaluation accounts”. The profit and loss account is charged with the current service cost and the interest accruing on the defined benefit liability.

BALANCE SHEET
ASSETS
A1. Gold and gold receivables
This item comprises the CBC’s holdings of gold, which on 31 December 2015 remained unchanged at 446,794,82 fine ounces. At a market value of €973,23 per fine ounce (31 December 2014: 987,77) the CBC’s gold holdings were valued at €434,6 million (31 December 2014: 441,5 million) at the balance sheet date.

The valuation of gold is carried out on the basis of the price in euro per fine ounce in force at the end of the year, as reported in the ECB special report on exchange rates. The price in euro per fine ounce is derived on the basis of the price of gold in US dollars combined with the euro/dollar exchange rate as at the same date.

The decrease in the price of gold in 2015 resulted in a decrease in the value of gold holdings by €6,9 million (31 December 2014: 52,3 million). The total gold revaluation balance, which represents the difference between the value as at 31 December 2015 and the average acquisition cost, amounted to €420,8 million (31 December 2014: €427,7 million) and is accounted for as unrealised gain. It is included in the balance sheet under liability item “L14 Revaluation accounts”.

A2. Claims on non-euro area residents denominated in foreign currency
These claims consist of receivables from the IMF in special drawing rights (SDR) and other claims denominated in foreign currency against non euro area residents.

A2.1 Receivables from the IMF
The receivables from the IMF are analysed in Table 1.

The claims on the IMF were valued at the SDR rate prevailing on 31 December 2015 as reported
A2. Balances with banks and security investments, external loans and other external assets

Balances with banks, security investments, external loans and other external assets are analysed in Table 2.

A3. Claims on euro area residents denominated in foreign currency

Claims on euro area residents denominated in foreign currency are analysed in Table 3.

A4. Claims on non-euro area residents denominated in euro

A4.1 Balances with banks, security investments and loans (Table 4)

A5. Lending to euro area credit institutions denominated in euro related to monetary policy operations (Table 5, p. 62)

This item consists of outstanding balances of loans by the CBC to domestic credit institutions, in the context of the euro area's single monetary policy. At the end of the reporting year, the outstanding...
monetary policy operations of the Eurosystem amounted to €558.989 million, of which €886,0 million were provided to the CBC’s counterparties.

Liquidity through the main and longer–term refinancing operations is provided against sufficient collateral provided by the counterparties. The underlying assets are divided into marketable and non–marketable and satisfy the Eurosystem eligibility criteria.

Article 32.4 of the Statute of the ESCB and the ECB (the “Statute”) in association with article 42.1 of the Statute provides that the Governing Council of the ECB may decide that NCBs shall be indemnified against cost incurred for specific losses arising from monetary policy operations undertaken for the ESCB.

**A5.1 Main refinancing operations**

Main refinancing operations are open market operations conducted by the Eurosystem. They are carried out through liquidity–providing reverse transactions on a regular basis, with a one–week maturity, usually through regular weekly auctions.

The main refinancing operations play a pivotal role in the implementation of monetary policy. On 31 December 2015, the value of the main refinancing operations decreased to €150,0 million. Main refinancing operations amounted to a daily average of €231,5 million (2014: €398,4 million).

Interest arising from loans granted by the CBC to domestic credit institutions through the main refinancing operations amounted to €117 thousand (2014: €636 thousand) (see income and expenditure account for 2015, note "P1 Net interest income").

**A5.2 Longer–term refinancing operations**

Longer–term refinancing operations are open market operations conducted by the Eurosystem. They are carried out through reverse transactions on a regular basis, with a three–month maturity, usually through regular monthly auctions, and are used to provide longer–term liquidity. The balance also includes the targeted long–term refinancing operations (TLTRO) with maturity 26 September 2018, which aim to support bank loans to households and non–financial companies. On 31 December 2015, the value of the longer–term refinancing operations remained to €736,0 million.

Interest arising from loans granted by the CBC to domestic credit institutions through longer–term refinancing operations amounted to €1,1 million (2014: €1,6 million) (see income and expenditure account for 2015, note “P1 Net interest income”).

**A6. Other claims on euro area credit institutions**

The amount of €3,800,0 million (2014: €7,400,0 million) relates to the provision of emergency liquidity assistance (ELA) to domestic credit institutions.
The CBC provides ELA to credit institutions under its supervision that face a temporary inability to secure necessary liquidity from other sources. ELA is provided to credit institutions under the following main conditions: the credit institution is solvent, support is important for purposes of financial stability; the credit institution provides to the CBC sufficient collateral, submits an acceptable plan with regard to the management and replenishment of the required liquidity from other sources and provides constant updates on its liquidity status.

Furthermore, the provision of ELA is governed by terms and contractual obligations under which the CBC has the right to manage, at its absolute discretion, the assets constituting the collateral, in the event that the credit institution fails to repay its obligation against the CBC.

The collateral portfolio comprises securities, credit claims and immovable property. This portfolio is assessed and valued by the CBC on an ongoing basis, in the context of the implementation of the approved policy framework. When valuing the collateral portfolio, and in order to reduce market and liquidity risks, the CBC applies appropriate valuation haircuts which are determined based on, inter alia, the type of collateral.

The provision of ELA does not fall within the framework of the conduct of Eurosystem’s single monetary policy. ELA is provided under the responsibility of each NCB, in accordance with the existing institutional framework of the Eurosystem, and is contingent on the amount of assistance provided, following the no-objection of the Governing Council of the ECB. Therefore, the CBC bears the cost and the risks arising from the provision of ELA. Consequently, when ELA is provided, appropriate provisions for various risks, including credit risk, market risk and operational risk, are taken into consideration and accounted for.

It is noted that ELA is provided in exceptional circumstances to credit institutions that are facing temporary liquidity problems. Therefore, the inherent duration of ELA is short. In the event of protracted need, the provision of ELA is renewed at regular intervals of approximately 15 days, having regard to the aforementioned conditions and frameworks.

During 2015 the total interest income arising from the provision of ELA amounted to €77.3 million (2014: €137.0 million) (see income and expenditure account for 2015, Note “P1 Net interest income”).

On 31 December 2015, interest receivable arising from the provision of ELA amounted to €2.1 million (2014: €3.7 million) and is included in the assets under item “A11.5 Accruals and prepaid expenses”.

A7. Securities of euro area residents denominated in euro
A7.1 Securities of euro area residents denominated in euro held for monetary policy purposes (Table 6, p. 64)
This item consists of securities acquired by the CBC for single monetary policy purposes under the scope of the three covered bonds purchase programmes (CBPP, CBPP2 and CBPP3), the securities markets programme (SMP), and the public sector purchase programme (PSPP).

Securities purchased under all programmes are valued on an amortised cost basis subject to impairment. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end.

- First and second covered bond purchase programmes (CBPP, CBPP2) and securities markets programme (SMP)
Purchases under the first covered bond pur-
A7.2 Other securities of euro area residents denominated in euro (Table 7)

The portfolio of other securities of euro area residents denominated in euro was:

- Marketable securities other than held to maturity
- Marketable securities classified as held to maturity
- Total

The changes were as follows:

- Marketable securities other than held to maturity: €39,033 (€116,594 - €155,627)
- Marketable securities classified as held to maturity: €440,194 (€786,387 - €346,193)
- Total: €401,161 (€902,981 - €501,820)

Complementary:

- Chase programme were completed on 30 June 2010, while the second covered bond programme ended on 31 of October 2012. The Securities Markets Programme was terminated on 6 of September 2012.

- Third covered bond purchase programme (CBPP3)
  On 2 October 2014, the Governing Council of the ECB announced the operational details of the third covered bond purchase programme (CBPP3). The aim of this program is to facilitate credit provision to euro area economy, generate positive spill overs to other markets and, as a result, ease the ECB’s monetary policy stance. Under the programme, the ECB and the NCBs may purchase, in both the primary and secondary markets, euro-denominated covered bonds issued in the euro area.

- Public Sector Purchase Programme (PSPP)
  On 22 January 2015, the Governing Council decided that asset purchases should be expanded to include a secondary market public sector asset purchase programme (PSPP). This programme aims to further ease monetary and financial conditions, including those relevant to borrowing conditions of euro area and non-financial corporations and households, thereby supporting aggregate consumption and investment spending in the euro area and ultimately contributing to a return of inflation rates to levels below but close to 2% over the medium term. Under this programme the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central governments, agencies and European institutions.
dents denominated in euro comprises securities and generally financial assets issued by euro area governments and residents, and are allocated to separate portfolios held by the CBC for investment policy purposes.

**Marketable securities other than held to maturity**
These securities are valued at fair value. They are debt securities with fixed or determinable payments and a fixed maturity and they constitute a marketable varying investment portfolio. They are valued at mid-market prices at the reporting date and are varied in the context of the investment policy.

**Marketable securities classified as held to maturity**
Debt securities are valued at amortised cost. These are debt securities with fixed or determinable payments and a fixed maturity and they constitute a fixed investment portfolio which the CBC intends to hold until maturity. They are valued at acquisition cost adjusted for amortisation of premiums or discounts. They are tested for impairment and are held to maturity.

**A8. General Government debt denominated in euro**
This item exclusively relates to the claim that the CBC has on the Cyprus government for a long-term loan.

Before the accession of the Republic of Cyprus to the EU, the total claims of the CBC on the government that were still outstanding on 5 July 2002 were converted, under a formal agreement entered into by the CBC and the Ministry of Finance, into a long-term loan of 30 years, with the first five years being a grace period for the principal and with an annual interest rate of 3%.

The relevant interest income for the year 2015 amounted to €38,1 million (2014: €39,7 million) (see income and expenditure account for 2015, note “P1 Net interest income”).

On 31 December 2015, interest receivable arising from the General Government debt amounted to €18,5 million (2014: €19,3 million) and is included in the assets under item “A11.5 Accruals and prepaid expenses”.

**A9. Intra–Eurosystem claims**

**A9.1 Participating interest in ECB**
This item shows the CBC’s participating interest in the ECB’s capital. Under Article 28 of the Statute of the ESCB, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on the capital key of each NCB.

On 1 January 2014, the five-yearly adjustment of the weightings in the capital key assigned to the NCBs took place, and coincided with the entry of the Central Bank of Latvia into the Eurosystem. The CBC’s shares in the capital of the ECB increased on 1 January 2014 from 0,1333% to 0,1513%. As a result, the share of the CBC in the capital, reserves and provisions of the ECB amounted to €39,5 million on 31 December 2015, the same as on 31 December 2014.

**A9.2 Claims equivalent to the transfer of foreign reserves**
This item represents the CBC’s claims arising from the transfer of foreign reserves to the ECB in accordance with the provisions of the Treaty establishing the European Union (Article 30 of ESCB Statute).

The value of foreign reserves transferred was in proportion to the CBC’s participation in the paid up capital of the ECB and was made up of 85% in US dollars and 15% in gold.

These claims are denominated in euro at the
original conversion rate. They are remunerated at the latest available marginal rate for the Eurosystem’s main refinancing operations, adjusted to reflect a zero return on the gold component.

The adjustments to the capital key weightings of the ECB on 1 January 2014 also resulted in adjustment of the claims with respect to the foreign reserve assets transferred to the ECB. For the CBC this adjustment has resulted in an increase in these claims to €87.7 million.

A9.4 Net claims related to the allocation of euro banknotes within the Eurosystem

This item comprises the claims of the CBC to the Eurosystem relating to the allocation of euro banknotes in the Eurosystem (see liability item “L1 Banknotes in circulation”). The net claim arising from the allocation of euro banknotes is interest bearing, with an interest rate equal to the rate applied by the Eurosystem for main refinancing operations.

A9.5 Other claims within the Eurosystem (net) (Table 8)

Intra–Eurosystem balances

These balances represent the net claims of the CBC against the ESCB arising from trans-European transactions carried out by domestic credit institutions and the transactions of the CBC with other Eurosystem NCBs, the ECB, as well as with NCBs of non–Eurosystem EU member states which participate in TARGET2 (Trans-European Automated Real–time Gross settlement Express Transfer system – second–generation).

The liability arising at the end of the year from the pooling and redistribution of monetary income is included as well (see income and expenditure account for 2015, Note “P5 Net result from the pooling and redistribution of monetary income”) as well as the claim related to the interim distribution of the ECB’s profits (see income and expenditure account for 2015, Note “P4 Income from equity shares and participating interests”).

The interest on TARGET2 positions, which are calculated on a daily basis based on the last available interest rate applied by the Eurosystem for the main refinancing operations, amounted to €280 thousand interest expense and €540 thousand interest income (2014: €9.4 million interest expense) (see income and expenditure account for 2015, note “P1 Net interest income”).

A10. Items in course of settlement

This item includes balances under settlement of various intermediate accounts. This claim mainly results from the process of the Cyprus Clearing House for cheques.
A11. Other assets
A11.2 Fixed assets (Table 9)

LIABILITIES
L1. Banknotes in circulation (Table 10)

This item comprises the CBC’s share in the total amount of euro banknotes in circulation issued by the Eurosystem. The total amount of banknotes in circulation is allocated to the NCBs of the Eurosystem on the last working day of each month in accordance with the
banknote allocation key. On 31 December 2015, the allocation key for the CBC was 0.1975% (2014: 0.1990%) (see Table 22, p. 81).

During 2015, the total value of banknotes put in circulation within the Eurosystem increased by 7%. According to the allocation key, the euro banknotes that the CBC put in circulation amounted to €2,139.8 million compared with €2,022.9 million in 2014.

This change is due to the increase in euro banknotes put into circulation in all countries in the euro area, which amounted to €1,083.4 billion as at 31 December 2015 compared with €1,016.5 billion as at 31 December 2014.

During 2015 the total interest income arising from the net claim amounted to €0.1 million (2014: €0.5 million Net Income) (see income and expenditure account for 2015, note “P1 Net interest income”).

L2. Liabilities to euro area credit institutions related to monetary policy operations (Table 11)

2.1 - Current accounts (covering the minimum reserve system)

This item contains the credit institutions’ current accounts, which are required to be held with the CBC within the framework of the Eurosystem’s minimum reserve system and for the settlement of payments between them.

L2.2 Deposit facility

This represents a deposit facility provided by the Eurosystem to credit institutions. It relates to overnight deposits by credit institutions to the CBC, under the single monetary policy in the countries of the euro area at a predetermined rate.

L5. Liabilities to other euro area residents denominated in euro

This item refers mainly to the deposits held by the government and other public sector counterparties.

L6. Liabilities to non-euro area residents denominated in euro

This item mainly comprises euro-denominated liabilities to the European Commission for financing projects in Cyprus.

L7. Liabilities to euro area residents denominated in foreign currency

These are deposits in foreign currency by public sector organisations.

L9. Counterpart of special drawing rights allocated by the IMF

This item represents the counterpart in euro of the SDR132.8 million allocated to the CBC as a result of Cyprus’s membership of the IMF (31 December 2014:

| Table 11 Liabilities to euro area credit institutions related to monetary policy operations |
|---------------------------------------------|-----------------|-----------------|-----------------|
|                                             | 31 Dec. 2015 €’000 | 31 Dec. 2014 €’000 | Change €’000    |
| 2.1 - Current accounts (covering the minimum reserve system) | 5,195,060 | 1,995,296 | 3,199,764 |
| 2.2 - Deposit facility | 2,101,000 | 2,135,500 | (34,500) |
| Total | 7,296,060 | 4,130,796 | 3,165,264 |
SDR132.8 million). The change in the amount denominated in euro is due to changes in the exchange rate.

**L10. Intra–Eurosystem liabilities**
This item consists of the liabilities of the CBC vis–a–vis the ECB and other NCBs of the Eurosystem.

**L10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem**
Intra–Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included in the balance sheet under item “L10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem”.

This item comprises the liabilities of the CBC to the Eurosystem relating to the allocation of euro banknotes in the Eurosystem (see liability item “L1 Banknotes in circulation”). The net liability arising from the allocation of euro banknotes is interest bearing, with an interest rate equal to the rate applied by the Eurosystem for main refinancing operations.

**L10.4 Other liabilities within the Eurosystem (net)**
Intra–Eurosystem balances
These balances represent the net liabilities of the CBC against the ESCB arising from trans European transactions carried out by domestic credit institutions and the transactions of the CBC with other Eurosystem NCBs, the ECB, as well as with NCBs of non–Eurosystem EU member states which participate in TARGET2 (Trans–European Automated Real–time Gross settlement Express Transfer system – second–generation).

The claim arising at the end of 2014 from the pooling and redistribution of monetary income is included as well (see income and expenditure account for 2015, Note “P5 Net result from the pooling and redistribution of monetary income”) as well as the claim related to the interim distribution of the ECB’s profits (see income and expenditure account for 2015, Note “P4 Income from equity shares and participating interests”) (Table 12).

The interest on TARGET2 positions, which are calculated on a daily basis based on the last available interest rate applied by the Eurosystem in auctions for the main refinancing operations, amounted to €280 thousand interest expense and €540 thousand interest income (2014: €9.4 million interest expense) (see income and expenditure account for 2015, note “P1 Net interest income”).

**L11. Items in course of settlement**
This is mainly a liability to the government which results from the operations of the Cyprus Clearing House for cheques.
L12. Other liabilities
L12.3 Sundries
This mainly consists of the net liability for retirement benefits and the liability relating to euro coins in circulation. At 31 December 2014, the value of coins in circulation amounted to €111,9 million (2014: €104,4 million).

The net liability for the retirement benefits amounted to €154,3 million (2014: €153,4 million) and the net liability of the healthcare plan amounted to €16,8 million (2014: €13,4 million) (Table 13).

Retirement benefits
The CBC operates for its employees who held a permanent and pensionable post before 1 October 2011, a pension scheme which provides retirement benefits to retired employees. Up to and including 30 September 2011, employees contributed only to the transfer of their pensions to their widows and orphans. Under the provisions of the Pension Benefits of State Officers and Employees of the Wider Public Sector including Local Government Authorities (General Application Provisions) Law, 2011 as from the date of its adoption 1 October 2011, an amount equal to 3% of employees earnings is withheld and applied to secure the long-term sustainability of the pension scheme, without converting it into a funded scheme for the purpose of the Social Insurance Law, 2010. The amounts withheld for the period 1 October 2011 to 30 September 2012 were transferred monthly to the Consolidated Fund of the Republic, while as from October 2012 these were held by the CBC and accounted against the cost of the scheme.

The CBC’s employees’ pensionable service liability is reviewed annually by independent qualified actuaries. The actuarial valuation carried out at 31 December 2015 revealed an actuarial surplus of €2,4 million compared with a net actuarial deficit of €18,9 million as at 31 December

Table 13 Movement in net pension benefit liability

<table>
<thead>
<tr>
<th></th>
<th>2015 €’000</th>
<th>2014 €’000</th>
<th>Change €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net obligation as at 1 January</td>
<td>153,373</td>
<td>131,266</td>
<td>22,107</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>1,828</td>
<td>1,333</td>
<td>495</td>
</tr>
<tr>
<td>Net actuarial (gain)/loss of the actuarial liability</td>
<td>(2,283)</td>
<td>18,158</td>
<td>(20,441)</td>
</tr>
<tr>
<td><strong>Officers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for the year</td>
<td>41</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Net actuarial (gain)/loss of the actuarial liability</td>
<td>(100)</td>
<td>717</td>
<td>(817)</td>
</tr>
<tr>
<td>Capitalisation of interest</td>
<td>3,832</td>
<td>4,321</td>
<td>(489)</td>
</tr>
<tr>
<td>Contribution of employees and officers</td>
<td>732</td>
<td>822</td>
<td>(90)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(3,087)</td>
<td>(3,207)</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>154,336</td>
<td>153,446</td>
<td>890</td>
</tr>
<tr>
<td><strong>Liability related to the healthcare scheme for pensioners</strong></td>
<td>16,788</td>
<td>13,352</td>
<td>3,436</td>
</tr>
<tr>
<td><strong>Net liability as at 31 December</strong></td>
<td>171,124</td>
<td>166,798</td>
<td>4,326</td>
</tr>
</tbody>
</table>
2014. The main reason for this deficit was the change in the assumption used for the rate of increase of salaries and pensions, along with the reduction of the discount rate. The actuarial valuation with reference date 31 December 2015 for the healthcare scheme for pensioners revealed an actuarial deficit of €2.7 million. The previous valuation, which was the first one, carried out with reference date 31 December 2013.

The actuarial assumptions used for the actuarial valuation are stated below:

**Actuarial Assumptions for Pension Scheme with reference date 31 December 2015**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.45%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>2.50%</td>
</tr>
<tr>
<td>General salary increases</td>
<td>0.25%</td>
</tr>
<tr>
<td>Total salary increases 2016–2017</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total salary increases after 2017</td>
<td>1.50%</td>
</tr>
<tr>
<td>Rate of increase in pensions</td>
<td>1.25%</td>
</tr>
<tr>
<td>Rate of increase in the basic insurable earnings</td>
<td>2.00%</td>
</tr>
<tr>
<td>Mortality Table</td>
<td>75% of PA90</td>
</tr>
</tbody>
</table>

**Actuarial Assumptions for Pension Scheme with reference date 31 December 2014**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.50%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>General salary increases</td>
<td>0.25%</td>
</tr>
<tr>
<td>Total salary increases 2016–2017</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total salary increases after 2017</td>
<td>1.75%</td>
</tr>
<tr>
<td>Rate of increase in pensions</td>
<td>1.50%</td>
</tr>
<tr>
<td>Rate of increase in the basic insurable earnings</td>
<td>2.00%</td>
</tr>
<tr>
<td>Mortality Table</td>
<td>75% of PA90</td>
</tr>
</tbody>
</table>

**Actuarial Assumptions for Healthcare Scheme for pensioners with reference date 31 December 2015**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>2.55%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>0.00%</td>
</tr>
<tr>
<td>Inflation rate after 2021</td>
<td>5.00%</td>
</tr>
<tr>
<td>Mortality Table</td>
<td>75% of PA90</td>
</tr>
</tbody>
</table>

**Actuarial Assumptions for Healthcare Scheme for pensioners with reference date 31 December 2013**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>3.45%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>0.00%</td>
</tr>
<tr>
<td>Inflation rate after 2021</td>
<td>5.00%</td>
</tr>
<tr>
<td>Mortality Table</td>
<td>75% of PA90</td>
</tr>
</tbody>
</table>


Provision against risks arising from the main activities of the CBC (Table 14, p. 72)

The valuation of the assets and liabilities of the ECB and the Eurosystem’s NCBs, as well as the recognition of income or expenses, are carried out in accordance with the existing approved accounting principles and rules that are applicable in the ESCB and are governed by the principle of prudence.

In this regard, the CBC forms and maintains provisions against the risks arising from its main activities by applying valuation principles and rules that are governed by the principle of prudence. Provisions are amounts set aside before arriving at the profit or loss figure in order to provide for any
known or expected liability or risk, the cost of which cannot be accurately determined. Provisions for future liabilities and charges may not be used to adjust the value of assets.

The practice of making provisions and maintaining reserves aims at strengthening the financial position of the CBC and its capacity to absorb any losses in the event of realisation of the risks arising from the main activities of the CBC. The CBC’s financial independence is also reinforced and safeguarded.

Therefore, the CBC forms and maintains a provision against the risks arising from its main activities. The provision is focused on the following risks:

- **Market risk**
  Market risk is the risk of a reduction in the market value of financial instruments due to adverse changes in the foreign exchange rates (foreign currency risk), interest rates (interest rate risk) and in the prevailing conditions in capital and money markets. The financial assets of the CBC are subject to market risk due to the uncertainty as to the future price fluctuations of these assets.

- **Credit risk**
  Credit risk refers to the risk of loss stemming from the failure of a CBC’s counterparty to meet its contractual obligations in a complete and timely manner. Counterparties may include borrowers, issuers of securities or any other parties with whom the CBC enters into agreements.

- **Operating risk**
  Operational risk is the risk of losses stemming from inadequate internal processes and control systems, people or from the inability to deal with exceptional circumstances or crises.

Taking into account the aforesaid, the Board of Directors of the CBC has decided to maintain the provision against the risks arising from the main activities of the CBC at €285,0 million. The Board reached this decision after taking into account the overall ability of the CBC to deal with these risks.

Estimates made by the CBC in order to determine the amount of the provisions primarily include the following risks:

- Market risk and credit risk arising from the management of investment reserves.
- Credit risk and market risk arising from emergency liquidity assistance operations.
- Credit risk arising from the Eurosystem’s single monetary policy operations, which is allocated to the CBC on the basis of its share to the ECB capital; credit risk is valued by the ECB. More specifically, the risk consists of credit risk arising from open market operations and debt instruments acquired within the framework of the Eurosystem’s covered bonds purchase programme, securities markets programme and public sector purchase programme.
- Operational risk.

### Table 14 Provisions

<table>
<thead>
<tr>
<th></th>
<th>31 Dec. 2015 €’000</th>
<th>31 Dec. 2014 €’000</th>
<th>Change €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision against risks arising from the main activities of the CBC</td>
<td>285,000</td>
<td>285,000</td>
<td>-</td>
</tr>
</tbody>
</table>
It is noted that risk assessment and the establishment of provisions requires the management and the Board of Directors of the CBC to apply critical judgement and make assumptions and estimates within an environment of uncertainty. The estimates and supporting assumptions are based on factors that are deemed reasonable and sufficiently conservative under the circumstances, such as the security offered by the collateral, the quality of the collateral and the evolution of specific macroeconomic indicators. In calculating the amount of provisions, internationally recognised tools, such as value-at-risk and expected shortfall, as well as methodologies applied at the Eurosystem level, are used according to the nature of the risk. It is noted that, over time, the final results may differ from these estimates.

L14. Revaluation accounts (Table 15)
This item is composed mainly of unrealised gains in relation to assets and liabilities items (see related note in the Accounting Rules – Valuation of Assets and Liabilities).

The revaluation at the end of 2015 resulted in an increase of the overall unrealised gains, excluding the remeasurement of retirement benefits, by €491,0 thousand (2014: increase of €61,0 million) and are shown in detail in the table below.

Including the effect of the remeasurement of the retirement benefits liability, the total of the revaluation accounts amounted to €424,4 million (2014: €424,3 million), an increase of €154 thousand.

Pre-stage III revaluations relate to accumulated revaluations until 31 December 2007, that is before the introduction of the euro. These revaluations remain unchanged. Subsequent revaluations are recorded separately in the other items of the table above.

On 31 December 2015, the largest revaluation arose from the valuation of the CBC’s gold hold-
ings (see Note “A1 Gold and gold receivables”) and was due to a fall in gold prices in the international markets.

The main exchange rates used for the revaluations against the euro as reported in the exchange rates circular of the ECB are the following: sterling €0,7340 (2014: €0,7789), US dollar €1,0887 (2014: €1,2141).

L15. Capital and reserves (Table 16)
The capital of the CBC amounts to €90,0 million and is wholly held by the State.

The CBC has a reserve fund, the General Reserve Fund, which is formed through withholdings from the CBC's net profits. The amount of funds that the CBC withholds is determined by the Board of Directors and the Board's decision is geared to ensuring the CBC’s proper and sustainable operation as well as its financial independence are achieved.

The General Reserve Fund was increased by the transfer of 20% of the net surplus for 2014 in accordance with the provisions of Article 59 of the Central Bank of Cyprus Law. The remaining 80% of the net surplus for each year is transferred to the Government General Account for the credit of the Consolidated Fund of the Republic, unless the Board of Directors deems it necessary to withhold additional profits due to exceptional circumstances.

Other notes
Pending court cases
On 31 December 2015, a number of court cases against the CBC in relation to its operations was pending. The CBC is a co–defendant in the majority of these cases which were initiated as a result of the decrees issued in 2013 for the implementation of the measures taken during the banking crisis.

The CBC has consulted its legal advisers and considers that it has solid defence grounds based on the legal and institutional framework as well as on the facts in question. Therefore, no provisions have been made in the financial statements in this regard.

<table>
<thead>
<tr>
<th>Table 16 Capital and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Capital</td>
</tr>
<tr>
<td>General Reserve Fund</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
INCOME AND EXPENDITURE ACCOUNT

P1. Net interest income
This item comprises interest income less interest expenses. Net interest income was reduced by €44,0 million and amounted to €149,6 million compared to €193,6 million of the previous year. This was mainly due to the reduction in the interest income earned on the daily balances of emergency liquidity assistance facility.

P1.1 Interest income (Table 17, p. 76)
Interest income was reduced by €55,7 million and amounted to €150,2 million compared to €205,9 million of the previous year. This was mainly due to the reduction in the interest income earned on the daily balances of emergency liquidity assistance facility.

- Securities for monetary policy purposes
  This item consists of interest arising from the purchase by the CBC of debt securities in the context of the covered bonds purchase programmes (CBPP, CBPP2 and CBPP3), and of public debt securities in the context of the securities markets programme (SMP) and secondary market public sector asset purchase programme (PSPP) (see Note "A7.1 Securities of euro area residents denominated in euro held for monetary policy purposes").

- TARGET2 Interest Income
  This item consists of interest arising from the claim arising from the balance of TARGET2 account which since May 2015 when it was turned from credit to debit balance. (see Note "A9.5 Other claims within the Eurosystem (net)").

- Open market operations
  This item comprises interest arising from loans granted by the CBC to credit institutions through open market operations, and the marginal lending facility conducted by the Eurosystem, with a view to providing liquidity in the context of conducting its single monetary policy in euro area countries.

- Emergency Liquidity Assistance
  This item relates to interest arising from operations for the provision of emergency liquidity assistance (ELA) to domestic credit institutions (see note "A6 Other claims on euro area credit institutions denominated in euro").

- Securities for investment policy purposes
  The interest generated from these securities decreased by €3,9 million to €4,0 million in 2015 compared with €7,9 million in 2014. An increase of €292 thousand was also reported in the interest income from foreign securities.

- Claims arising from transfer of foreign reserves to the ECB
  This item consists of interest on the claim denominated in euro which arises from the transfer of foreign reserves to the ECB, in accordance with Article 30 of the Statute of the ESCB. The interest is calculated on the basis of 85% of the existing marginal interest of the Eurosystem’s main refinancing operations. It decreased by €85 thousand as compared with the previous financial year, mainly due to the reduction in the interest rate (2015 average: 0,05% compared to the average 0,16% in 2014) (see note "A9.2 Claims equivalent to the transfer of foreign reserves").

- Credit facility to the government
  This category relates to interest on the long-term loan arising from General Government’s debts owed to the CBC, which were incurred before the accession of Cyprus to the EU. The interest rate is 3% (see note "A8..."
Annual Report 2015

General Government debt denominated in euro).

- **Staff loans**
  Interest arising from loans granted to CBC staff members (in order to cover housing and other financial needs) decreased by €1 thousand to €97 thousand in 2015.

- **Negative interest**
  Following the decision of the ECB, as from 11 June 2014 negative interest was imposed on certain deposits. The negative interest on bank deposits is part of the monetary income.

P1.2 Interest expense (Table 18, p. 77)
Interest expense decreased by €11.7 million and amounted to €0.6 million compared with €12.3 million of the previous year. This was mainly due to the reduction in the interest income earned on the daily balances of the emergency liquidity assistance facility.

- **TARGET2 Liability**
  This item consists of the interest calculated on the daily balance liability of the CBC’s TARGET2 account. The decrease by €9.2 million to €0.3 million in 2015 was mainly due to the fact that the credit balance turned to a debit balance.
since May 2015 (the average interest rate decreased from 0,16% in 2014 to a fixed rate 0,05% in 2015) (see note "L10.4 Other liabilities within the Eurosystem (net)").

- **Minimum reserves**
  They relate to interest on compulsory deposits (minimum reserves) (see note "L2 Liabilities to euro area credit institutions related to monetary policy operations").

- **Other deposit facilities to credit institutions**
  They relate to interest on standing deposit facilities and fixed-term deposits (see note "L2 Liabilities to euro area credit institutions related to monetary policy operations").

**P2. Net result of financial operations, write-downs and risk provisions**

Writedowns of financial assets and positions largely reflect the reduction, below net acquisition cost, of the market value of debt securities that are valued at mid-market prices.

**P3.1 Income from fees and commission**

This item mainly includes the recovery of costs relating to supervision, which for 2015 amounted to €8.7 million (2014: €4.4 million), and recovery of expenses relating to the Resolution Authority €3.3 million (2014: 0). The amount for 2014 also includes the recovery of consultancy fees of €9.5 million. It is noted that the costing of supervision expenses is based on the methodology used by the COMCO committee (the ECB's Committee on Controlling).

**P4. Income from equity shares and participating interests**

**ECB profit distribution**

At its meeting on 22 January 2016, the Governing Council of the ECB decided that for 2014 the ECB would retain part of the income arising from SMP securities and part of the ECB’s seigniorage income on euro banknotes in circulation and transfer it to the provision for foreign exchange rate, interest rate, credit and gold price risks. The remaining part of the said ECB income was distributed on 29 January 2016. The CBC’s share amounts to €1.7 million (2014: €1.8 million).

At its meeting on 17 February 2016, the Governing
Council of the ECB decided the final distribution of the net profit for 2015 amounting to €270 million. The CBC's share amounts to €580 thousand. The distributed net profit for 2014 amounted to €148,1 million and the CBC’s share was €320 thousand.

**P5. Net result from the pooling and redistribution of monetary income**

This item consists of the net result of pooling and redistribution of monetary income, which is earned from the exercise of the eurosystem’s monetary policy by the NCBs.

The monetary income of each NCB is determined by measuring the actual annual income derived from the earmarked assets held against its liability base.

The liability base consists of the following items:

- Banknotes in circulation
- Liabilities to credit institutions related to monetary policy operations denominated in euro
- Net intra-Eurosystem liabilities resulting from TARGET2 transactions
- Net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

The earmarked assets consist of the following items:

- Lending to euro area credit institutions related to monetary policy operations denominated in euro
- Intra-Eurosystem claims equivalent to the transfer of foreign reserves to the ECB
- Net intra-Eurosystem claims resulting from TARGET2 transactions
- Net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem
- A limited amount of each NCB’s gold holdings in proportion to each NCB’s capital key share. Gold is not be considered to generate income.

Where the value of an NCB’s earmarked assets exceeds or falls short of the value of its liability base, the return on the difference (gap) is calculated by applying the main refinancing rate on the gap.

At the end of each financial year, the monetary income pooled by the Eurosystem is allocated among NCBs according to the subscribed ECB capital key.

The difference of €9,2 million (2014: €0,3 million) between monetary income of €28,5 million (2014: €21,8 million) which the CBC earned in 2015 and its reallocated monetary income of €19,3 million (2014: €21,5 million) based on its eurosystem key share on the total monetary income pooled, was paid on 29 January 2016.

In addition, the CBC received €1,2 million due to revisions of the monetary income figures for the years 2008–2013.

**P6. Other income**

Other income mainly includes income from the nomismatic collection of coins issue: €0,2 million (2014: €0,2 million).

**P7. Staff costs**

Pensions and employees’ remuneration are subject to the deductions that apply to the general public sector either by applying the relevant law or by adopting the Board’s decisions, where the provisions of the law are not applied to the CBC.
The gross remuneration of the Governor and the Executive Directors was made up of basic salary, wage indexation and allowances, which are subject to the deductions that apply to the general public sector and to contributions that apply to the executives of the public sector (Table 20, p. 80).

According to their contract, the Governor is entitled to a personal and housing loan, while the Executive Directors are entitled to a personal loan on the same conditions as other CBC personnel.

P8. Administrative expenses (Table 21, p. 80)
Administrative expenses increased by €7,0 million to €11,9 million (2014: €4,9 million) during the year.

P11. Other expenses
Other expenses mainly include expenses for consultancy services €0,2 million (2014: €11,6 million) and various operating costs such as telecommunications, custodian fees and infrastructure for automation.
### Table 20 Remuneration of Governor and Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>2015 €’000</th>
<th>2014 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrystalla Georghadji (Governor from 11 April 2014)</td>
<td>182</td>
<td>132</td>
</tr>
<tr>
<td>Panicos Demetriades (Governor from 3 May 2012 to 10 April 2014)</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td>George Syrichas (Executive Director from 19 September 2013)</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>Stelios Kiliaris (Executive Director from 19 September 2013 to 11 April 2015)</td>
<td>39</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>361</strong></td>
<td><strong>483</strong></td>
</tr>
</tbody>
</table>

**Non-Executive Directors**

<table>
<thead>
<tr>
<th>Name</th>
<th>2015 €’000</th>
<th>2014 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicos Constantinou (from 3 December 2008 to 18 October 2015)</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>Stavros Zenios (from 16 October 2013 to 18 March 2015)</td>
<td>6</td>
<td>26</td>
</tr>
<tr>
<td>Philippos Mannaris (from 16 October 2013)</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Michalis Polydorides (from 26 July 2013)</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Andreas Persianis (from 5 February 2014)</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>Phivos Vakis (from 17 November 2015)</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Andreas Yiaskemides (from 17 November 2015)</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>128</strong></td>
<td><strong>143</strong></td>
</tr>
</tbody>
</table>

**Loans granted**

Stelios Kiliaris

Personal loan amounting to €58,000 with an interest rate of 0% granted on 17 October 2013

Balance as at 31 December | - | 45 |

---

### Table 21 Administrative expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>2015 €’000</th>
<th>2014 €’000</th>
<th>Change €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultancy services</td>
<td>1,642</td>
<td>132</td>
<td>1,510</td>
</tr>
<tr>
<td>Legal expenses</td>
<td>6,025</td>
<td>850</td>
<td>5,175</td>
</tr>
<tr>
<td>Maintenance, repairs, cleaning</td>
<td>1,260</td>
<td>1,291</td>
<td>(31)</td>
</tr>
<tr>
<td>Travel and subsistence expenses</td>
<td>900</td>
<td>890</td>
<td>10</td>
</tr>
<tr>
<td>Communications</td>
<td>280</td>
<td>300</td>
<td>(20)</td>
</tr>
<tr>
<td>Electricity, heating and water costs</td>
<td>520</td>
<td>706</td>
<td>(186)</td>
</tr>
<tr>
<td>Hospitality and conferences in Cyprus</td>
<td>178</td>
<td>77</td>
<td>101</td>
</tr>
<tr>
<td>Buildings, equipment and vehicle insurance</td>
<td>61</td>
<td>60</td>
<td>1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,080</td>
<td>593</td>
<td>487</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,946</strong></td>
<td><strong>4,899</strong></td>
<td><strong>7,047</strong></td>
</tr>
</tbody>
</table>
With the accession of Lithuania to the Eurosystem, the eurosystem key of the CBC and the banknote key were adjusted as from January 2015 (Table 22).
INDEPENDENT AUDITOR’S REPORT TO
THE BOARD OF DIRECTORS OF THE CENTRAL BANK OF CYPRUS

Report on the financial statements
We have audited the accompanying financial statements of the Central Bank of Cyprus (the “Bank”) on pages 54 to 81 which comprise the balance sheet as at 31 December 2015, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Governor’s and Board of Directors’ responsibility for the financial statements
The Governor and the Bank’s Board of Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Article 57(2) of the Central Bank of Cyprus Law, 2002–2014, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2010/20, as amended by Guidelines ECB/2011/27, ECB/2012/29, ECB/2014/54 and ECB/2015/24, and for such internal control as the Governor and the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Governor and the Board of Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Central Bank of Cyprus as at 31 December 2015, and of its financial performance for the year then ended in accordance with Article 57(2) of the Central Bank of Cyprus Law, 2002–2014, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2010/20, as amended by Guidelines ECB/2011/27, ECB/2012/29, ECB/2014/54 and ECB/2015/24.

Report on other legal requirements
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consol-
idated Accounts Law, 2009 and 2014, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.
- The Bank’s financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by Article 57(2) of the Central Bank of Cyprus Law, 2002–2014, in conformity with the accounting principles applicable in the European System of Central Banks (ESCB) as these are determined by the European Central Bank (ECB) in the Accounting Guideline ECB/2010/20, as amended by Guidelines ECB/2011/27, ECB/2012/29, ECB/2014/54 and ECB/2015/24, in the manner so required.

**Other matter**

This report, including the opinion, has been prepared for and only for the Bank’s Board of Directors as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Iacovos P. Ghalanos, FCA  
Certified Public Accountant and Registered Auditor  
for and on behalf of  
KPMG Limited  
Chartered Accountants  
P.O.Box 21121  
1502 Nicosia  
Cyprus  

28 March 2016
6. ANNEX:
COMMITTEES OF THE CBC
Audit Committee
Established under section 60A of the Central Bank of Cyprus Law, 2002, as subsequently amended. Its tasks include the monitoring of the implementation of the code of corporate governance, the internal management audit and the submission of reports to the Board.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicos Constantinou(1)</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Michalis Polydorides</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Philipppos Mannaris</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Phivos Vakis(2)</td>
<td>Non-executive board member</td>
</tr>
</tbody>
</table>

(1) Resigned from the position of non-executive member of the Board on 19 October 2015.
(2) Appointed as member of the Audit Committee on 21 December 2015.

Personnel Committee
Established under section 22 of the Central Bank of Cyprus Law, 2002, as subsequently amended. It opines to the Governor in relation to appointments and salaries. It also addresses procedures concerning disciplinary offenses and bankruptcies of employees. It has decisive competence in relation to the suitability of qualifications and experience in relation to each specific position, the restoration of employee promotions which have been annulled, the disciplinary action and the suspension of staff for certain offenses.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrystalla Georghadji</td>
<td>Governor</td>
</tr>
<tr>
<td>Stelios Killaris(1)</td>
<td>Deputy Governor(1)</td>
</tr>
<tr>
<td>George Syrichas</td>
<td>Executive board member</td>
</tr>
<tr>
<td>Nicos Constantinou(1)</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Michalis Polydorides</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Andreas Yiannides(2)</td>
<td>Non-executive board member</td>
</tr>
</tbody>
</table>

(1) The position of the Deputy Governor is provided by the Constitution of the Republic of Cyprus and is currently vacant.
(2) As a result of the resignation of Mr Kiliaris from the position of executive member of the Board on 12 April 2015, the position remains vacant.
(1) Resigned from the position of non-executive member of the Board on 19 October 2015.
(4) Appointed as member of the Personnel Committee on 21 December 2015.
Resolution Committee
Established under section 2A(1) of the Resolution of Credit and Other Institutions Law, 2013 and is the executive deciding body of the Resolution Authority. Its primary responsibility is the implementation of the provisions of this law, the taking of decisions and the issue of decrees and/or directives, as the case may be, pursuant to the provisions of this law.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrystalla Georghadji</td>
<td>Governor</td>
</tr>
<tr>
<td>Stelios Kiliaris(1)</td>
<td>Executive board member</td>
</tr>
<tr>
<td>George Syrichas</td>
<td>Executive board member</td>
</tr>
</tbody>
</table>

(1) As a result of the resignation of Mr Kiliaris from the position of executive member of the Board on 12 April 2015, the position remains vacant.

Investments Committee
Established by a decision of the Board of Directors in order to provide advisory support to the Board, including the submission of proposals related to the investment policy of the CBC.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippos Mannaris</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Andreas Persianis</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Michalis Polydorides</td>
<td>Non-executive board member</td>
</tr>
</tbody>
</table>

Risk Committee
Established by a decision of the Board of Directors in order to provide advisory support to the Board for the successful fulfilment of its role in the risk oversight of the CBC.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>George Syrichas</td>
<td>Executive board member</td>
</tr>
<tr>
<td>Nicos Constantinou(1)</td>
<td>Non-executive board member</td>
</tr>
<tr>
<td>Michalis Polydorides</td>
<td>Non-executive board member</td>
</tr>
</tbody>
</table>

(1) Resigned from the position of non-executive member of the Board on 19 October 2015.
Budget Committee
Established by the Board of Directors to oversee the preparation of the budget, prior to its final submission to the Board for approval.

<table>
<thead>
<tr>
<th>Members</th>
<th>Position</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrystalla Georgiadji</td>
<td>Governor</td>
<td>Chairman</td>
</tr>
<tr>
<td>Stelios Kiliaris(1)</td>
<td>Executive board member</td>
<td>Member</td>
</tr>
<tr>
<td>George Syrichas</td>
<td>Executive board member</td>
<td>Member</td>
</tr>
<tr>
<td>Michalis Polydorides</td>
<td>Non-executive board member</td>
<td>Member</td>
</tr>
</tbody>
</table>

(1) As a result of the resignation of Mr Kiliaris from the position of executive member of the Board on 12 April 2015, the position remains vacant.